MICHIGAN Department of Education

MICHIGAN SCHOOL AUDITING MANUAL

EFFECTIVE FOR AUDITS OF SCHOOL YEAR

2019-2020

Instructions for Use of the 2020 Michigan School audit Manual

The fiscal year ended June 30, 2020 will bring many new challenges for grants management and the audit of federal funds provided to public education. Unfortunately, much of the needed guidance to assist grantees and the auditors will not be available until after June 30, 2020. As a result, this section is designed to assist the users of the manual in completing the year end audits. While not an all-inclusive list, the following should be considered in planning and execution of audits for June 30,2020.

- The Michigan School Audit Manual is designed to assist auditors in applying the federal Compliance Supplement to the audit of public schools in Michigan. It is considered supplemental guidance.
- The 2020 Compliance Supplement is not expected to be issued until the end of June and is not expected to address any new programs created in response to the COVID-19 pandemic. This guidance may be issued at a later date by OMB.
- The 2020 School Audit Manual is crafted after the 2019 Compliance Supplement (August 2019 version) since the 2020 content is not yet available. There may be changes issued in the 2020 supplement that are not reflected in the Audit manual and the auditor and pubic school will be responsible for applying those changes when available.
- The 2019 Compliance Supplement instituted the "pick 6" concept for identifying compliance requirements that are subject to testing. It is not expected there will be a substantive change to the compliance requirements identified for testing from Education based grants, but the auditor must consider the possibility when planning its tests.
- The School Audit Manual contains more testing guidance than what is contained in the Compliance Supplement. The best practice approach is to consult the Compliance Supplement to determine what compliance requirements are subject to audit, consider the guidance in the Compliance Supplement, and then review the School Audit Manual to identify specific guidance for testing the identified compliance requirements subject to testing.
- For Districts planning to utilize Elementary and Secondary School Emergency Relief (ESSER) funds in the year ended June 30, 2020, until specific guidance is included in the Compliance Supplement (or other Ed sources), the LEA must consult the guidance provided by the MDE to determine:
    - What the allowable uses are and how the district will use the funds
    - What documentation is needed to support decisions made
    - What processes and controls must be established to ensure the grant usage is allowable, information is captured, and reported on.
- For auditors testing grants funded under ESSER, until specific guidance is included in the Compliance Supplement, the auditor should consider Part 7 of the compliance supplement which discusses the approach needed when a federal program is not included in the Compliance Supplement. If guidance is subsequently issued by OMB prior to single audit reports being issued, the auditor may need to review the guidance and assess whether audit testing needs to be revised.

- Lastly, both new and/or programs that have substantively changed as a result of the COVID-19 pandemic will have a significant impact on the single audit process. Some key areas of focus for LEAs and auditors are as follows:
    - LEAs
        - Changes in processes and controls throughout the year will need to be documented and communicated to the auditor as part of audit planning. Multiple periods may need to be considered, including the time period prior to the shutdown, during the shutdown, and in the remote learning environment.
        - Grant performance requirements may have changed. If this is the case, the LEA should document what changed, how it modified processes and/or controls as a result of the change, and how compliance has been maintained.
        - Segregation of costs may be necessary and the system must be able to capture the segregation. Consult new MDE grant accounting guidance to assist in determining how funds should be accounted for.
        - Personnel compensation charged to federal grants is still required to be supported with documentation in accordance with 2 CFR 200 §430. The LEA should ensure that these requirements are met based on the guidance provided for the specific program and whether/in what capacity employees of the program provided services during periods of shut down or remove learning.
        - Procurement and Suspended and Debarred requirements for purchases are likely to still apply. If emergency criteria are applied, those requirements will need to be documented and/or approved.
        - For new programs, such as those funded through FEMA and ESSER, documentation of costs, including support for those costs, to be claimed will be essential.
    - Auditors
        - Major program selection will require the auditor to obtain an accurate projection of federal expenditures to determine the size of the program (Type A vs Type B), the total federal expenditures incurred, and to gain an understanding of any fluctuations in anticipated grant activity.
        - Careful application of the major program selection criteria will be essential for an effective major program selection process. The major program selection may need to be revisited once a final SEFA has been received and once a comprehensive understanding of potential impacts on risk assessments has been obtained.
        - Audit tests are likely to be changed based on changes in the criteria for various compliance requirements during the pandemic.

- Testing samples of major program expenditures, reports, reimbursement requests, etc. will likely need to include both pre-COVID and during-COVID populations and the assessment/testing of controls and compliance requirements may be different for those populations. For significant changes, a test of effectiveness of controls will be necessary for compliance requirements subject to testing
- Fraud risks are raised when significant changes are adopted quickly. Required Fraud assessments should consider applicable risks.

The MDE provides its latest guidance at www.michigan.gov/MDE. LEAs and auditors are encouraged to use this site to obtain the most up-to-date information related to grants management and planning for 2020 single audits.

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INTRODUCTION

The Michigan Department of Education (MDE) provides this manual to assist public school districts and independent auditors in meeting the federal Office of Management and Budget (OMB) 2 Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, commonly called the Uniform Guidance. Unless otherwise noted, §200 references in this manual are to the sections within 2 CFR Part 200 which should be consulted for more comprehensive information.

The intent of this manual is to supplement, explain, and interpret the authoritative literature. The manual addresses high-risk areas and issues we believe need further explanation. It is not intended to completely explain and describe or be a substitute for the OMB 2 CFR Part 200 or other authoritative requirements. School management and independent auditors will need to refer to the authoritative literature, including those in the appendix of this manual to ensure that all federal requirements are met.

Every public school district, including public school academies and intermediate school districts, regardless of whether the school district falls under the OMB 2 CFR Part 200 requirement, must submit a financial audit, completed in accordance with Government Auditing Standards (GAS), to the MDE Office of Financial Management. The State School Aid Act requires the audit due date as November 1. It is MDE's responsibility to review the audits to: 1) ensure that the audits meet the OMB 2 CFR Part 200 requirements and are performed in accordance with Generally Accepted Auditing Standards (GAAS) and Generally Accepted Government Auditing Standards (GAGAS) also known as GAS, and 2) ensure that all findings, questioned costs and other audit issues are resolved in a timely manner.

Generally Accepted Government Auditing Standards require the staff assigned to conduct the audit to 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 (peer review) program. Audit organizations conducting government audits must have an independent external quality review or peer review once every three years. Firms that do not have proof of a peer review posted at the American Institute of Certified Public Accountants (AICPA) website are required to submit their peer review to MDE. MDE will not accept audits from firms that do not have proof of a peer review.

For further information contact:

Office of Financial Management
Michigan Department of Education
P.O. Box 30008
Lansing, Michigan 48909
(517) 241-2225

OVERVIEW

I. PUBLIC SCHOOL DISTRICT RESPONSIBILITIES

A. Determine the type of audit required. §200.501
   1. All public school districts (including public school academies and intermediate school districts) must have a financial audit in accordance with GAGAS.
   2. A public school district that expends $750,000 or more in federal awards must also have a single audit in accordance with OMB 2 CFR Part 200.
   3. A public school district that expends less than $750,000 in federal funds is exempt from federal audit requirements, unless required by the terms of the award.
   4. If the audited financial statements report federal funds received in excess of $750,000 but the district did not expend $750,000 or more in federal funds and therefore does not require a 2 CFR Part 200 audit, a note should be included in the Notes to the Financial Statements explaining the reason for exclusion of the 2 CFR Part 200 audit.

B. Audit Procurement
   1. Procure or otherwise arrange for the audits.
   2. See General Audit Issues, Section D - Procurement and Management of Audit Services in this manual and §200.509.

C. Prepare the Financial Statements §200.510
   1. Prepare Financial Statements that reflect the financial position, results of operations or changes in net position, and where appropriate, cash flows for the fiscal year audited.
   2. Management Discussion & Analysis (MD&A) – MDE and the Michigan Department of Treasury require the MD&A for all school districts. It is also required by Federal Financial Accounting Standards (FFAS) 15. The MD&A should be included as a section in the financial statements.
   3. Conflict of Interest and Related Party Transactions (RPT) – Districts must document RPT in the footnotes to the financial statements. According to Governmental Accounting Standards Board (GASB) 62 and AU §334 and §9334, footnotes should include enough details to adequately describe the situation. Examples may include, but are not limited to: management agreements; borrowing and lending; and sale or lease of real estate, buildings, and equipment. §200.112 states that the non- federal entity (school district) must disclose in writing any potential conflict of interest to the federal awarding agency or pass-through entity in accordance with applicable federal awarding agency policy.

D. Provide the auditor with access to personnel, accounts, books, records, supporting documentation, and other information as needed for the auditor to perform the required audits.

E. Populate the auditee's portion of the Form SF-SAC Data Collection Form (DCF) on the Federal Audit Clearinghouse (FAC) website.

F. MDE will not require the district to submit the DCF with the audit package. The district or district's auditor will notify MDE that the audit has been certified on the FAC website. The MDE auditor will retrieve the DCF from the FAC website.

G. Prepare the Schedule of Expenditures of Federal Awards (SEFA) §200.510
See General Audit Issues, Section A - Reports and Schedules, VII. Schedule of Expenditures of Federal Awards in this manual.

H. Prepare the Summary Schedule of Prior Audit Findings (SSPAF) §200.511 for all findings reported in the prior audit (both single audit and financial statement).
See General Audit Issues, Section A - Reports and Schedules, VIII. Summary Schedule of Prior Audit Findings in this manual.

I. **Prepare the Corrective Action Plan** (CAP) §200.511
   1. Include the audit finding reference numbers the auditor assigned under §200.516(c). The finding must include the fiscal year in which the finding initially occurred.
   2. Include findings related to the financial statements which are required to be reported in accordance with GAGAS.
   3. Provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date.
   4. If the district does not agree with the audit findings or believes corrective action is not required, the CAP must include an explanation and specific reasons.
   5. The CAP must be in a document on the district letterhead and separate from the auditor's findings.
   6. See General Audit Issues - Section A, IX. Corrective Action Plan in this manual.

J. Report Submission
   1. MDE, the Michigan Department of Treasury, and the Michigan Department of Health and Human Services (MDHHS) have unified the audit submission/collection process. School districts need to submit one audit to MDE to meet the needs of these three departments and satisfy the audit requirements of Public Act 34 of 2001.
   2. Submit an electronic copy to MDE and other pass-through entities that request a copy.
   3. For 2 CFR Part 200 Audits, submit a copy to the FAC.
   4. See General Audit Issues, Section B - Report Distribution in this manual.

K. Subrecipient Monitoring
   1. Any school district granting federal funds to another subrecipient entity must perform subrecipient monitoring.
   2. See General Audit Issues, Section C - Subrecipient Monitoring of this manual.

L. Written Policies and Procedures – Required by the Uniform Guidance
   1. Cash Management - §200.302(b)(6) requires written procedures to implement the requirements of §200.305 Payment.

2. Allowability of Costs - §200.302(b)(7) requires written procedures for determining the Allowability of costs in accordance with Subpart E – Cost Principles and the terms and conditions of the federal award.
3. Conflict of Interest - §200.318(c) requires written standards of conduct covering conflicts of interest and governing the actions of employees engaged in the selection, award and administration of contracts.
4. Procurement - §200.319(c) requires written procedures for procurement transactions.
5. Method for Conducting Technical Evaluations - §200.320(d)(3) requires a written method for conducting technical evaluations of the procurement proposals received and for selecting recipients.
6. Travel Reimbursement - §200.474(b) requires a written travel policy for costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses.

II. AUDITOR RESPONSIBILITIES

A. Perform the audit and provide the required reports and schedules §200.514 and §200.515.
   1. Opinion on the financial statements. MDE cannot accept an audit report with a disclaimer of opinion.
   2. Opinion on the Schedule of Expenditures of Federal Awards (SEFA) in relation to the financial statements as a whole.
   3. Report on internal control over financial reporting and compliance with federal statutes, regulations, and the terms and conditions of the federal award, noncompliance with which could have a material effect on the financial statements.
   4. Report on compliance for each major program and report on internal control over compliance.
   5. Schedule of findings and questioned costs.

B. Populate the auditor's portion of the DCF on the Federal Audit Clearinghouse (FAC) website.

C. Use a risk-based approach to determine which federal programs are major programs. The risk-based approach must include consideration of current and prior audit experience, oversight by federal agencies and pass-through entities, and the inherent risk of the federal program. §200.518 and §200.519.
   1. Identify Type A programs – generally ≥$750,000 or ≥3% of federal expenditures.
   2. Identify Type B programs – Federal programs not labeled Type A.

D. Identify Type A programs which are low-risk – must meet the following criteria:
   1. Must have been audited as a major program in at least one of the two most recent audit periods.
   2. In the most recent audit period, the program must have not had any of the following:
      a. Internal control deficiencies which were identified as material weaknesses in the auditor's report on internal control for major programs as required under §200.515(c);
      b. A modified opinion on the program in the auditor's report on major program as required under §200.515(c); or
      c. Known or likely questioned costs that exceed 5% of the total Federal awards expended for the program.

E. Identify Type B programs which are high-risk using professional judgment and the criteria in §200.519, such as:
   1. Current and prior audit experience.
   2. Oversight exercised by federal agencies and pass-through entities.
   3. Inherent risk of the federal program.
   4. The auditor is not required to identify more high-risk type B programs than at least one fourth the number of type A programs identified as low-risk.

F. Determine if the auditee is a "low-risk auditee" §200.520. An auditee that meets all the following conditions for each of the preceding two audit periods must qualify as a low-risk auditee to be eligible for reduced audit coverage in accordance with §200.518.
   1. Single audits were performed annually, including timely submission of the data collection form and the reporting package with the FAC.
   2. The auditor's opinions on the financial statements and the SEFA were unmodified.
   3. There were no deficiencies in internal control which were identified as material weaknesses under the requirements of GAGAS.
   4. The auditor did not report a substantial doubt about the auditee's ability to continue as a going concern.
   5. None of the federal programs had audit findings from any of the following in either of the preceding two audit periods in which they were classified as Type A programs:
      a. Internal control deficiencies that were identified as material weaknesses in the auditor's report on internal controls for major programs as required under §200.515(c);
      b. A modified opinion on a major program in the auditor's report on major programs as required under §200.515(c); or
      c. Known or likely questioned costs that exceeded 5% of the total federal awards expended for a Type A program during the audit period.

G. Identify and audit the following as major programs §200.518
   1. All Type A programs not identified as low risk.
   2. All Type B programs identified as high-risk.
   3. Additional programs necessary to comply with the percentage of coverage rule.
      a. If the auditee meets the low-risk criteria in §200.520, auditor must audit additional programs such that in the aggregate, all major programs encompass at least 20% of total federal awards expended.
      b. If the auditee does not meet the low-risk criteria in §200.520, the auditor must audit additional federal programs with federal awards expended that, in aggregate, all major programs encompass at least 40% of total federal awards expended.
   4. A cluster of programs must be considered as one program for determining major programs.

H. Audit Findings §200.516
   1. Report audit findings in a Schedule of Findings and Questioned Costs (SFQC).
   2. Audit findings must be presented in sufficient detail and clarity for the auditee to prepare a corrective action plan and take corrective action, and for federal agencies and pass-through entities to arrive at a management decision.
   3. See General Audit Issues, Section A - Reports and Schedules, VI. Schedule of Findings and Questioned Costs in this manual.

I. Audit Documentation §200.517
   1. Must comply with GAGAS and OMB 2 CFR Part 200, if applicable.
   2. Must support the auditor's planning decisions and results of the audit.
   3. Must be made available to MDE upon request.
   4. Must be retained for three years from the date of the audit report.

GENERAL AUDIT ISSUES

SECTION A

REPORTS and SCHEDULES

The following reports and schedules are required under OMB 2 CFR Part 200:

I. An audit report on the financial statements §200.515

II. An audit report on the supplementary Schedule of Expenditures of Federal Awards §200.515

III. An audit report on internal controls over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with GAS §200.515

IV. An audit report on compliance with requirements that could have a direct and material effect on each major federal program and on internal control over compliance in accordance with the Uniform Guidance §200.515

V. REPORT ON FINDINGS OF SUSPECTED FRAUD AND/OR EMBEZZLEMENT

A. During an engagement, the independent CPA should be constantly aware of the possibility of fraud and/or embezzlement. AU §316 should be followed where applicable. If the possibility of the occurrence of any fiscal fraud, defalcation, misfeasance, nonfeasance, or malfeasance comes to the auditor's attention, the CPA should notify the school district.

B. The school district should make an "oral report" immediately to Caitlin Hengesbach (517-335-6858), Audit Manager of MDE's Office of Financial Management. Within two weeks, the oral report should be followed up by a written report to the Audit Manager with a copy to the CPA disclosing the CPA's findings. If the CPA does not receive a copy of the report within two weeks, then the CPA is required to report the information to MDE.

C. If the district fails to report suspected irregularities, MDE may withhold state aid in accordance with §162 of the State School Aid Act or federal funds in accordance with §200.338. The independent CPA, unless otherwise directed in writing by the Audit Manager, Office of Financial Management, should complete the normal audit. To avoid any possible conflict with the professional ethics of the independent CPA pertaining to the client relationship, the district should give written permission to the independent CPA to make the disclosures required by these reports, prior to commencing the audit. Preferably, this permission should be included in the engagement letter or contract for audit.

D. In addition, the district should consider referring the situation to the appropriate law enforcement agency.

VI. SCHEDULE OF FINDINGS AND QUESTIONED COSTS (SFQC)

A. Clear presentation of audit findings and questioned costs is important to single audit users. §200.515(d) requires the following three components in the SFQC:
   1. A summary of the auditor's results, which must include:
      a. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP (i.e., unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).
      b. Where applicable, a statement about whether significant deficiencies or material weaknesses in internal control were disclosed by the audit of the financial statements.
      c. A statement as to whether the audit disclosed any noncompliance that is material to the financial statements.
      d. Where applicable, a statement about whether significant deficiencies or material weaknesses in internal control over major programs were disclosed by the audit.
      e. The type of report the auditor issued on compliance for major programs (i.e., unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).
      f. A statement as to whether the audit disclosed any audit findings that the auditor is required to report under §200.516(a).
      g. An identification of major programs by listing each individual major program; however, in the case of a cluster of programs only the cluster name as shown on the SEFA is required.
      h. The dollar threshold used to distinguish between Type A and Type B programs as described in §200.518(b)(1) or (b)(3).
      i. A statement as to whether the auditee qualified as a low-risk auditee under §200.520.
   2. Findings relating to the financial statements which are required to be reported in accordance with GAGAS.
   3. Findings and questioned costs for federal awards which must include audit findings as defined in §200.516(a):
      a. Audit findings (e.g., internal control findings, compliance findings, questioned costs, or fraud) that relate to the same issue should be presented as a single audit finding. Where practical, audit findings should be organized by federal agency or pass-through entity.
      b. Audit findings that relate to both the financial statements and federal awards should be reported in both sections of the schedule.

B. The auditor must report the following as audit findings in the SFQC in accordance with §200.516(a):
   1. Significant deficiencies and material weaknesses in internal control over major programs and significant instances of abuse relating to major programs.
   2. Material noncompliance with the provisions of federal statutes, regulations, or the terms and conditions of federal awards related to a major program.
   3. Known or likely questioned costs that are greater than $25,000 for a type of compliance requirement for a major program.
   4. Known questioned costs that are greater than $25,000 for a federal program which is not audited as a major program.
   5. The circumstances concerning why the auditor's report on compliance for each major program is other than an unmodified opinion.
   6. Known or likely fraud affecting a federal award.
   7. Instances where the results of audit follow-up procedures disclosed that the Summary Schedule of Prior Audit Findings (SSPAF) prepared by the auditee in accordance with §200.511(b) misrepresents the status of any prior audit finding.

C. Audit Finding Detail in accordance with §200.516(b). The following specific information must be included, as applicable, in federal audit findings.
   1. Reference number in the format required for the DCF submission, which is the finding year and three-digit number (20xx-00x).
   2. Federal program and specific federal award identification including the Catalog of Federal Domestic Assistance (CFDA) title and number, federal award identification number and year, name of federal agency, and name of the applicable pass-through entity.
   3. Criteria or specific requirement upon which the audit finding is based, including the federal statutes, regulations, or the terms and conditions of the awards
   4. Condition found, including facts that support the deficiency identified in the audit finding.
   5. Statement of the cause identifying the reason or explanation for the condition or the factors responsible for the difference between the condition and the criteria, which may also serve as the basis for recommendations for corrective action.
   6. Possible effect to provide sufficient information to facilitate prompt and proper corrective action.
   7. Identification of questioned costs and how they were computed. Known questioned costs must be identified by applicable CFDA number(s) and applicable federal award identification number(s).
   8. Information to provide perspective for judging the prevalence and consequences of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Where appropriate, instances identified must be related to the universe and the number of cases examined and be quantified in terms of dollar value. The auditor should report whether the sampling was a statistically valid sample.
   9. Identification of whether the audit finding was a repeat of a finding in the immediately prior audit and if so, any applicable prior year audit finding numbers.

10. Recommendations to prevent future occurrences of the deficiency identified. The recommended action may consist of returning funds received for disallowed expenditures.
11. Views of responsible district officials of the auditee.
12. Include the auditor's reasons for rejecting the views of the district's officials when those views oppose the auditor's findings and conclusions.
13. 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 later 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.

VII. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

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

B. Include the total federal awards expended as determined in accordance with §200.502.

C. List individual federal programs by federal agency. For a cluster of programs, provide the cluster name, list individual federal programs within the cluster of programs, and provide the applicable federal agency name. Clusters must be identified on the schedule and must be considered as one program for determining major programs. See §200.510.

D. For awards passed through the MDE, name MDE as the pass-through entity and the identification number assigned by MDE.

E. Provide total federal awards expended for each federal program and the CFDA number. For a cluster of programs, also provide the total for the cluster.

F. Include the total amount provided to subrecipients.

G. SCHEDULE OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS (though not required by the Uniform Guidance, it is necessary to verify that the districts are reporting all federal expenditures. This also aids the MDE Auditor in the determination of the single audit requirement).
   1. This schedule must be submitted when funds are passed through to another school district and should include all the following:
   2. Subrecipients' program(s) title and project numbers.
   3. CFDA number of Federal program.
   4. Subrecipient award or contract amount. To the extent practical, identify the total amount provided from each program included in the SEFA.
   5. Current year cash, etc., transferred to subrecipient.
   6. Current year federal expenditures reported by subrecipients.

H. Include notes that describe significant accounting policies used in preparing the schedule and note whether the rule for de minimis indirect cost rate in §200.414 was used.

I. The following items must be included in the Schedule for each active award (See example).
   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. Beginning inventory and accrued or deferred revenue as of July 1, of prior year.
   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 of all federal awards
   8. Ending inventory and accrued or deferred revenue as of June 30, of current year.
   9. Amounts of awards passed through to subrecipients as required by §200.510(b).
   10. Adjustments to prior year awards, expenditures and balances including transfers between grants. All adjustments must be explained in the footnotes to the schedule.

Note: Commodities remaining at the processor are not the property of the ordering school district. Commodities become the property of the district only when they are received at the district. The amounts reported as Entitlement and Bonus Commodities on the PAL Report will be the actual amounts received by the district. These amounts should be reported on the SEFA as received and expended. Amounts reported in the "Pilot Project F-V" on the PAL Report are included in the Total column on the PAL Report as part of the Entitlement.

J. All projects should be classified by program and all programs should be classified under the federal department that administers the program. 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 or local school district. The schedule should provide unit amounts, subtotals, and totals for each classification (projects, programs by CFDA number, direct and pass-through, departments, etc.).

K. The same amount of accrued/deferred revenue should be reported at 6/30 of current year (ending balances) and at 7/1 of subsequent year (beginning balances). 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.

L. The schedule should include the following statement: "The accompanying notes are an integral part of this schedule."

M. The Uniform Guidance prescribes certain footnotes to the SEFA. In addition, 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 statement footnotes will be appropriate here.
   2. Note that management has utilized the MDE Cash Management System (CMS) Grant Auditor Report (GAR) in preparing the SEFA. Differences between current payments reported in the GAR and amounts reported in the schedule should be reconciled. The auditor should provide an explanation for all differences as a footnote to the schedule.
   3. Note that indicates whether the district chose to use the 10% de minimis indirect cost rate.
   4. When the adjustment column is used, a clear explanation must be given for each adjustment.
      For example, the prior year SEFA includes an award for $213,000, expenditures of $209,000, amount received of $213,000, deferred amount at June 30 of $4,000. If for the current federal year, the award is adjusted downward to $209,000, 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 July 1 of $4,000 was returned to MDE (via check #_____) or has been/will be taken out of a future request for funds, or the school district has recorded $4,000 as a payable to MDE."

N. Schedule of Reconciliation of Revenues with Expenditures for Federal Award Programs
   1. 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 SEFA. Items c and d should be properly reported on future financial reports to eliminate these differences. Differences may result from the following:
      a. Income and outgoing transfers (identified by program).
      b. Timing differences (i.e., GASB 33 revenue recognition issues).
      c. Federal revenue reported as state revenue and vice versa.
      d. Beginning and/or ending accrued (deferred) revenues that have not been recognized in the financial statements.
   2. 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 Financial Information Database (FID) presentation and accuracy in reporting, rebates should be reported as revenue. Do not offset or reduce expenditures or show costs net of rebates from the NCP Program.

VIII. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (SSPAF)

A. The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings, (both financial statement and federal findings must be included). Include the audit finding reference numbers the auditor assigned under §200.516(c), including the fiscal year in which the finding initially occurred.

B. Include findings related to the financial statements which are required to be reported in accordance with GAGAS.

C. Report the status of all audit findings included in the prior audit's Schedule of Findings and Questioned Costs (SFQC). Include all findings reported in the prior audit's SSPAF except audit findings listed as corrected or no longer valid or not warranting further action.
   1. When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.
   2. When audit findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the finding's recurrence and planned corrective action, and any partial corrective action taken. When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in MDE's management decision, the summary schedule must provide an explanation.
   3. When audit findings are no longer valid or do not warrant further action, the reasons for this position must be described in the summary schedule. All the following must have occurred:

a. Two years have passed since the audit report in which the finding occurred was submitted to the FAC.
b. MDE is not currently following up on the audit finding.
c. A management decision was not issued.

IX. CORRECTIVE ACTION PLAN

A. The school district's response to the findings should be included with the audit report. It should be specific and action oriented. The response is required to be separate from the finding and generally titled a corrective action plan. It should be on the school district's letterhead and signed by an appropriate official. If funds are due to the state, they must be returned to resolve the finding. The corrective action plan should include the following elements:
   1. The school district's comments for each finding. Denote by the finding reference number. The finding must include the fiscal year in which the finding initially occurred.
   2. The corrective steps that have already been taken.
   3. The steps that will be taken, along with target dates.
   4. The plan for monitoring adherence to the corrective action plan.
   5. If warranted, reasons why the auditee does not consider corrective action necessary.
   6. Name of responsible person(s) for further information.
   7. If questioned costs are being returned to the Department, disclose the mailing date and amount of the check.

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

Chief Cashier
Michigan Department of Education
P.O. Box 30106
Lansing, Michigan 48909
Attention: Becki Gresh

X. MANAGEMENT LETTER

A. A management letter may be issued for nonmaterial internal control weaknesses in accordance with GAGAS. Other nonmaterial instances of noncompliance with state and local laws and regulations may also be reported in the management letter. GAGAS allows this communication to be oral; MDE prefers the written format.

B. 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, MDE should receive both letters. Communications with the audit committee (or equivalent) for certain matters related to the conduct of an audit under AU §260 and §265 do not preclude the issuance or replacement of the auditor's responsibility to issue a management letter.

School District
Schedule of Expenditures of Federal Awards
Year Ended 6/30/xx

Program Title/Project Number/Subrecipient Name	Grant/Project Number	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditure	Accrued Revenue at July 1, 2014	Adjustments and Transfers	Federal Funds/ Payments In-kind	Expenditures	Accrued Revenue at June 30, 2015	Current Year Cash Transferred to Subrecipient
Clusters:										
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education:										
Noncash Assistance (Commodities) -										
National Lunch Program Bonus Commodities 2014-15	N/A	10.555	$ 84,111	$ -	$ -	$ -	$ 84,111	$ 84,111	$ -	$ -
Cash Assistance:										
National School Lunch Program 2013-14	141960	10.555	676,858	676,858	45,213	-	45,213	-	-	-
National School Lunch Program 2014-15	151960	10.555	674,932	-	-	-	674,932	674,932	-	-
National School Lunch Program (including commodities) Subtotal		10.555	1,435,901	676,858	45,213	-	804,256	759,043	-	-
National School Breakfast Program 2013-14	141970	10.553	254,807	254,807	19,410	-	19,410	-	-	-
National School Breakfast Program 2014-15	151970	10.553	282,072	-	-	-	282,072	282,072	-	-
National School Breakfast Program Subtotal		10.553	536,879	254,807	19,410	-	301,482	282,072	-	-
Summer Food Service Program 2014 - 2015	141900/140900	10.559	34,235	1,287	1,287	-	26,886	32,948	7,349	-
Total Child Nutrition Cluster			2,007,015	932,952	65,910	-	1,132,624	1,074,063	7,349	-
Special Education Cluster - U.S. Department of Education - Passed through the Macomb ISD:										
IDEA Flowthrough:										
IDEA Flowthrough1314	140450	84.027	840,658	782,225	199,252	-	240,685	58,433	17,000	-
IDEA Flowthrough 1415	150450	84.027	888,962	-	-	-	597,234	813,711	216,477	62,852
Total IDEA Flowthrough		84.027	1,729,620	782,225	199,252	-	837,919	872,144	233,477	62,852
IDEA Preschool Incentive:										
IDEA Preschool 1314	140460	84.173	22,570	22,570	5,991	-	5,991	-	-	-
IDEA Preschool 1415	150460	84.173	29,168	-	-	-	20,560	29,168	8,608	-
Total IDEA Preschool Incentive		84.173	51,738	22,570	5,991	-	26,551	29,168	8,608	-
Total Special Education Cluster			1,781,358	804,795	205,243	-	864,470	901,312	242,085	62,852
Clusters (Continued):										
Workforce Investment Act Cluster - U.S. Department of Labor - Passed through the Macomb/St. Clair Workforce Development Board - Michigan Works!										
Workforce Investment Act:										
2013-2014 In School Youth - Tower Program	13-024/059	17.259	$ 46,800	$ 37,998	$ 8,840	$ -	$ 8,840	$ -	$ -	$ -
2014-2015 In School Youth - Tower Program	14-024/059	17.259	44,474	-	-	-	29,019	38,566	9,547	8,427
2014-2015 In School Youth Summer - Tower	14-024/058	17.259	16,083	-	-	-	14,981	14,981	-	3,252
Total Workforce Investment Act Cluster		17.259	107,357	37,998	8,840	-	52,840	53,547	9,547	11,679

See Notes to Schedule of Expenditures of Federal Awards. 1

School District
Schedule of Expenditures of Federal Awards
Year Ended 6/30/xx

Program Title/Project Number/Subrecipient Name	Grant/Project Number	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditure	Accrued Revenue at July 1, 2014	Adjustments and Transfers	Federal Funds/ Payments In-kind	Expenditures	Accrued Revenue at June 30, 2015	Current Year Cash Transferred to Subrecipient
Other federal awards:										
Passed through the Michigan Department of Education:										
Title I Part A:										
Title I Part A 1213	131530	84.010	298,737	96,124	1,448	-	1,448	-	-	-
Title I Part A 1314	141530	84.010	336,393	252,697	80,336	-	163,368	83,696	664	-
Title I Part A 1415	151530	84.010	315,298	-	-	-	202,711	266,465	63,754	-
Total Title I Part A		84.010	950,428	348,821	81,784	-	367,527	350,161	64,418	-
Title II Part A - Improving Teacher Quality:										
Title II Part A 1213	130520	84.367	72,287	-	720	-	720	-	-	-
Title II Part A 1314	140520	84.367	69,235	16,717	5,154	-	40,618	43,574	8,110	-
Title II Part A 1415	150520	84.367	72,696	-	-	-	-	-	-	-
Total Title II Part A		84.367	214,218	16,717	5,874	-	41,338	43,574	8,110	-
Total noncluster programs passed through the Michigan Department of Education			1,164,646	365,538	87,658	-	408,865	393,735	72,528	-
Other federal awards (Continued):										
Passed through the Macomb ISD:										
Adult Education:										
Adult Education 1314	141130 141198	84.002	$ 62,000	$ 62,000	$ 37,563	$ -	$ 37,563	$ -	$ -	$ -
Adult Education 1415	151130 151198	84.002	81,631	-	-	-	72,000	75,452	3,452	58,727
Total Adult Education		84.002	143,631	62,000	37,563	-	109,563	75,452	3,452	58,727
Vocational Education - Basic Grants to States (Perkins):										
Vocational Education 1314	143520/141216	84.048	128,107	128,107	24,116	-	24,116	-	-	-
Vocational Education 1415	153520/151216	84.048	112,713	-	-	-	64,213	112,713	48,500	62,172
Total Vocational Education		84.048	240,820	128,107	24,116	-	88,329	112,713	48,500	62,172
Total noncluster programs passed through the Macomb ISD			384,451	190,107	61,679	-	197,892	188,165	51,952	120,899
Total federal awards			**$ 5,444,827**	**$2,331,390**	**$ 429,330**	**$ -**	**$ 2,656,691**	**$2,610,822**	**$ 383,461**	**$ 195,430**

See Notes to Schedule of Expenditures of Federal Awards. 2

SECTION B

REPORT DISTRIBUTION

To comply with OMB 2 CFR Part 200 filing requirements, each public school district should follow the information provided in this section in conjunction with §200.512.

I. WHERE TO FILE

A. ISD
Each public school district should file one copy of the reporting package, including the management letter with the ISD, on or before **November 1.**

B. MDE
Each public school district, ISD and public school academy must file one copy of their audit reporting package and management letter with MDE by **November 1.**

Public school districts, ISDs and public school academies are required to submit their audit packages to MDE electronically via e-mail.

The e-mail address is MDE-FinAudit@michigan.gov. Specific instructions may be found on the MDE – Office of Financial Management - Audits website.

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

Michigan Department of Education
Office of Financial Management - 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, §18(10) of the State School Aid Act requires that MDE withhold 100% of the district's annual state aid beginning with the next scheduled payment, until the audit is received.

C. Federal Audit Clearinghouse (FAC)
Each school district receiving a 2 CFR Part 200 audit must electronically submit the reporting package and Form SF-SAC to the FAC. The website address for the FAC is: http://harvester.census.gov/fac/collect/ddeindex.html. Directions for electronic filing may be found at the FAC website: http://harvester.census.gov/fac.

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

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

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

All Promise Zone audits will need to be submitted to MDE in the same manner as school district audits. Promise Zones were created by the Legislature in 2009. They are to be considered governmental audits, audited in the same manner as all other school district audits under the Yellow Book.

E. MDHHS
MDHHS has joined with MDE and the Michigan Department of Treasury to unify their process for the submission of school district financial audits. Districts will not need to submit a separate copy of their audit to MDHHS. The copy submitted to MDE-FinAudit address will satisfy the MDHHS audit submission requirement.

F. Additional Submission Requirements
As discussed in §200.512, school districts 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, school districts should provide copies of the reporting package and the management letter. If not requested, subrecipients must still inform pass-through agents of compliance with the single audit. This may be communicated by letter.

II. WHAT TO FILE

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

1. DCF - Both the auditor and the school district official need to electronically certify the information included in the data collection form. As discussed in §200.512(b), this form should be approved by the Office of Management and Budget. It is available from the FAC (http://harvester.census.gov/sac/) and must be filed on-line. The format for the DCF at the FAC is Excel. They must be converted to pdf before submission to MDE. MDE will not require the district to submit the DCF to MDE with the audit package. The district or the district's auditor will notify MDE when the audit has been certified at the FAC. The MDE auditor will retrieve the DCF from the FAC website.
2. Audited financial statements, Single Audit (if required) and Schedule of Expenditures of Federal Awards.
   Reference: General Audit Issues, Section A, of this manual and §200.510(a) and (b).
3. A Summary Schedule of Prior Audit Findings prepared by the district. §200.511(b).
4. Auditor's reports. See General Audit Issues, Section A of this manual and §200.515.
5. A corrective action plan to resolve the current and prior year audit findings as prepared by districts. See General Audit Issues, Section A – Corrective Action Plan, of this manual and §200.511(b).

B. Management letter, if issued by auditors. This letter should be filed with 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, school districts should include a memo to MDE indicating that a management letter was not issued.

C. AU 260 letter: *The Auditor's Communication with Those Charged with Governance.*

D. Public school districts expending less than $750,000 in federal funds are not required to have single audits performed. However, they are required to file financial statement audits (performed in accordance with GAS and management letters with the ISD, MDE, Treasury, and MDHHS (if they meet requirements listed in Section I-E).

III. WHEN TO FILE

As discussed in Part I of this section, to avoid penalties, school districts should file all required reports with MDE by November 1. Also, the reporting package or required reports should be filed with appropriate agencies within 30 days after issuance of the auditor's reports or nine months from fiscal year end, whichever is sooner, per §200.512 (c).

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

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

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

SECTION C

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 (§200.331).

A. OMB 2 CFR Part 200 requires the primary recipient to ensure that every sub-award is clearly identified to the subrecipient as a sub-award and includes the following information at the time of the sub-award and if any of these data elements change, include the changes in subsequent sub-award modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and sub-award. Required information:
   1. Federal Award Identification:
      a. Subrecipient name (must match the name associated with its unique entity identifier)
      b. Subrecipient's unique entity identifier;
      c. Federal award Identification Number (FAIN);
      d. Federal award Date (see §200.39 Federal award date) of award to the recipient by the federal agency;
      e. Sub-award period of performance start and end date;
      f. Amount of federal funds obligated by this action by the pass-through entity to the subrecipient;
      g. Total amount of federal funds obligated to the subrecipient by the pass-through entity including the current obligation;
      h. Total amount of the federal award committed to the subrecipient by the pass-through entity;
      i. Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
      j. Name of federal awarding agency, pass-through entity, and contact information for awarding official of the pass-through entity;
      k. CFDA number and name. The pass-through entity must identify the dollar amount made available under each federal award and the CFDA number at time of disbursement;
      l. Identification of whether the award is R&D; and
      m. Indirect cost rate for the federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).

2. All 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. An approved indirect cost rate.
4. A requirement that each subrecipient permit independent auditors to have access to its records and financial statements as necessary for the pass-through entity to comply with requirements of OMB 2 CFR Part 200.
5. Appropriate terms and conditions concerning closeout of sub-award.

B. Risk Evaluation
1. Primary recipients should evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the sub award for purposes of determining the appropriate subrecipient monitoring described below. This may include consideration of such factors as:
   a. The subrecipient's prior experience with the same or similar sub awards.
   b. The results of previous audits.
   c. Whether the subrecipient has new personnel.
   d. Whether the subrecipient has new or substantially changed systems.
   e. The extent and results of federal awarding agency monitoring.
2. Depending on assessment of risk, the following tools may be helpful for the pass-through entity to ensure proper accountability and compliance with program requirements.
   a. Provide subrecipients with training and technical assistance on program-related matters.
   b. Perform on-site reviews of the subrecipient's program operations.
   c. Arrange for agreed-upon-procedures engagements as described in §200.425 Audit Services.

C. Subrecipient Monitoring
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 2 CFR Part 200. Pass-through entity monitoring must include:
1. Review of financial and performance reports required by the pass-through entity.
2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.
3. Issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the pass-through entity as required by §200.521 – Management Decision.
4. Verification that every subrecipient is audited as required by Subpart F – Audit Requirements if it is expected that the subrecipient's federal awards expended will exceed $750,000.
5. Completion of a risk assessment to determine what additional monitoring procedures are necessary

6. Consideration of whether the results of the subrecipients audits, on-site reviews or other monitoring indicate conditions that necessitate adjustments to the pass-through entity's own records
7. Considerations of taking enforcement action against noncompliant subrecipients as described in §200.338. Remedies for noncompliance of this part and in program regulations.

II. AUDITOR OF THE PRIMARY RECIPIENT/PASS-THROUGH ENTITY 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 2 CFR Part 200 audit requirements and whether subrecipient audit reports are current.

D. Comment on the primary recipient's monitoring and disbursing procedures with respect to subrecipients, including its risk assessment of subrecipients

E. Determine if subrecipient questioned costs or compliance findings, which may or may not be material, require adjustment of the primary recipient's records and are properly reflected.

F. If subrecipient monitoring has not been completed and the federal awards are material to programs administered by the primary recipient, the scope of the primary recipient's audit can be expanded by management to include testing of the subrecipient records for compliance with the applicable provisions of the program. If the scope of the audit is not expanded, the auditor should consider disclosing the amount of the subgrant as a questioned cost and modify the applicable auditor's reports. In addition, the auditor should consider whether a significant deficiency or material weakness in the internal control system may exist.

G. If a subrecipient's audit report or DCF was due but not received, the primary recipient's auditor should consider noncompliance with the implementation of reporting requirements when evaluating the finding or noncompliance.

H. Primary recipients are responsible for identifying federal awards to their subrecipients. If the primary recipient fails to advise the subrecipient that the award is federal, this should be considered a weakness in the primary recipient's internal control system for monitoring subrecipients and should be reported as a potential significant deficiency.

I. The primary recipient's auditor is strongly encouraged to review the OMB 2 CFR Part 200. Insight is given on how to deal with subrecipients expending less than $750,000 in federal awards.

SECTION D

PROCUREMENT AND MANAGEMENT OF AUDIT SERVICES

I. PROCUREMENT OF AUDIT SERVICES

A. Audit Requirements

MDE requires school districts, including public school academies and ISDs, which expend **less** than $750,000 of federal financial assistance to procure an audit made in accordance with GAAS and GAS, issued by the Comptroller General of the United States. MDE requires school districts, including public school academies and ISDs, which expend **$750,000 or more** a year of federal financial assistance to procure an audit made in accordance with GAAS; GAGAS, issued by the Comptroller General of the United States; and OMB 2 CFR Part Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

B. Auditor Selection

Public school district 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 district 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. Review the CPA's qualifications. The auditor should understand the audit requirements and the single audit process unique to school districts. The proposal should contain a sound technical plan, a realistic cost proposal, and an estimate of time to complete the audit.
2. The auditor should have a track record of performing acceptable audits. This would include verifying the filing of acceptable reports on a timely basis.
3. The auditor should have 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 district and its oversight agencies, such as MDE. See Paragraph 6.65 of GAGAS.
5. School districts should have the prospective bidder's most recent completed peer review opinion report. See Paragraph 3.36 of GAGAS. **MDE will not accept audits performed by firms that have not had the required peer review**.
6. 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 school districts that continue to employ a competitive bid process should balance price with the auditor's professional qualifications. If auditors are selected based on cost rather than professional qualifications, the school district 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 2 CFR Part 200, provide school district 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 district officials in determining the scope and applicability of the audit and in procurement of audit services. For further guidance, see 2 CFR §200.509.

D. Written Agreement
An adequate written agreement (an engagement letter) provides a basis for a quality audit and enhances the school district's ability to monitor the audit. An adequately written agreement must be signed by the school district 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 2 CFR Part 200, GAAS and GAS.

II. MANAGING THE AUDIT

A. The responsibility to work with the auditor includes the following functions:
1. Fully cooperate with the 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 the auditor.
2. Meet periodically with the 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, expertise and qualifications of staff and work performed, and the draft report, etc. Coordinate and follow up on corrective actions taken by school district personnel until audit resolution is satisfactorily achieved.
3. Formulate, in consultation with the auditors and MDE personnel, a corrective action plan for program findings.
4. Maintain contact with MDE during the audit resolution process.

B. Audit Review Process
When the audit performed is substandard or unacceptable, MDE will contact the auditor to take corrective action, with a copy of the letter to the public school district. If the audit findings are not resolved in the requested time or manner, MDE will inform the school district that the necessary corrective action has not been taken or planned. If the school district has been notified by MDE that the audit requirements have not been met, the school district should monitor the auditor's responsiveness in resolving audit deficiencies. If corrective action is not taken in the requested time, MDE will notify the school district 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 including, but not limited to, the withholding of federal funds or referral to the State Board of Accountancy or other licensing bodies.

SECTION E

INDIRECT COST RATES

I. OVERVIEW

When an organization has an approved indirect cost rate (ICR), it is allowed to assign value for indirect costs to grants or projects. In most 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

Electronic Data Gathering, Analysis, and Retrieval system (EDGAR) 34 CFR 75.561

III. DEFINITIONS

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

B. 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.

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

IV. OBTAINING AN APPROVED INDIRECT COST RATE

Annually in April, the MDE Office of Financial Management calculates restricted and unrestricted indirect cost rates for all Michigan public school districts (including academies) and ISDs. Districts review preliminary rates and submit adjustments on form DS-4513 by June 1. Forms are reviewed and processed by the Office of Financial Management and final rates are published on the MDE's website by June 20.

V. CALCULATION OF INDIRECT COST RATE

The calculation is based on the information reported in the school district's prior year Financial Information Database (FID) Report/FID Submission. For example, the 2018-2019 indirect cost rates are based on data collected on the 2017-2018 FID Report. By November 1, following the fiscal year ended June 30, districts electronically submit their annual Financial Information Database (FID) data to the Michigan Department of Education. FID data is reviewed, and reasonability checks are performed. Discrepancies found between the FID and the audited financial statements require a district to revise the FID, if a difference is found during the analysis/correction window. The Department uses FID data as a base for indirect cost rate calculation. Because the source of information utilized to determine indirect cost rates is the district's FID report, it is essential that districts classify expenditures uniformly and consistently per the Michigan School Accounting Manual.

Preliminary rates will be issued in April of each year using traditional classifications between indirect and direct costs. Any district using an indirect cost rate should review the calculation of those rates to ensure accuracy. Districts are responsible for reviewing the information provided in the R0418A and submitting adjustments using form DS-4513, if necessary. Final rates will be published in June. MDE caps the approved indirect cost rate at 15%. For example, if your approved rate is 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, USED programs use the unrestricted rate.

VII. USE OF DE MINIMIS INDIRECT COST RATES

The Uniform Guidance authorizes the use of de minimis rate of 10% of modified total direct costs if the organization has never had an approved indirect cost rate. Organizations with a previous Restricted and/or Unrestricted Rate are not eligible for the de minimis rate. New organizations created after December 26, 2014 would be allowed to use the de minimis rate.

VIII. EXAMPLE APPLICATION OF INDIRECT COST RATE

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%

IX. 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.

X. REFERENCE MATERIALS

EDGAR, 34CFR 75.560-75.564
EDGAR, 34CFR 76.560-76.569

2 CFR part 225

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

2 CFR §200.57, §200.414, §200.416

IX. PERSONNEL

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SECTION F

COMPENSATION FOR PERSONAL SERVICES

Districts are required to comply with guidelines outlined in the Uniform Guidance 2 CFR §200.430.

A. Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the federal award, including but not limited to wages and salaries. Compensation for personal services may also include fringe benefits. See §200.431.

B. Costs of compensation are allowable to the extent they satisfy the specific requirements of federal program guidelines, and the total compensation for individual employees:
   1. Is reasonable for the services rendered and conforms to the established written policy of the non-federal entity consistently applied to both federal and non-federal activities;
   2. Follows an appointment made in accordance with the non-federal entity's laws, rules, and written policies and meets the requirements of federal statute;
   3. Is determined and supported as an allowable cost or activity.

C. The Uniform Guidance allows flexibility for documentation, and places great reliance on internal controls and the corresponding policies and procedures. These records must:
   1. Be supported by a system of internal controls that provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
   2. Be incorporated into the official records of the non-federal entity;
   3. Reasonably reflect the total activity for which the employee, not exceeding 100% of compensated activities;
   4. Encompass both federally assisted, and all other activities compensated by the non-federal entity on an integrated basis,
   5. Comply with the established accounting policies and practices of the non-federal entity; and
   6. Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee worked on more than one activity.

D. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to federal awards, but may be used for interim accounting purposes, provided that:
   1. The system for establishing the estimates produces reasonable approximation of the activity performed;
   2. Significant changes in the corresponding work activity are identified and entered into the records in a timely manner. Short-term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term;
   3. The organization's system of internal controls includes processes to review the after-the-fact interim charges made to federal awards based on budget estimates. All necessary adjustments must be made such that the final amount charged to the federal award is accurate, allowable and properly allocated; and

4. The reconciliation or review between the time charged to federal awards based on budget estimates and the actual time worked on federal awards must be documented and retained for the required retention period (at least three years after the grant period closes).

E. Salaries and wages of employees used in meeting the cost sharing or matching requirement of federal awards must be supported in the same manner as salaries and wagers claimed for reimbursement of federal awards.

F. Questioned costs must be calculated for all periods of timekeeping violations where there is inadequate documentation to support the charges to the programs. These questioned costs should include all wages, benefits and applicable indirect charges for the employee when the system of internal controls does not provide reasonable assurance that the charges are accurate, allowable, and properly allocated.

SECTION G

PROCUREMENT, SUSPENSION AND DEBARMENT

I. Federal procurement, suspension and debarment requirements

A. See 2 CFR
   1. §200.317-200.326 Procurement Standards
   2. §200.20 Computing devices
   3. §200.58 Information technology systems
   4. §200.67 Micro-purchase
   5. §200.94 Supplies
   6. §200.213 Suspension and debarment
   7. §200.313 Equipment
   8. §200.314 Supplies

B. Districts must use their own documented procurement procedures, provided that the procurements conform to federal, state, and local laws and standards. Non-federal entities may delay implementation of the procurement standards of the Uniform Guidance and choose to use previous OMB guidance until July 1, 2018. If elected, the non-federal entity must document this decision in their internal procurement policies.

C. Districts must maintain a procurement and contract administration system which ensures that procurements are in accordance with district procedures and that contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.
   1. Contracts must include requirements for comprehensive invoices.
   2. Contractor and vendor invoices must include details of the services provided, for whom, when, how much and any other details required by the contracts or purchase orders.
   3. Payments to contractors and vendors must be according to the contract or purchase order.
   4. If the contract or purchase order is renewed or extended, the same conditions must apply. If not, the contract must be rebid according to federal requirements.
   5. Districts must maintain a compliance system to ensure that contractors comply with the terms and conditions of the contract.

D. Districts must have a system in place to ensure that they do not enter into a contract with a debarred party.

E. Districts must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts. If the grant recipient has a parent, affiliate, or subsidiary organization that is not a state, local government or Indian tribe, the grant recipient must also maintain written standards of conduct covering organizational conflicts of interest.

F. The procedures must avoid acquisition of unnecessary or duplicative items. Consideration should be given to consolidating or breaking out procurements to obtain a more economical purchase.

G. Districts must award contracts only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. Consideration should be given to such matters as contractor integrity, compliance with public policy, record of past performance, and financial and technical resources. See 2 CFR §200.213 Suspension and Debarment.

H. Districts must maintain records sufficient to detail the history of procurement. The records should include rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

I. Districts may use a time and materials type contract only after a determination that no other contract is suitable and if the contract includes a ceiling price that the contractor exceeds at its own risk.

J. Procurement transactions must be conducted in a manner providing full and open competition.

K. Districts must conduct procurements in a manner that prohibits the use of statutorily or administratively imposed state, local, or tribal geographical preferences in the evaluation of bids or proposals, except in those case where applicable federal statutes expressly mandate or encourage geographic preference.

L. Districts must use one of the following methods of procurement. See 2 CFR §200.320.
   1. Micro-purchases
   2. Small purchase procedures
   3. Sealed bids
   4. Competitive proposals
   5. Noncompetitive proposals

M. Districts must take all necessary affirmative steps to assure that minority businesses, women's business enterprises, and labor surplus area firms are used when possible. See 2 CFR §200.321.

II. State procurement requirements – MCL 380.1274 Procurement of supplies, materials, and equipment; written policies; competitive bid; approval of purchase; adjustment of maximum amount; local policy giving preference to Michigan-based business; items purchased through cooperative bulk purchasing program; acquisition of equipment; payment; purchase of heating and cooking equipment; "Michigan-based" business defined.

A. A district shall adopt written policies governing the procurement of supplies, materials and equipment.

B. A district shall not purchase an item or a group of items in a single transaction costing $24,459 or more unless competitive bids are obtained, and the purchase is approved by the school board or board of directors. This amount is adjusted each year based on the CPI.

C. A district may adopt and implement a local policy that gives a preference to a Michigan-based business. This policy may not be applied to a contract that is to be paid with federal funds.

D. A district is not required to obtain competitive bids for items purchased through the cooperative bulk purchasing program operated by the Department of Management and Budget under §263(3) of the Management and Budget Act, 1984 PA 431, MCL 18.1263.

E. A district is not required to obtain competitive bids for purchasing food unless the food is purchased in a single transaction costing $100,000 or more.

USDA DONATED FOODS

CFDA–Based on Program Supported by USDA Foods:
10.555 – National School Lunch & Breakfast
10.558 – Child and Adult Care Food Program
10.559 - Summer Food Service Program

I. Introduction

II. Identification and Value of USDA Donated Foods

III. Revenue Recognition Criteria

IV. Procurement, Suspension, and Debarment

V. Findings

VI. Contacts

I. INTRODUCTION

A. Federal financial assistance received by school districts or School Food Authorities (SFA) from the USDA may include the following:
   1. Claims for reimbursement on reimbursable meals, after school snacks, and milk served.
   2. Cash-in-lieu of commodities (CLOC).
   3. USDA donated foods (both bonus and entitlement).
   4. Discounts and rebates for the value of USDA donated food ingredients contained in processed foods (end-products) provided by the state and federal processing program.

B. SFAs may participate in USDA funded programs that may include USDA Foods:
   1. National School Lunch Program (NSLP) for the regular school year and extended/balanced school year (June-August) CFDA #10.555 - Includes reimbursement for reimbursable meals/snacks served, USDA donated foods, discounts, and rebates for USDA donated foods included in processed items. Code of Federal Regulations 7 CFR, Part 210. Food distribution is reported under Catalog of Federal Domestic Assistance (CFDA) number of the program supported by the USDA Foods Regulations 7 CFR, Part 250. Under the USDA Foods processing system, the value of the USDA Foods reduces the price of the end-product. Salad dressing, for example, would cost $12.00 for one case (4 gallons) without the use of USDA Foods, but because USDA oil is being utilized, the cost of salad dressing is reduced by approximately $4.00 per case for the value of the oil. CLOC Sponsors reimbursement received is based on prior year reimbursement lunch and supper claims multiplied by the current commodity rate of $.2375.
   2. Child and Adult Care Food Program (CACFP), CFDA #10.558 - During the prior fiscal year, the Michigan CACFP elects to receive CLOC, therefore sponsors will receive payments based on the number of reimbursable meals served each year in addition to cash reimbursement. The amount of CLOC reimbursement received is the number of reimbursable lunch and supper claims multiplied by the current commodity rate of $.2375. The total CLOC amount is identified as a separate line-item within the Michigan Nutrition Data System (MiND) claim status report and reported within the Cash Management System (CMS).
   3. Summer Food Service Program (SFSP), CFDA #10.559 – Includes reimbursement for meals and administrative costs, USDA donated foods, discounts, and rebates for both schools and camps. Federal Regulations 7 CFR Part 225.

II. IDENTIFICATION AND VALUE OF USDA DONATED FOODS

The value of entitlement and bonus USDA Foods for the 2019-2020 school year are available on the internet at the Office of Health and Nutrition Services (OHNS) Food Distribution Programs website:

- USDA Foods Brown Box[1]:
- USDA Processed Food Values:

A. Entitlement for Planned Assistance Level (PAL): Entitlement equals actual meal count based on prior year's actual lunch meal claim, multiplied by cash value per meal determined by the USDA each year in July. This formula is used to prepare the entitlement value for the PAL Report.

Calculation of the Program Award for Entitlement:

Actual Lunch Meal Count	___	x
Commodity Cash Value	___	=
Total Entitlement	___	

Delivery charges and any processing charges are not included as part of the program award. These charges may be allocated to the other federal Child Nutrition Programs.

B. USDA Donated Foods Reports

1. The PAL Report provides SFAs with the status of their entitlement. At any time, the SFAs may access each consortium's website to locate their report. The fourth quarter PAL Report is cumulative. Rounding of numbers may cause the balance to vary slightly. As shown above, the value of USDA Foods to which an SFA is entitled for the current school year, is calculated by multiplying its previous school year's June 30, total reimbursable lunches by the entitlement rate ($.2375 for 2019-2020). This number represents the entitlement allocated to an SFA. Use of these USDA foods entitlement dollars represents lowering of food cost; therefore, maximum usage is an indication of efficiency. SFA's may use more than 100% of their allocated entitlement if their consortia has additional foods to distribute.
2. Fair market values for Entitlement and Bonus USDA Foods: SFAs must utilize the fourth quarter PAL Report figures (value of USDA Foods delivered to the district during the school year). The fourth quarter/final PAL Report can be accessed on each consortium's website after July 15.

C. Entitlement Values - The USDA Foods values are listed in the USDA Average Price File Reports located on the USDA Food Distribution Program's website. 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 USDA Food Fair Market Value Reports and the PAL Report. Bonus Values – The USDA sometimes purchases other foods referred to as "bonus" or "trade mitigation" foods These foods are not considered part of the regular entitlement (non-bonus) foods. The majority of USDA Foods are non-bonus and will draw down entitlement. The invoice value of bonus donated food 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. (7 CFR, Part 250.)

D. Usage of USDA Foods – USDA Foods can be used in any meal where the primary audience consists of students participating in school meals programs. If donated foods are used in any other meal, the value of those foods must be replaced or credited back to the school district's non-profit school food service account.

E. USDA Foods in Summer Food Service Programs – School Districts may utilize USDA Foods within their summer programs. Summer camps participating in the MDE summer feeding programs will be invited to purchase any brown box (non-processed) USDA Foods items that were allocated to SFSP and that school districts did not purchase at the end of the school year.

F. During the school year 2019-20, three school district consortia and Detroit Public Schools Community District (DPSCD) are participating in the direct diversion of USDA Foods. The Great Lakes Consortium (GLC), School Purchasing and Resource Consortium (SPARC), Macomb, Oakland and Wayne RESA (MOR), and Detroit Public Schools Community District (DPSCD) are diverting all USDA donated and processed food products to their contracted warehouse and processors. For questions, contact Jaime Malnar at 517-335-3792.

G. Correspondence for Planning and Tracking USDA Foods - Newsletters and information on USDA foods and food products, such as availability or status of food products (what, when, how much can be ordered, demand for, forecasting, etc.) are provided by each consortium.

III. REVENUE RECOGNITION CRITERIA

2 CFR Part 200 defines federal financial assistance as assistance that non-federal entities receive or administer in the form of grants, cooperative agreements, non-cash contributions or donations of property (including donated surplus property), direct appropriations, food commodities, and other financial assistance (except loans, loan guarantees, interest subsidies, and insurance). The NSLP should be reported under CFDA #10.555. The Schedule of Expenditures of Federal Awards (SEFA) should report commodities under CFDA #10.555. Bonus and entitlements must be reported separately on the SEFA.

IV. PROCUREMENT, SUSPENSION, AND DEBARMENT

A. Procurement –
   1. Contractor Selection – A State agency, SFA, institution, or sponsor shall not award a contract to a firm it used to orchestrate the procurement leading to that contract. Examples of services that would disqualify a firm from receiving the contract include preparing the specifications, drafting the solicitation, formulating contract terms and conditions, etc. 2 CFR Part 200.319(a)
   2. School districts participating in any USDA Child Nutrition Program must adhere to federal program regulations for procurement. 2 CFR 200.318(c)(1) and (2)
   3. Geographical Preference – A State government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts. 2 CFR Part 210.21(g).319(b)
   4. Effective October 1, 2008, an SFA, institution, or sponsor operating one or more Child Nutrition Cluster programs is exempt from the geographical preference requirement when purchasing unprocessed locally grown and locally raised agricultural products.

B. Suspension and Debarment – Mandatory awards by pass-through entities to sub-recipients are excluded from the suspension and debarment rules.
   2 CFR Part 417.215(a)(1)

V. FINDINGS

A finding should be reported if the USDA donated foods are not reported or are improperly reported in the SEFA or the SFAs financial statements

VI. CONTACTS

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

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Michigan Department of Education
Malnarj1@michigan.gov517-335-3792

Gloria Suggitt Single Audit Coordinator,
Office of Financial Management Michigan Department of Education
suggittg@michigan.gov
517-241-2225

If you have questions regarding the PAL Report for GLC, contact:
Lead School District/Fiduciary: Traverse Bay Area Intermediate School District
Sherry Anderson glc_administrator@hpsnet.com
GLC/PAL Report – www.phsusdafoods.org
800-632-4572

If you have questions regarding the PAL Report for SPARC, contact:
Lead School District/Fiduciary: Manistee ISD
Kymm Mutch
kymm@proteamadvisors.com

SPARC/PAL Report – www.michigansparc.com
1-844-662-3767, Ext 107

If you have questions regarding the PAL Report for MOR, contact:
Lead School District/Fiduciary: Wayne RESA
Chuck Wolford wolford@macservcorp.com
MOR/PAL Report http://veorders.vaneerden.com/
734-334-1511

CHILD NUTRITION CLUSTER

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

I. Federal Overview

II. State Overview

III. District Considerations

IV. Audit Considerations

V. Reference Materials and Personnel

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

ATTACHMENTS

1. Menu Planning System, Nutrition Standards, and Implementation Timeline
2. Breakfast Meal Pattern for School Year
3. Child and Adult Care Food Program Meal Pattern
4. Program Requirements Calendar

I. FEDERAL OVERVIEW

A. Federal Agency. Food and Nutrition Services (FNS), USDA.

B. Authorization. Richard B. Russell National School Lunch Act of 1946, as amended (42 U.S.C. 1751); Child Nutrition Act of 1966, as amended (42 U.S.C 1771); Public Law 111-296 – Healthy, Hunger-Free Kids Act of 2010.

C. Beneficiary Eligibility. All public school districts, except ISDs, 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 (NSLP). All students attending public school districts may participate in the school lunch program. Also, non-public schools may participate in the school lunch program if they desire to do so. Income eligibility guidelines, updated annually by the USDA, are provided to all school districts participating in the lunch program via MDE. These guidelines are broken down by family size and incomes to determine eligibility of students to receive either free (no charge) or reduced (maximum charge of 40 cents per lunch and 30 cents per breakfast) benefits. All K-12 public school district buildings that have over 20% of their enrollment qualified for free and reduced-price meals in October of the immediately preceding school year must also provide a breakfast program to their students. If a student qualifies for free or reduced lunch, that student would also qualify for the same benefits for breakfast and Afterschool Snack (except for Area-Eligible Afterschool 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 (SMP) is available to split-session preschoolers and kindergarteners (at participating schools) who do not have access to a federally reimbursed meal/snack program.

D. Beneficiary/Participant Eligibility for Summer Food Service Program (SFSP) Only. Children age 18 and younger may receive meals through SFSP. Eligibility to participate in the SFSP is based upon the type of site. A site is a physical location where meals are served during a supervised time period. There are five types of sites:
   1. Open. At least half the children in the area are eligible for free and reduced-price school meals.
   2. Closed Enrolled. At least half of the children enrolled in the program are eligible for free and reduced-price school meals.
   3. Camp. Offers a regularly scheduled food service as part of a residential or day camp program.
   4. Migrant. Primarily serves children of migrant workers.
   5. National Youth Sports Program (NYSP). At least half of the children in the area are eligible for free and reduced-price school meals or at least half of the children enrolled in the program are eligible for free and reduced-price school meals.

II. STATE OVERVIEW – ADMINISTRATIVE REVIEW

A. The MDE Office of Health and Nutrition Services (OHNS), School Nutrition Programs (SNP) is responsible for the state Administrative Review of the SNP. The Administrative Review is a plan of action whereby all school food authorities (public school districts, private schools, or residential childcare institutions) that participate in the NSLP are reviewed for compliance once based on the USDA approved cycle and includes two performance standards.

1. Performance Standard #1: Access and Reimbursement. All free, reduced-price, and paid lunches claimed for reimbursement are served only to eligible children and are recorded, consolidated, and reported through a system which consistently yields correct claims.
   a. Certification. Applications for meal benefits, as submitted by families, are reviewed and the eligibility determinations are accurate.
   b. Direct certification eliminates the need for households to submit an application for meal benefits. The Direct Certification Report is available for all school districts, including non-public schools through the Michigan Student Data System (MSDS). The Direct Certification Report matches student enrollment data that Local Educational Agencies (LEAs) upload to the MSDS with data from MDHHS. The eligibility categories on the direct certification report are:
      i. Supplemental Nutrition Assistance Program (SNAP)
      ii. Temporary Assistance for Needy Families (TANF)
      iii. Foster children data
      iv. Medicaid data for free eligibility
      v. Medicaid data for reduced-price eligibility

      The Direct Certification Report must be pulled at a minimum of three times during the school year. MDE encourages school districts to pull the Direct Certification Report monthly to ensure all eligible students are receiving proper meal benefits. The Direct Certification Report refresh dates are listed on the Center for Educational Performance and Information (CEPI) Master Calendar at the CEPI website www.michigan.gov/cepi. The provision, found at 7 CFR 245.6(b) (3), requires that direct certification matching activities with SNAP are completed at least three times per school year:
      i. At or around the beginning of the school year;
      ii. Three months after the initial effort; and
      iii. Six months after the initial effort.

      CEPI refreshes the Direct Certification Report biweekly throughout the school year.
   c. Benefit Issuance. Electronic barcoded and magnetic strip systems, rosters, class lists, and other documents used at point of service (where students receive their meals) must be complete and accurate and match the category for the meal count (free, reduced, or paid) determined by the application on file or by the student's name appearing on the direct certification list. This also includes students with extended eligibility in a household with a student on the direct certification list receiving SNAP or TANF, Medicaid free, or Medicaid reduced-price benefits.

d. Verification System. The SFA must confirm students' eligibility for free and reduced-price meals from a randomly selected sample. The Verification sample only includes students that are eligible for free or reduced-price meals using a household application. The household applications can be income based or a case number for the SNAP, Food Distribution Program on Indian Reservations (FDPIR), or TANF. Medicaid case numbers are not accepted on applications. Steps to complete verification and SFA verification reporting requirements to MDE are located at the School Nutrition Programs website under the "What's New" and "Guidance" sections.
e. Counting and Claiming at Point of Service. Meals are accurately counted at the point in a food service operation where a determination can be made that a reimbursable free, reduced-price or paid meal has been served to an eligible student and claimed in the proper category.
f. System for Consolidating School Counts. Counts taken at point of service from all buildings are correctly combined and filed on the "Claim for Reimbursement" to MDE. For more information about counting and claiming, refer to the USDA Meal Counting and Claiming Manual.

2. Performance Standard #2: Meal Pattern and Nutritional Quality. Lunches and breakfasts claimed for reimbursement within the SFA contain food items/components as required by program regulations 7 CFR 210.10, 7 CFR 220.8, and 7 CFR 226.20.
   a. Food-Based Menu Planning System – Lunch
      i. Meal Components on Day of Review. Planned meals observed on the day of the review must contain the required food components. Five required food components must be available to all students for the meal to be reimbursable: milk, fruits, vegetables, grains, meat/meat alternates. There are two serving options: regular lunch and "offer versus serve" (OVS) lunch. Both options receive the same federal reimbursement rate. In regular service, the students must be served all five components in the minimum required age/grade portion sizes. When implementing OVS at lunch, the students are allowed to decline up to two components, as long as a ½ cup serving of a fruit or a vegetable is taken. Refer to Attachment 1 for appropriate portion sizes for each grade grouping.
      ii. Menu. The menu published by the SFA must list all five required food components served for lunch each day and production records must document the food items served for reimbursable meals.
      iii. Lunch meals served to children in pre-K programs must follow the revised Child and Adult Care Food Program (CACFP) meal pattern, effective October 1, 2017. Refer to Attachment 3 for appropriate portion sizes.

b. Food-Based Menu Planning System – Breakfast

i. Meal Components on Day of Review. Planned meals observed on the day of the review must contain the required food components. Three required food components must be available to all students for the meal to be reimbursable: milk, fruits (juice or vegetable substitute), and grains. Meat/meat alternates are an optional food component and may be offered as long as one serving of grain is offered daily. There are two serving options: regular breakfast and "offer versus serve" (OVS) breakfast. Both options receive the same federal reimbursable rate. In regular service, the students must be served at least three food items from the three food components in the minimum required age/grade group portion sizes. When implementing OVS at breakfast, the students must select three food items and one of the items must be a ½ cup serving of a fruit (or vegetable substitution). Refer to Attachment 2 for appropriate portion sizes for each grade grouping.

ii. Menu. The menu published by the SFA must list all three required food components served for breakfast each day and production records must document the food items served for reimbursable meals.

iii. Breakfast meals served to children in pre-K programs must follow the revised Child and Adult Care Food Program (CACFP) meal pattern, effective October 1, 2017. Refer to Attachment 3 for appropriate portion sizes.

B. Other regulatory issues are examined during the Administrative Review process, including but not limited to the following:

1. General Program Compliance

a. Self-Monitoring Reviews conducted by the SFA of each building by February 1 of each year. Self-Monitoring Reviews conducted by the SFA of each Afterschool Snack Program during the first four weeks that the snack program is in operation and in the second half of each school year.

b. Civil Rights.

c. Health Inspections, Sanitation Food Safety Program based on Hazard Analysis and Critical Control Point (HACCP) Principles.

d. Water.

e. Local Wellness Policy.

f. Reporting and Record Keeping.

g. SBP and SFSP Outreach.

h. Professional Standards.

i. Smart Snacks.

j. Buy American.

C. Performance-Based Certification and Reimbursement. Beginning School Year (SY) 2012-2013, SFAs could request an additional six cents per lunch for performance-based reimbursement. To receive the additional reimbursement per lunch, the SFA submits documentation to the MDE demonstrating compliance with the updated meal patterns and nutrition standards. Compliance with both the SBP (if the SFA participates in the SBP) and NSLP is necessary to be certified for the performance-based reimbursement. Effective SY 2019-2020 the Performance-Based Reimbursement increased to seven cents per lunch.

Once certified, the MDE will reimburse the certified SFA with the additional performance-based reimbursement for each lunch served beginning in the start of the month in which the certified menus were served. In many cases the performance-based reimbursement for some months was paid retroactively to the SFA.

D. Annual Self-Monitoring Reviews. Every school year (as defined in 7 CFR 210.2, July 1 to June 30), each SFA with more than one school must perform no less than one on-site review of the meal counting and claiming system and the readily observable general areas of review identified under 7 CFR 210.18(h) in each school operating the NSLP and 50% of schools operating the SBP administered by the SFA. The reviews must be conducted by the district in each building each year prior to February 1. The review form must be completed and retained on file within the district. Annually, an MDE Food Service Administrative Policy is issued regarding the requirements. Please note: This only applies to districts with more than one building, per NSLP Regulations 7 CFR 210.8(a) (1). See Attachment 3 for the Program Requirements Calendar.

E. SFSP Administrative Review. The SFSP Administrative Review is completed once every three years. The SFSP Administrative Review involves two performance standards.

1. Performance Standard #1: Certification, Counting, and Claiming
   a. Certification. All meals served to children in the SFSP are considered eligible for maximum reimbursement, except for camp sites. Camp sites must use family meal applications. All eligible applications are considered free. There is no reduced-price category in SFSP. If the site is an enrolled site, at least one-half of the children on the day with the highest program participation should have a completed and eligible application for free meals on file. If the site is a migrant site, at least one-half of the children with the highest program participation should have certificates of eligibility.
   b. Counting. All meals must be counted at the point of service on the daily meal count form, except for camps and enrolled sites. Camps may use the seven-day meal count consolidation form. Enrolled sites must use a program roster with children's first and last name.
   c. Claiming. Meals and snacks counted accurately at point of service may be claimed. Sponsors may claim 2 meals or 1 meal and 1 snack daily. Sponsors may not claim both lunch and supper on the same day unless it is a migrant site or camp. Migrant sites and camps may claim 3 meals or 2 meals and 1 snack daily.
2. Performance Standard #2: Meal Components. Meals claimed for reimbursement by the sponsor contain food items/components as required by program regulations.
   a. Meal Components 7 CFR 225.16(d). Each meal observed on the day of review must contain the required food items/components. The meal patterns establish the minimum portions of the various meal components that must be served to each child for the sponsor to receive reimbursement for each meal.

i. For a breakfast to be a reimbursable meal, it must contain:
   a. One serving of milk.
   b. One serving of a vegetable or fruit or 100% juice.
   c. One serving of grain.
ii. For a lunch or supper to be a reimbursable meal, it must contain:
   a. One serving of milk.
   b. Two or more servings of vegetables and/or fruits.
   c. One serving of grain.
   d. One serving of meat or meat alternate.
iii. For a snack to be reimbursable, it must contain 2 of the following:
   a. One serving of milk.
   b. One serving of a vegetable or fruit or 100% juice.
   c. One serving of grain.
   d. One serving of meat or meat alternate.
iv. Other regulatory issues are examined during the SFSP Review, including but not limited to:
   a. Records that justify all costs and meals claimed.
   b. Proper storage of USDA Foods.
   c. Inventory/excess of USDA Foods.
   d. Site monitoring reviews conducted by the sponsor are usually completed within the first four weeks of the program. Pre-operational site reviews and first week site visits conducted on all new sites and problem-prone sites. Documentation of the reviews/visits must be maintained by the sponsor.
   e. Civil rights training for staff and volunteers and completed Racial Ethnic Data Form for each site.
   f. Documentation of staff training prior to site operation.
   g. Purchasing.
   h. Sanitation.

Serving sizes are set by the USDA under 7 CFR 225.16. See attachments for more information.

F. While the Administrative Review focuses on many aspects of the federal School Meals Program regulations, one section monitors the SFA's compliance with federal regulations that support the financial health of the School Meals Program, Nonprofit School Food Service Account (NSFSA). This section is referred to as the "Resource Management" within the Administrative Review.

As part of the Administrative Review, the OHNS' Fiscal and Administrative Services will conduct a risk assessment of each SFA to determine if the SFA's NSFSA is at increased risk of noncompliance with federal financial requirements. SFAs will receive a review in four (4) areas of financial health. These areas include:

1. Maintenance of the NSFSA.
2. Paid Lunch Equity.
3. Revenue from Non-program Foods.
4. Indirect Costs.

During the Administrative Review, MDE will use the Resource Management Risk Indicator Tool to identify those SFAs at risk of noncompliance with the federal financial requirements. If one or more risk indicators are assessed, a Resource

Management comprehensive review must be completed for each Resource Management area that received a risk indicator(s). The Resource Management section of the Administrative Review will occur at least once during a three (3) year cycle for each SFA participating in the Federal School Meals Program.

III. DISTRICT CONSIDERATIONS

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

A. Application–Agreement and Policy Statement. Any new program desiring to participate in the National School Lunch, School Breakfast, Afterschool Snack, Special Milk, and Summer Food Service Programs must complete a "permanent" Application-Agreement and Policy Statement on-line in the Michigan Electronic Grants System Plus (MEGS+).

B. Program Renewal (MEGS+). Each year, all districts/sponsors already participating in the National School Lunch, School Breakfast, Afterschool Snack, Special Milk, and Summer Food Service Programs that choose to continue participation must renew the Application- Agreement. This renewal process is completed in MEGS+. All application (MEGS+) information must be reviewed, updated, and submitted electronically. This web- based program is available through the MEGS+ link at MEGS+ login page.

C. Application for Free and Reduced-Price School Meals
   1. Prototype materials, including Free and Reduced-Price School Meals Family Application and a letter to parents, are available at the School Nutrition Programs website. Each district is required to print and photocopy both sides of the application and letter, and then provide one to each household at the beginning of the school year. A district developing their own application must have prior approval by MDE. The application forms must be completed by a parent or guardian for free or reduced-priced meals under the National School Lunch, School Breakfast, Afterschool Snack, and Special Milk Programs. The application returned must include the following information:
      a. Child(ren)'s name(s).
      b. SNAP and TANF or FDPIR case number. The number on the Electronic Benefit Transfer (EBT) and Medicaid case numbers are not acceptable for use on the School Meals Application. A SNAP case number is a 9-digit numerical number and the first digit must be a "1."
      c. Names of all household members.
      d. Last four digits of an adult household member's Social Security number. Indicate "none" if adult has no Social Security number.
      e. Child and Adult Income by source.
      f. Adult's signature.
   2. The district is then required to analyze and approve each application and determine eligibility. If the application includes a SNAP, TANF or FDPIR case number, all students in the household are automatically eligible for free meals.
   3. In all other cases, eligibility is determined by using the "Income Eligibility

Guidelines" provided annually (via the USDA) by MDE. All applications returned, regardless of eligibility determination, must remain on file within the district. The district can provide free/reduced lunches to any student who has a properly completed and approved application on file from the previous school year for 30 operating days from the first day of school. This process can take place until a new application (for current year) is approved or disapproved. At the same time, the free and reduced applications are distributed.

4. Community Eligibility Provision (CEP) school districts are not required (nor are they even allowed) to collect free and reduced-price applications from households. All students eat meals at no charge. The school district is required to have a point of service count but only the total number of meals is claimed.
5. Beginning in SY 2014-2015, LEAs that demonstrate high levels of, or a high risk for, administrative error associated with certification and benefit issuance are required to conduct a second review of applications. The MDE posts a list of those districts that are required to perform a second review of their free and reduced applications each June.
6. SFSP Application for Free Meals. Free meal applications are not necessary for area eligible locations (school districts are area eligible when 50% or more children enrolled in the school district receive free or reduced-price school meals). Applications are necessary for:
   a. Enrolled programs, those in areas with less than 50% of school children on free or reduced-price meals but whose program consists of 50% or more enrolled students on free or reduced-price.
   b. Residential and day camps.

D. Verification Application Selection Procedure

There are three sample sizes established for verification activities. The standard sample size must be used by an LEA unless it qualifies to use an alternate sample size. Qualifying LEAs (response rate to verification during the previous school year was greater than 80%) also may use one of two alternate sample sizes.

1. Standard Sample Size
   a. LEA must verify three percent or 3,000, whichever is less, of all approved applications on file as of October 1.
   b. Once the sample size is determined, error-prone applications are the first selected; error-prone applications are those with income within $100 monthly or $1,200 annually, according to the current income eligibility guideline.
   c. If there are not enough error-prone applications to complete the sample, the remainder of applications to be verified should be selected from all applications subject to verification.
2. Alternate One Sample Size
   a. LEA must verify three percent or 3,000, whichever is less, of all approved applications on file as of October 1.
   b. Once the sample size is determined, applications are selected at random.
3. Alternate Two Sample Size
   a. LEA must verify the lesser of 1,000 or one percent of all applications approved as of October 1, with error-prone applications selected first, PLUS the lesser of 500 or one-half of one percent of all applications approved as

of October 1 that provided a case number in lieu of income on free and reduced-price applications.

The deadline for completion of the selection and verification of the sample of free and reduced-price applications is November 15. The second phase of verification is the School Food Authority Verification Collection Report (SFA-VCR). SFAs must annually report the results of verification to MDE by February 1.

The SFA-VCR is reported in the web-based system Michigan Nutrition Data System (MiND). The LEA must retain copies of the reported verification information with all supporting documents on file in the district. For further information and federal requirements for determining and verifying eligibility, refer to the Eligibility Manual for School Meals.

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 210.18(I) (1) (iii)(C).

A district may send a "Sharing Information with Other Programs" form for parents to sign. This form should indicate the specific purpose for which the names will be used. Names can be released for those purposes only, and only for those families that sign the form. Specified programs may receive information without prior notice and consent. Refer to Eligibility Manual for School Meals July 2017, Section 5.

F. Professional Standards. The FNS published the final rule "Professional Standards for State and Local School Nutrition Programs Personnel as required by the Healthy, Hunger-Free Kids Act of 2010" (80 FR 11077) on March 2, 2015. USDA memo SP 38-2016 provides guidance on specific aspects of the regulation. USDA now allows additional hiring flexibility for LEAs with student enrollments of 2,499 students or less which was effective 4/30/2019. (USDA final rule)

The rule requires a minimum amount of annual training hours for all SNP directors, managers, and staff. Required training topic areas will vary according to position and job requirements. The number of training hours varies for the four different staffing levels: director, manager, all other staff, and part-time staff. Downloadable tracking tools are available for use to record all employees and their annual training. Documentation, such as agendas, sign-in attendance sheets, certification of completion, etc. should be kept on file for each employee/training.

There are also minimum hiring standards for new SNP directors. New directors – those hired on or after July 1, 2015 – are subject to the new education requirements. Existing directors will be grandfathered in their current positions as well as in the Student Enrollment category where they currently are working. Additionally, at least eight hours of food safety training is required for directors either not more than five years prior to their starting date or completed within 30 days of the employee's start date. A summary sheet lists the hiring and training requirements. The updated hiring standards with the new flexibilities is listed the Federal Register.

G. School Breakfast Outreach. Information regarding the SBP must be sent at or near the beginning of the school year and happen two other times throughout the year. This information must include items such as time, location, and prices.

H. 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 MiND system (SM-4012-SL). If at any time, free, reduced, or total meal counts claimed by building exceed the annual national attendance factor of eligible students for any month, this must be explained by completing the "Justification for Exceeding the National Attendance Factor" form available on-line as part of the monthly claim form on MiND. Final claim submission deadlines are disclosed annually in an administrative policy memo.

I. Meal Reimbursement Rates and Commodity Entitlement Values. These rates are subject to change annually and are provided to each district by the USDA via 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.

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

K. Smart Snacks in School. According to the final rule (updated 7 CFR 210 and 220), published July 29, 2016, Smart Snacks in School standards apply to all foods and beverages sold to students outside of federal meal programs (such as NSLP, SBP and CACFP) on school campus during the school day. The standards only apply to school districts participating in NSLP. The guidelines include limits on the types of food and beverage items that can be sold on school campus to students as well as additional nutrition requirements.

In this setting, "selling" is interpreted as using money, tokens, tickets, suggested donations, points, or other currency or barter in exchange for a food or beverage. There is an allowance for foods or beverages given as rewards for behavior or performance, as well as foods or beverages sold in advance with money collected ahead of time (they do not need to meet Smart Snacks standards), but these sales may not take place in the food service area during meal times. "School day" refers to midnight through 30 minutes after the end of the instructional day. Smart Snacks standards do not affect SFSP or foods or beverages that are: brought from home, available for free, sold more than 30 minutes after the end of the school day, sold outside of school campus, sold to adults only, or sold as fundraisers not meant for immediate consumption (such as raw cookie dough or frozen pizza kits).

The interim rule (released July 1, 2014) and final rule (released July 29, 2016) granted each state the ability to designate a certain frequency and duration of infrequent "exempt" fundraisers that do not meet the Smart Snacks standards. Initially, MDE deliberated and opted for zero exemptions. However, in June 2015,

the State of Michigan passed Public Act 42, which required the Department of Education to allow at least two exempt fundraisers per building per week. As a result, MDE released its Food Service Policy Memo No. 21 for School Year 2014-15 in June 2015, which permitted up to two exempt fundraisers per building, per week, with one fundraiser allowed to last up to one day. It is up to each building to track these exemptions.

L. Procurement and Suspension and Debarment – See General Audit Issues, Section G – Procurement, Suspension and Debarment in this manual.

1. Procurement
   a. For procurement activity covered by the Uniform Guidance, regardless of whether the State elects to follow State or Federal rules, the following requirements must be followed for procurements initiated by State agencies, SFAs, institutions, and sponsors:
      i. A State agency, SFA, institution, or sponsor shall not award a contract to a firm it used to orchestrate the procurement leading to that contract. Examples of services that would disqualify a firm from receiving the contract include preparing the specifications, drafting the solicitation, formulating contract terms and conditions, etc. (2 CFR 200.319).
      ii. A State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts (7 CFR 210.21(g), 215.14a (e), 220.16(f) and 225.17(e)).
   b. For procurements covered by the USDA adoption of 2 CFR 200 and the regulations at 2 CFR 416.1, the following applies:
      i. A prospective contractor that develops or drafts specifications, requirements, statements of work, invitations for bids, requests for proposals, contract terms and conditions, or other documents for use by a State under this program shall be excluded from competing for such procurements. Such prospective contractors are ineligible for contract awards resulting from such procurements regardless of the procurement method used. However, prospective contractors may provide States with specification information related to a State procurement and still compete for the procurement if the State, and not the prospective contractor, develops or drafts the specifications, requirements, statements of work, invitations for bid, and/or requests for proposals used to conduct the procurement (2 CFR 416.1(a)).
      ii. Procurements by States under this program shall be conducted in a manner that prohibits the use of statutorily or administratively imposed in-State or local geographic preferences except as provided for in 2 CFR 200.319(b) (2 CFR 416.1(b)).
   c. Procurement of Unprocessed Agricultural Products – Notwithstanding the requirements noted in paragraph 1.a. (2) above or 2 CFR 200.319(b), an SFA, institution, or sponsor operating one or more Child Nutrition Cluster programs may use a geographical preference for the procurement of unprocessed agricultural products, both locally grown and locally raised (7 CFR 210.21(g), 215.14a (e), 220.16(f), and 225.17(e)).

d. Contracts with Food Service Management Companies – Before awarding a contract to a food service management company, or amending such a contract, an SFA operating the NSLP and SBP and sponsors operating the SFSP must (1) obtain its administering agency's review and approval of the contract terms; (2) incorporate all changes required by the administering agency; (3) obtain written administering agency approval of any changes made by the SFA or sponsor or its food service management company to a pre-approved prototype contract; and (4) when requested, submit procurement documents for administering agency inspection (7 CFR 210.16(a)(10), 210.19(a)(5), 220.7(d)(1)(ix), and 225.15(m)(4)).

e. Cost-Reimbursable Contracts
   i. Cost-reimbursable contracts awarded by SFAs operating the NSLP, SMP, and SBP, including contracts with cost-reimbursable provisions and solicitation documents prepared to obtain offers of such contracts, must include the following provisions:
      a) Allowable costs will be paid from the NSFSA to the contractor net of all discounts, rebates and other applicable credits accruing to or received by the contractor or any assignee under the contract, to the extent those credits are allocable to the allowable portion of the costs billed to the SFA (7 CFR 210.21(f) (i)).
      b) Billing documents submitted by the contractor will either separately identify allowable and unallowable portions of each cost, or include only allowable costs and a certification that payment is sought only for such costs (7 CFR 210.21(f)(ii)(A & B).
      c) The contractor's determination of its allowable costs must be made in compliance with applicable departmental and program regulations and OMB cost principles (7 CFR 210.21(f) (iii)).
      d) The contractor must identify the amount of each discount, rebate, and other applicable credit on bills and invoices presented to the SFA for payment and individually identify the amount as a discount, rebate, or in the case of other applicable credits, the nature of the credit. If approved by the State agency, the SFA may permit the contractor to report this information on a less frequent basis than monthly, but no less frequently than annually (7 CFR 210.21(f)(iv)).
      e) The contractor must identify the method by which it will report discounts, rebates and other applicable credits allocable to the contract that are not reported prior to conclusion of the contract (7 CFR 210.21(f)(v)).
      f) The contractor must maintain documentation of costs and discounts, rebates and other applicable credits, and must furnish such documentation upon request to the SFA, the State agency, or the USDA (7 CFR 210.15; 210.21(f) (vi) and 210.22).
   ii. No cost resulting from a cost-reimbursable contract may be paid from the SFA's NSFSA if: (a) the underlying contract does not include the provision in paragraph (1)(a) above; or (b) such disbursement would result in the contractor receiving payments in excess of the contractor's actual, net allowable costs (7 CFR 210.21(f)(2), 215.14a(d)(2), and 220.16(e)(2)).

iii. All income accruing as a result of payments by children and adults, federal reimbursements and state aid (i.e. 31d, 31f, 31a At-Risk), and all other income from sources such as donations, special functions, grants, loans, etc., shall be deposited in the SFAs food service account. Any profit or guaranteed return shall remain in the SFAs food service account. The contract will be neither a "cost-plus-a-percentage-of-cost" nor a "cost-plus-a-percentage-of-income" contract (7 CFR 210.16(c)).

2. Suspension and Debarment – Mandatory awards by pass-through entities to subrecipients are excluded from the suspension and debarment rules (2 CFR 417.215(a)(1)).

M. Equipment is defined as tangible, nonexpendable personable property having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. If the SFA purchases equipment that has a useful life of more than one year with funds from the NSFSA and the cost exceeds the SFA's capitalization threshold or $5,000 (whichever is less), the SFA is required to obtain prior written approval from MDE before incurring the cost of equipment. MDE does not require SFAs that purchase equipment included on the USDA pre-approved list to submit a request to MDE for prior approval if, and when, those annual expenditures are less than $25,000 cumulative per building, per year. In addition, if an SFA chooses to select equipment that is not included on the USDA pre-approved list, the SFA must submit an equipment request to MDE for prior approval before purchasing the item, as required by 2 CFR Part 200.439.

All purchases must meet the requirements of being necessary, reasonable, and allocable. SFAs must continue following all applicable federal, state, and local procurement procedures. In addition, if the purchase will be used or will benefit other program, (for instance, the cafeteria is used for other school purposes) and not exclusively used by food service, then the cost must be shared with the general fund or another non-federal funding source based on the percentage of use. Failure to obtain MDE's prior approval results in an unallowable cost, which requires the SFA to reimburse the NSFSA with general funds.

The USDA pre-approved list is included in MDE Administrative Policy Memo. For additional clarification, refer to SY 2015-2016 Administrative Policy #13 - Compliance Requirements for Equipment Requests.

Items purchased with funds from the NSFSA which cost less than $5,000 (such as computers, iPads, assistive technology) must be properly tagged and appropriately tracked. Additionally, written procedures should be developed which include the process for safeguarding these items purchased with federal funds. Please refer to the MDE memo issued February 2, 2017, regarding Tangible Personal Property.

N. Fund Equity. The USDA requires that the ending fund balance of the NSFSA does not exceed three months' average of operating expenses (7 CFR Part 210.14(b)). If an excess fund balance should occur, the SFA will be required to develop a spend down plan for reducing the balance to an acceptable level during the following school year. The SFA's spend down plan must be uploaded to Grant Electronic Monitoring System/Michigan Administrative Review System (GEMS/MARS) or

submitted to MDE, OHNS, Fiscal and Administrative Services to obtain MDE's prior approval. As a result, this allows the SFA to use those excess funds for a specific purpose to further improve the school meals program operations. The USDA does require that reimbursements be reduced for SFAs that do not maintain an allowable fund balance. MDE is setting the stage to potentially pursue the reduction of reimbursements for SFAs with repeated excess fund balance findings going forward.

O. Loans to and from the NSFSA. SFAs participating in the NSLP may loan funds from its NSFSA to the general fund, as long as the loan does not jeopardize the integrity of its food service program to children, and the balance of the NSFSA is not reduced below the operational costs for a three-month period. For additional clarification on the requirements for loans to and from the NSFSA and the general fund, please refer to the MDE Administrative Policy No. 17.

P. Bad debt is defined as uncollectable meal balances for inactive students as of June 30 that have not been collected by December 31 of the same calendar year (six months). Any related collection costs and related legal costs arising due to the collection of inactive unpaid meal charges throughout that current school year and six-month collection period thereafter, are an allowable cost to the NSFSA. Once inactive unpaid meal charges are written off as bad debt, collection or legal costs become an unallowable cost in the NSFSA per Federal regulations (2 CFR §200.426). No later than December 31 each year, the NSFSA must write off inactive uncollectable meal charges as bad debt from non-federal funds to make the NSFSA whole. The funds may come from the district general fund, local funding, school or community organizations such as the Parent-Teacher Association (PTA), or any other non-Federal source. Records relating to written off unpaid meal charges as bad debt must be maintained in accordance with the record retention requirements in 7 CFR §210.9(b) (17) and 7 CFR §210.15(b). After inactive uncollectable meal charges have been written off as bad debt, collection efforts may continue outside of the food service program per the SFA's policies and procedures but may not be charged to the NSFSA.

As of July 1, 2017, School Food Authorities (SFAs) must have a written meal charging policy as well as a policy which addresses bad debt related to the NSFSA. Policies regarding bad debt should be referenced in the meal charge policy. The SFA's bad debt policy and meal charge policy must be provided to MDE during the Administrative Review and Resource Management Review.

The meal charging policy should address unpaid meal charges of current students. The bad debt policy should address negative balances of students that are inactive and have become uncollectable. For example, students that are no longer enrolled in the district such as graduated seniors and students that have transferred to another district would be considered an inactive student. The SFA can be more restrictive in defining inactive students beyond the minimum as outlined in MDE Administrative Memo #4 SY 2017-2018.

For additional clarification on bad debt refer to MDE Administrative Memo #4 SY 2017-2018 which includes the Bad Debt Frequently Asked Questions. For additional

information on meal charge policies, see USDA FNS SP 46-2016 Unpaid Meal Charges: Local Meal Charge Policies for requirements and recommendations as well as USDA FNS SP 23-2017: Unpaid Meal Charges: Guidance and Q&A.

Q. Paid Lunch Equity (PLE). Effective July 1, 2011, the NSLP regulations were amended to conform to requirements contained in the Healthy, Hunger-Free Kids Act (HHFKA) of 2010, §200.205 and §200.206. These provisions established requirements for SFAs for pricing paid lunches [7 CFR 210.14 (e)].

Section 205 amended Section 12 of the Richard B. Russell National School Lunch Act (NSLA) by adding a new subsection (p) "Price for a Paid Lunch," which for the first-time addresses' requirements for SFAs in establishing prices for paid reimbursable lunches. Prior to the start of the new school year, USDA requires all SFAs to determine their average price for paid lunches, compare the average price and the difference between the free and paid reimbursement rates, determine if price increases are needed, and the amount of revenue from non-Federal sources that may be added to the food service account in lieu of a paid lunch price increase. All districts participating in the NSLP are required to fill out the PLE tool and keep it on file electronically in Excel.

USDA has issued guidance on this topic. The USDA memo related to the PLE tool is available at USDA Memo SP27-2019 Paid Lunch Equity: Guidance for School Year 2019-20. Additional guidance is found within the "PLE Guidance" Tab of the PLE Tool for SY 2019-2020 Revised. Not all SFAs will be required to adjust prices or find alternative sources of funding for paid lunches. Applying this provision using federal reimbursement rates, SFAs now charging, on average, $3.00 or more for a paid lunch would not be required to adjust prices in School Year (SY) 2019-2020. SFAs currently charging, on average, less than $3.00 for a paid lunch may be required to either gradually increase prices or provide additional non-Federal support for its lunches.

For SY 2019-2020, SFAs that charged on average less than $3.00 for paid lunches in SY 2018-2019 may be required to adjust their average price or provide additional non-Federal funds to the NSFSA. The amount of the per-meal increase will be calculated using 2 percent rate increase plus the Consumer Price Index of 2.68 percent, totaling 4.68 percent.

In general, when the adjusted average price is more than the current price, the SFA would have to either increase its average paid lunch price to the adjusted average price or provide additional non-Federal support for its paid lunches. The law caps the required minimum increase in the average paid lunch price at ten cents in any year although SFAs can choose to raise prices more than ten cents.

The USDA memo related to the PLE tool for the SY 2019-2020 is available at USDA Memo SP27-2019 Paid Lunch Equity: Guidance for School Year 2019-20.

Special guidance is found within USDA Memo SP27-2019. The USDA has allowed for a one-year Paid Lunch Equity (PLE) Exemption for School Year (SY) 2019-2020 for all School Food Authorities (SFAs) with a documented positive or zero fund balance

in their Non-profit School Food Service Account (NSFSA) as of December 31, 2018. SFAs that had a negative balance in the NSFSA as of December 31, 2018, are still required to follow PLE requirements for SY 2019-2020.

Although this flexibility has been offered to SFAs with a positive or zero fund balance, paid meal prices may still be raised if an SFA sees fit for their situation. SFAs with a positive fund balance should still complete the SY 2019-2020 PLE Tool as the PLE Tools are an annual requirement and are dependent on previous years to carry on the applicable requirement price. SFAs with a positive or zero fund balance should document the PLE Tool completion and their fund balance as of December 31, 2018, if they choose to not raise meal prices in accordance with this special one-year exemption. Documentation should consist of an updated (year to date) Detailed General Ledger for the Food Service Fund (Fund 25) as of December 31 that clearly indicates the fund balance information.

SFAs with a negative fund balance must complete the PLE Tool and follow at least the minimum required price increase as consistent with the requirements found within the PLE Guidance and Instructions Tabs in the SY 2019-2020 PLE Tool.

Documentation of the SY 2019-2020 PLE Tool and fund balance, and/or price increase will be required and collected in future Resource Management Reviews.

R. Revenue from Non-program Foods. Section 206 of the Healthy, Hunger-Free Kids Act of 2010 (HHFKA) amended section 12 of the Richard B. Russell National School Lunch Act by adding paragraph (q) on non-program foods. This amendment established requirements related to the revenue from the sale of non-program foods. Under subsection 12(q) of the Richard B. Russell National School Lunch Act and [7 CFR 210.14 (f)], SFAs are required to ensure (1) All revenue from the sale of non-program foods accrues to the NSFSA; and (2) Revenue available to support the production of reimbursable school meals does not subsidize the sale of non-program foods.

For additional clarification on the requirements and options to ensure compliance for revenue from non-program foods, please refer to the USDA memo SP 20- 2016 Nonprofit School Food Service Account Nonprogram Food Revenue Requirements, USDA Nonprogram Food Revenue Tool, and/or MDE Ala Carte Pricing Worksheet and Adult Pricing Worksheet. New this year, we have separated the Adult Pricing Worksheet from the Ala Carte Pricing Worksheet. The enhanced new MDE Adult Pricing Worksheet for SY 2019-2020 includes a guidance tab, an instructional tab and new tabs for each type of "pricing" status that school districts may operate in (Traditional Pricing, CEP, and Universal Free Breakfast). Other additions include better capturing of tiered pricing and/or all price points within a school district. MDE also added tabs for School Food Authorities (SFAs) to report their actual prices set for both students and adults.

SFAs should complete the MDE Ala Carte Pricing Worksheet and the new Adult Pricing Worksheet every summer prior to the first day of the new school year to ensure a la carte and adult prices are set to achieve the Revenue from Non-program Foods pricing requirements (USDA memo SP 20- 2016 Nonprofit School Food Service Account Nonprogram Food Revenue Requirements) in

advance. The new MDE Ala Carte Pricing Worksheet and the new Adult Pricing Worksheets are available upon request by contacting the Fiscal and Administrative Services unit at mde-fiscal@michigan.gov. Please contact the Fiscal Monitoring Team at 517-241-5348 or MDE-Fiscal@Michigan.gov with any questions on the tools and/or requirements.

S. Indirect Costs. Indirect costs must be charged using the correct methodology as outlined in USDA Policy Memo SP 60-2016 which also reflects the federal cost principles in 2 CFR 200 Subpart E. The only allowable transfer from the NSFSA is indirect costs. The proper methodology must be followed, and calculation documentation must be maintained for indirect costs charged to food service.

Any SFA using an indirect cost rate (ICR) to bill for facilities and administrative costs should review the calculation of those rates to ensure accuracy. The source of information utilized to determine indirect cost rates is the district's Financial Information Database (FID) report. Therefore, it is essential that districts classify expenditures uniformly and consistently per the Michigan School Accounting Manual. Districts are responsible for reviewing the information provided in the R0418A and submitting adjustments using form DS-4513, if necessary. Form DS-4513 and more information can be found on the MDE Indirect Costs Webpage.

If an SFA chooses to charge costs directly instead of through the recovery of indirect costs; The direct charging of support services must be afforded consistent treatment across all other activities of the SFA to be allowable. When direct charging for costs that benefit multiple programs (custodial, trash, utilities, etc.), specific documentation must be used to substantiate the exact costs. An allocation method is not allowable. For example: In the case of custodial charges, daily timesheets are required that substantiate exact time worked specific to food service. Utility charges would require a separate meter, and waste removal would require either a separate contract specific to Food Service or separate dumpsters and billing exclusive to Food Service.

In addition, SFAs cannot bill directly for costs that benefit multiple programs and recover indirect costs using the ICR on top of it. That practice is unallowable and would require that costs be restored to the Non-profit School Food Service Account (NSFSA). During Resource Management (RM) Reviews, MDE will verify that the SFA is capturing costs as approved on the SFAs Costs for the Development of Federal Indirect Cost Rates (Form R0418A).

The optional MDE Food Service Indirect Cost Calculations Template is available upon request by contacting the Fiscal and Administrative Services unit at MDE-Fiscal@michigan.gov.

IV. AUDIT CONSIDERATIONS

GENERAL AUDIT PROCEDURES: The following suggested audit procedures are not to be considered all-inclusive or a substitute for professional judgment. These procedures, with the addition of those listed in the OMB Compliance Supplement, are

provided to assist the auditor in performing compliance procedures in an efficient and effective manner in accordance with professional standards and federal guidelines.

These audit considerations should be utilized when a specific compliance area is indicated that it is subject to audit in the Federal Compliance Supplement. Audit procedures described for areas not subject to audit are not required by MDE but may be utilized when auditor judgment has determined an area should be tested, or as part of an unpredictable audit procedure. Additionally, for those areas that are not subject to audit in a current year for major program purposes, auditors should still consider risks of potential material noncompliance and determine when testing procedures may be necessary to identify noncompliance that would be reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*

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:

The SFA must maintain a School Meals Program, NSFSA to accomplish two goals: (1) to ensure that the School Meals Program's NSFSA operates on a nonprofit basis, and (2) to safeguard assets of the School Meals Program's NSFSA and ensure that they are used only for the food service operations. The SFA is charged with ensuring that only allowable costs are paid with the NSFSA and costs are properly classified as direct or indirect and treated consistently within all activities of the SFA.

General Audit procedures:

1. Review the most recent Administrative Review/Resource Management Report for duplicate documented findings.
2. Reporting in the Schedule of Expenditures of Federal Awards (SEFA)
    a. Verify the National School Lunch funding was reported with correct CFDA number and each project number as required in the Michigan School Auditing Manual.
    b. Verify the Ending Accrued (Deferred) Revenue amount is consistent with the amount reported as "Current Payment" in the CMS "Grant Auditor Report".

A. Activities Allowed or Unallowed Test:

1. Request from the SFA copies of the policies and procedures of their internal controls. Determine if SFA has implemented these policies and procedures and follows them as written.
2. Determine if the SFA transferred funds (indirect costs) from the School Meals Program NSFSA which may have been used to fund unallowable activities.
    a. Determine the SFA charged the MDE-approved unrestricted indirect cost rate (ICR) to recover indirect costs.
    b. Determine the proper methodology was followed as outlined in USDA Policy Memo SP 60-2016. Verify documentation for the calculations correctly showed the maximum allowable indirect costs chargeable to the NSFSA or the actual amount charged if the maximum amount was not taken.
    c. Determine the SFA has proper supporting calculation documentation.
    d. Verify the MDE unrestricted ICR was applied for the current year and used

according to grant guidelines.

e. Determine the SFA classified expenditures uniformly and consistently per the Michigan School Accounting Manual. The district is responsible for reviewing the R0418A and using the form DS4513 to submit adjustments.
f. Determine the SFA billed directly for costs that benefit multiple programs and did not recover additional indirect costs. This unallowable practice would require the costs be restored to the Food Service Fund.
g. Verify that no indirect charges were applied to exclusions, such as food, items for resale, capital outlay, and contracts greater than $25,000 per contract.

B. Allowable Costs Test:
1. Select a sample of transactions to determine the transactions were for allowable costs.
2. Test expenditures to determine they are necessary, reasonable, and allocable which are treated consistently with all the other functions and activities of the SFA and otherwise meet the federal cost principles and program regulations.
3. Test Direct Costs. Direct charging of support services must be afforded consistent treatment across all other activities of the SFA to be allowable. When direct charging for costs that benefit multiple programs (custodial, trash, utilities, etc.), specific documentation must be used to substantiate the exact costs. An allocation method is not allowable.
   a. Ensure accurate and sufficient documentation is maintained to substantiate all direct expenditures.
   b. Determine if the SFA chose to bill directly for facilities and administrative costs such as the business office, operations and maintenance, or other central office expenditures within the Food Service Fund.
   c. Determine if the SFA has proper supporting documentation. Insufficient supporting documentation makes the costs unallowable. Unallowable costs result in the requirement to restore the costs to the Food Service Fund from the general fund or another non-federal funding source.
      - Specific documentation must be used to substantiate the exact costs. For example: In the case of custodial charges, daily timesheets are required that substantiate exact time worked specific to food service. Utility charges would require a separate meter, and waste removal would require either a separate contract specific to Food Service or separate dumpsters and billing exclusive to Food Service.
      - Allocation methods are not allowable. For example: In the case of custodial charges, a time study or percentage of time is not specific or sufficient. Or for example: Utility charges charged by square footage is not acceptable. Or for example: waste removal with invoices charged based on an estimation for food service is not allowed.
4. Determine if the SFA classified expenditures uniformly and consistently per the Michigan Public School Accounting Manual.
5. Test transfers out of the NSFSA. (Indirect Costs) Districts may only transfer funds out of the SMP for the purpose of recovering indirect costs. Individual contracts that are part of the direct cost base should only be included in the calculation for individual contract amounts up to the first $25,000 and where all other costs are excluded.

C. Cash Management
Determine that cash was requested as reimbursement for actual number of meals served and claimed. Districts can give auditors read only access to the MDE Claims System.

D. Reserved - N/A

E. Eligibility
1. Review the eligibility requirements in the Eligibility Guidance for School Meals Manual.
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 and from children eligible from Direct Certification. 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 due to verification of parental request 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 and from the Direct Certification list.
6. Review the collection procedures to ensure eligible participants, such as homeless, migrant, runaway, and Head Start students; are not overlooked.
7. Verify that the Direct Certification Report is pulled from the MSDS at least the minimum three times per school year.
8. Summer Food Service Program (SFSP)
   a. Area eligibility. Review that the school district qualifies as area eligible - it has 50% or more free and reduced-price children enrolled in the school district or, based on the most recent census data available, at least 50% of the children residing in that area are eligible for free or reduced-price school meals under NSLP and the SBP.
   b. Enrolled program. Review that 50% of enrolled children are eligible for free or reduced-price meals.

NOTE: Questioned costs must be calculated for all eligible children based on USDA guidelines for free, reduced-price, and paid meals claimed for reimbursement. These reimbursements should not be extrapolated but limited to the actual number of meals claimed for each individual child that is affected. These questioned costs must represent the actual meals served and claimed in the respective months, times the appropriate USDA reimbursement rate(s) based on each individual student's income eligibility.

F. Equipment Test:
   1. Obtain SFA's policies and procedures for equipment management and monitoring.
   2. Test expenditures for capital outlay to determine that the SFA obtained MDE prior approval and/or verify that the item was on the USDA preapproved list and did not exceed the $25,000 cumulative threshold per building. For additional clarification, refer to SY 2015-2016 Administrative Policy #13 - Compliance Requirements for Equipment Requests.
      a. Determine if the purchase meets the requirements of being necessary, reasonable, allocable and otherwise allowable.
      b. Determine if the cost was shared with the general fund or other non-federal funding source if the equipment benefits other program(s).
   3. Determine the equipment purchased with the NSFSA was properly tagged and appropriately inventoried.
   4. An equipment inventory must be maintained by the public school district indicating the federal funding source, date purchased, description, serial number, cost, tag number, and location of the equipment and any disposition data including the date of disposal and sale price of the property.
   5. If the school district transferred or disposed of equipment purchased with federal funds, determine if it followed the appropriate federal criteria.
   6. If an SFA purchased items of interest costing less than $5,000 each (such as computers, iPads, assistive technology), determine that the written procedure for Equipment includes a process for properly tagging, tracking and safeguarding these items as outlined in the MDE Memo issued February 2, 2017, regarding Tangible Personal Property.
   7. A physical inventory of the property must be taken, and the results reconciled with the property records at least once every two years.
   8. An internal control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
   9. Adequate maintenance procedures must be developed to keep the property in good condition.
   10. If the grantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

G. Matching Level of Effort, Earmarking – N/A

H. Period of Performance
   The period of performance for Entitlement Programs operate continuously, funds are appropriated, and grants are awarded for them on an annual basis. Funds that are not expended by June 30, 2019, are available in the following school year extending from July 1, 2019, through June 30, 2020. Period of Performance starts on July 1, 2019 and ends June 30, 2020.
   1. Test expenditures to verify that the School Meals Programs NSFSA funds were only expended on Child Nutrition Programs.
   2. Verify that the School Meals Program funds are not commingled by determining that each funding source is identified separately in the accounting records.

I. Procurement and Suspension and Debarment - See General Audit Issues, Section G – Procurement, Suspension and Debarment in this manual.
For contracts, purchase orders, equipment purchases, or other procurements selected for testing, perform the following audit procedures:

1. Obtain the district's procurement policies/procedures. Determine that they are in compliance with state and federal procurement requirements. Determine that the food service has a standard of conduct consistent with 2 CFR Part 200.318.**
2. Determine that the district complied with bidding requirements. Determine that the process provides open and free competition consistent with 2 CFR Part 200.318 (c). **
3. Determine that the equal employment opportunity provision was adhered to consistent with 2 CFR Part 200.321.**
4. Determine that any person or organization who developed or drafted specifications, requirements, statements of work, invitations for bid, requests for proposals, contract terms and conditions, or other documents is excluded from competing for contract awards resulting from that procurement consistent with 2 CFR 200.319(a).
5. Determine that the district has a system in place to ensure that it does not enter into a contract with a suspended or debarred party. School district should check the Excluded Parties List System (EPLS) on the System for Awards Management (SAM) website to determine the eligibility of its party.
6. Determine that procurements by small purchase procedures were properly documented. For purchases in excess of $24,924, make sure a sealed bid, formal advertisement, and a reasonable bid specification were used by the district. See MCL 380.1274 (5) for an exception. Competitive bids are not required for single food purchase transactions less than $100,000. Also, ensure that the district did not use a "cost plus a percentage of cost "or" cost plus percentage of income method." (2 CFR Part 200.323(d))
7. If bids were accepted which allow price adjustments for changes in the base price of a product, determine that the districts validated those adjustments using the standard(s) specified in the bid (Consumer Price Index, Market Basket, etc.).
8. Determine that bid specifications used by the district did not limit the supplier companies' operation or structure on geographic preference consistent with 2 CFR Part 319 (b).** Open and fair competition must be maintained in accordance with 2 CFR Part 319 (d).**
9. Determine that bid protest procedures are in place in accordance with 2 CFR Part 200.318.
10. Determine that vendor invoices include details of the service provided for whom, when, how much, and any other details required by the contracts or purchase orders.
11. Determine that payments to contractors and vendors were according to the contract or purchase order.
12. If contract or purchase order is new (not a renewal or extension), compare the Request for Proposal (RFP) with the signed contract or purchase order to determine that conditions are being met. Note: For Food Service Management Company (FSMC) and Vended School Meal Company (VSMC) contracts, only an MDE-approved RFP may be used by the district. Ensure that the FSMC and VSMC RFPs and contracts are MDE-approved RFPs and contracts.

13. If the contract or purchase order is a renewal or extension, determine that the conditions are the same as the original contract or purchase order. Note: For FSMC and VSMC contract renewals, only MDE-approved forms may be used by the district. Ensure that the FSMC and VSMC contract renewals are MDE-approved.
14. Determine that the district maintained a compliance system so that contractors complied with the terms and conditions of the contract.

**Refer to 2 CFR Part 200 at U.S. Government Publishing Office Federal Digital System website

Program Income Test:

1. Determine whether a separate financial tracking is conducted for the School Meals Program; local, state, and federal reimbursement payments are promptly credited to the School Meals Program's NSFSA and transfers out of the School Meals Program's NSFSA which are only allowed for the recovery of indirect costs.
2. Determine if the net cash resources exceed the three months' average expenditures for the SFA's NSFSA.
   Example: Total program costs, less capital outlay, divided by nine (9) months and multiplied by three (3) months is the calculation for the Allowable Fund Balance. If the Ending Fund Balance in the NSFSA is greater than the Allowable Fund Balance, an excess fund balance will exist. MDE monitors and follows up annually with every SFA that triggers an Excess Fund Balance. MDE requires the SFA to submit a Plan of Action and obtain MDE's prior approval to improve the food quality or take other action designed to improve the School Meals Program's, per 7 CFR Part 210.19 (a)(2). MDE requires the SFA to spend down those monies by the end of the next school year. Since the NSFSA is a restricted account, the excess funds cannot be used to profit the general fund; funds must be used for the benefit of the School Meals Program.

K. Reserved

L. Reporting

- Daily and monthly meal counts must be consolidated accurately and reported in MiND by the federal deadlines. Review the Claims for Reimbursement in MiND and supporting documentation. Verify all claims were accurately submitted and certified by the required deadlines.
- Verification results are reported via the SFA-VCR in MiND. Verify the results were reported accurately and by February 1.

N. Subrecipient Monitoring

The USDA developed a State Administrative Review (AR) process that (1) combined elements of the existing Coordinated Review Effort (CRE) and School Meals Initiative (SMI) review processes; (2) accounted for the transition from a 5-year to a 3-year review cycle; and (3) incorporated review of the SBP for any SFA that operates both programs. The unified Administrative Review system is prescribed by 7 CFR section 210.18. The Administrative Review includes the Resource Management (RM) Review which is the fiscal compliance portion. MDE conducts the RM Review separately from the AR.

O. Special Tests and Provisions

The SFA must operate its food services on a nonprofit basis; all revenue generated by the school food service must be used to operate and improve its food services. Auditors should determine whether the SFA selected and verified the required sample of approved free and reduced price applications and made the appropriate changes to eligibility status and, if applicable, properly conducted the second review of applications.

1. Verification of Free and Reduced Price Applications
   a. Obtain the current family size and income guidelines published by FNS.
   b. Through examination of documentation, ascertain that:
      i. The sampling and verification of free and reduced price applications were performed, as required, including, if applicable, the second reviews of applications
      ii. Changes were made to eligibility status based on documentation and other information obtained through the verification process.
2. Accountability for USDA-Donated Foods
   a. Determine whether an appropriate accounting was maintained for USDA-donated foods, that an annual physical inventory was taken, and the physical inventory was reconciled with inventory records.
   b. Determine the donated food records maintained by the entity and obtain a copy of procedures for conducting the required annual physical inventory. Obtain a copy of the annual physical inventory results.
3. School Food Accounts
   a. Review the year-end statement of revenues and expenses from the SFA to ensure general expenses appear to be reasonable, necessary, allocable and allowable, based on federal cost principles outlined in 2CFR, Part 200, Subpart E.
   b. Review the school food service accounting records and ascertain if a separate accounting is made for the school food service.
   c. Test Federal reimbursement payments received monthly from the administering agency to ascertain if promptly credited to the food service account.
   d. Test transfers out of the school food service account and ascertain if the transfers were for the benefit of the school food service.
4. Review the PLE Calculations for previous and current school years.
   a. Verify the calculations performed by the SFA to determine whether its paid lunch price requires adjustment
   b. Verify the SFA adjusted its average weighted paid lunch price in accordance with the results of the foregoing calculations and are actually charging students the adjusted price.
   c. Verify the SFA met the equity requirement by furnishing additional funds from non-Federal sources. If so, verify that the amount provided was sufficient to cover the differences between the amount calculated by the SFA and the amount actually charged for paid lunches.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

1. Catalog of Federal Domestic Assistance, Section 10.555, National School Lunch Program
2. Accounting and Reporting of USDA Donated Foods
3. Healthy, Hunger-Free Kids Act of 2010 (Public Law 111-296)
4. Final Rule: Nutrition Standards in the National School Lunch and School Breakfast Programs
5. Certification of Compliance with Meal Requirements
6. Meal Requirements under the National School Lunch Program and School Breakfast Program: Q & As (USDA memo SP 38-2019)
7. Q & A on the School Breakfast Program Meal Pattern – USDA Memo SP 43-2014
8. MDE website School Breakfast Program
9. Offer vs. Serve Manual
10. Paid Lunch Equity Tools
11. MDE Indirect Costs Webpage.
12. Food Buying Guide for School Meals Programs
13. Eligibility Manual for School Meals
14. Direct Certification Center for Educational Performance and Information (CEPI)
15. Direct Certification Help and Official Communications
16. USDA Child Nutrition Program Resources (legislation, memos, regulations)
17. Afterschool Snack Program
18. Whole Grain Resource for the NSLP and SBP
19. USDA Memo SP 41-2014 Clarification of the Policy on Food Consumption
20. Final Rule: Child Nutrition Program Flexibilities for Milk, Whole Grains, and Sodium Requirements
21. Summer Food Service Program for Children Administrative Guidance for Sponsors
22. The Key to Reimbursement Michigan Summer Food Service Program
23. Final Rule: Nutrition Standards for All Foods Sold in School (Smart Snacks)
24. USDA Child and Adult Care Food Program (CACFP) meal patterns and updated materials

B. Personnel

1. For information regarding school meal regulations and program policies, or findings of School Food Authority Administrative Reviews, contact:
   Melanie Brummeler, Consultant Manager, at 517-241-5354.
2. For information on payment of claims for reimbursement for school meals, please contact:
   Wendy Crowley, Departmental Specialist, at 517-241-5358.
3. For information regarding processing contracts and calculating commodity entitlement values, contact:
   Tom Priest, Food Distribution Supervisor, at 517-241-2597.
4. For information regarding the Summer Food Service Program, contact:
   Stephanie Willingham, Supervisor, at 517-335-4289.
5. For information regarding food service management and vended school meal contracts, contact:
   Food Distribution - Contract unit at 517-241-5348.
6. For information regarding Fiscal and Administrative Services including the Resource Management section of the Administrative Review, contact:
   Aimee Haapala, Financial Manager, at 517-241-5369.

Amount of Food[b] Per Week (Minimum Per Day)

Meal Pattern	Breakfast Grades K-5[a]	Breakfast Grades 6-8[a]	Breakfast Grades 9-12[a]	Lunch Grades K-5	Lunch Grades 6-8	Lunch Grades 9-12
Fruits (cups)[C, D]	5 (1) [e]	5 (1) [e]	5 (1) [e]	2½ (½)	2½ (½)	5 (1)
Vegetables (cups)[C, D]	0	0	0	3¾ (¾)	3¾ (¾)	5 (1)
Dark green [F]	0	0	0	½	½	½
Red/Orange [F]	0	0	0	¾	¾	1¼
Beans/Peas (Legumes) [F]	0	0	0	½	½	½
Starchy[f]	0	0	0	½	½	½
Other [F, G]	0	0	0	½	½	¾
Additional Veg to Reach Total [H]	0	0	0	1	1	1½
Grains (oz. eq) [I]	7-10 (1) [j]	8-10 (1) [j]	9-10 (1) [j]	8-9 (1)	8-10 (1)	10-12 (2)
Meats/Meat Alternates (oz. eq)	0 [k]	0 [k]	0 [k]	8-10 (1)	9-10 (1)	10-12 (2)
Fluid milk (cups) [L]	5 (1)	5 (1)	5 (1)	5 (1)	5 (1)	5 (1)

Other Specifications: Daily Amount Based on the Average for a 5-Day Week

Meal Pattern	Breakfast Grades K-5[a]	Breakfast Grades 6-8[a]	Breakfast Grades 9-12[a]	Lunch Grades K-5	Lunch Grades 6-8	Lunch Grades 9-12
Min-max calories (kcal)[M, N, O]	350-500	400-550	450-600	550-650	600-700	750-850
Saturated fat (% of total calories) [N, O]	< 10	< 10	< 10	< 10	< 10	< 10
Sodium (mg)[N, P]	≤ 430	≤ 470	≤ 500	≤ 640	≤ 710	≤ 740

A. In the SBP, the above age-grade groups are required beginning July 1, 2013 (SY 2013-14). In SY 2012-2013 only, schools may continue to use the meal pattern for grades K-12 (see § 220.23).
B. Food items included in each food group and subgroup and amount equivalents. Minimum creditable serving is ⅛ cup.
C. One quarter-cup of dried fruit counts as ½ cup of fruit; 1 cup of leafy greens counts as ½ cup of vegetables. No more than half of the fruit or vegetable offerings may be in the form of juice. All juice must be 100% full-strength.
D. For breakfast, vegetables may be substituted for fruits, but the first two cups per week of any such substitution must be from the dark green, red/orange, beans and peas(legumes) or "Other vegetables" subgroups as defined in §210.10(c)(2)(iii).
E. The fruit quantity requirement for the SBP (5 cups/week and a minimum of 1 cup/day) is effective July 1, 2014 (SY 20142015).
F. Larger amounts of these vegetables may be served.
G. This category consists of "Other vegetables" as defined in §210.10(c)(2)(iii)(E). For the purposes of the NSLP, "Other vegetables" requirement may be met with any additional amounts from the dark green, red/orange, and beans/peas (legumes) vegetable subgroups as defined in §210.10(c)(2)(iii).
H. Any vegetable subgroup may be offered to meet the total weekly vegetable requirement.
I. At least half of the grains offered must be whole grain-rich in the NSLP beginning July 1, 2012 (SY 2012-2013), and in the SBP beginning July 1, 2013 (SY 2013-2014). All grains must be whole grain-rich in both the NSLP and the SBP beginning July 1, 2014 (SY 2014-15).
J. In the SBP, the grain ranges must be offered beginning July 1, 2013 (SY 2013-2014).
K. There is no separate meat/meat alternate component in the SBP. Beginning July 1, 2013 (SY 2013-2014), schools may substitute 1 oz. eq. of meat/meat alternate for 1 oz. eq. of grains after the minimum daily grains requirement is met.
L. Fluid milk must be low-fat (1 percent milk fat or less, unflavored) or fat-free (unflavored or flavored).
M. The average daily amount of calories for a 5-day school week must be within the range (at least the minimum and no more than the maximum values).
N. Discretionary sources of calories (solid fats and added sugars) may be added to the meal pattern if within the specifications for calories, saturated fat, trans fat, and sodium. Foods of minimal nutritional value and fluid milk with fat content greater than 1 percent milk fat are not allowed.
O. In the SBP, calories and trans-fat specifications take effect beginning July 1, 2013 (SY 2013-2014).
P. Final sodium specifications are to be reached by SY 2022-2023 or July 1, 2022. Intermediate sodium specifications are established for SY 2014-2015 and 2018-2019. See required intermediate specifications in § 210.10(f)(3) for lunches and § 220.8(f)(3) for breakfast

Implementation Timeline for Final Rule - Jan. 2012

"Nutrition Standards in the National School Lunch and School Breakfast Programs"

New Requirements Implementation (School Year) for NSLP (L) and SBP (B)	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2022/23**
Fruits Component	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2022/23**
· Offer fruit daily	L						
· Fruit quantity increase to 5 cups/week (minimum 1 cup/day)			B				
Vegetables Component	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2022/23**
· Offer vegetables subgroups weekly	L						
Grains Component	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2022/23**
· Half of grains must be wholegrain-rich	L	B					
· All grains must be whole-grain rich			L, B				
· Offer weekly grains ranges	L	B					
Meats/Meat Alternates Component	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2022/23**
· Offer weekly meats/meat alternates ranges (daily min.)	L						
Milk Component	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2022/23**
· Offer only fat-free (unflavored or flavored) and low-fat (unflavored) milk	L, B						
Dietary Specifications (to be met on average over a week)	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2022/23**
· Calorie ranges	L	B					
· Saturated fat limit (no change)	L, B						
· Sodium Targets o Target 1 o Target 2 o Final target							
Sodium Target 1			L, B				
Sodium Target 2						L, B	
Sodium Final Target							L, B
· Zero grams of trans fat per portion	L	B					
Menu Planning	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2022/23**
· A single FBMP approach	L	B					
Age-Grade Groups	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2022/23**
· Establish age/grade groups: K-5, 6-8, 9-12	L	B					
Offer vs. Serve	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2022/23**
· Reimbursable meals must contain a fruit or vegetable (1/2 cup minimum)	L		B				
Monitoring	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2022/23**
· 3-year admin. review cycle		L, B					
· Conduct weighted nutrient analysis on 1 week of menus	L	B					

*Sodium Target 2 is on hold for SY 2017-2018. Schools are in compliance if meeting Sodium Target 1 for SY 2017-2018.

Attachment 2

BREAKFAST MEAL PATTERN

Food Components	Grades K – 5	Grades 6 – 8	Grades 9 – 12
Milk • **Offer at least two choices to include only fat-free (flavored or unflavored) and low-fat (unflavored) milk.**	1 cup daily	1 cup daily	I cup daily
Grains • At least 1-ounce equivalent (oz. eq) must be offered daily. • Minimum daily and weekly offering must be met. • All grains must be whole grain-rich.	7 – 10 oz. eq/week (may exceed weekly amount as long as weekly dietary specifications are met)	8 – 10 oz. eq/week (may exceed weekly amount as long as weekly dietary specifications are met)	9 – 10 oz. eq/week (may exceed weekly amount as long as weekly dietary specifications are met)
Meat/Meat Alternate (optional) • None required but may substitute 1 oz. eq of meat/meat alternate for 1 oz. eq grains after minimum daily 1 oz. eq grains is offered. (counts towards weekly grain requirements and is included in dietary specifications) • May offer meat/meat alternate as additional food and not credit as grain after minimum daily 1 oz. eq grains is offered. (does *not* count towards weekly grain requirements but is included in dietary specifications)			
Fruit/Juice/Vegetable • **Juice offerings cannot exceed 50% of the total weekly fruit offerings.** • **Fruits and vegetables may be offered; first 2 cups of vegetables must be from r/o, dark green, beans/peas or "other" before starchy veg is offered.** • **Required to take ½ cup fruit (j/v) under Offer vs. Serve (OVS).**	1 cup daily (may combine two - ½ cup servings of fruit/vegetable/juice to meet one cup requirement)	1 cup daily (may combine two - ½ cup servings of fruit/vegetable/juice to meet one cup requirement)	1 cup daily (may combine two - ½ cup servings of fruit/vegetable/juice to meet one cup requirement)
Minimum/Maximum Calories (kcal) • **Weekly average**	350 – 500	400 – 550	450 – 600
Saturated Fat (% of total calories) • **Weekly average**	< 10	<10	<10
Sodium (Target 1 for SY 2017-2018) • **Weekly average**	≤ 540 mg	≤ 600 mg	≤ 640 mg
Trans Fat	0 grams/serving	0 grams/serving	0 grams/serving

CACFP CHILD MEAL PATTERN **Attachment 3**

Breakfast (Select all three components for a reimbursable meal)				
Food Components and Food Items[1]	**Ages 1-2**	**Ages 3-5**	**Ages 6-12**	**Ages 13-18**[2] (at-risk afterschool
Fluid Milk[3]	4 fluid ounces	6 fluid ounces	8 fluid ounces	8 fluid ounces
Vegetables, fruits, or portions of both[4]	¼ cup	½ cup	½ cup	½ cup
Grains (oz. eq)[5,6,7]				
Whole grain-rich or enriched bread	½ slice	½ slice	1 slice	1 slice
Whole grain-rich or enriched bread product, such as biscuit, roll or muffin	½ serving	½ serving	1 serving	1 serving
Whole grain-rich, enriched or fortified cooked breakfast cereal, cereal grain, and/or pasta[8]	¼ cup	¼ cup	½ cup	½ cup
Whole grain-rich, enriched or fortified ready-to-eat breakfast cereal (dry, cold)[8,9]				
Flakes or rounds	½ cup	½ cup	1 cup	1 cup
Puffed cereal	¾ cup	¾ cup	1 ¼ cup	1 ¼ cup
Granola	⅛ cup	⅛ cup	¼ cup	¼ cup

1 Must serve all three components for a reimbursable meal. Offer versus serve is an option for at-risk afterschool participants.
2 Larger portion sizes than specified may need to be served to children 13 through 18 years old to meet their nutritional needs.
3 Must be unflavored whole milk for children age one. Must be unflavored low-fat (1 percent) or unflavored fat-free (skim) milk for children two through five years old. Must be unflavored low-fat (1 percent), unflavored fat-free (skim), or flavored fat-free (skim) milk for children six years old and older.
4 Pasteurized full-strength juice may only be used to meet the vegetable or fruit requirement at one meal, including snack, per day.
5 At least one serving per day, across all eating occasions, must be whole grain rich. Grain-based desserts do not count towards meeting the grains requirement.
6 Meat and meat alternates may be used to meet the entire grains requirement a maximum of three times a week. One ounce of meat and meat alternates is equal to one-ounce equivalent of grains.
7 Beginning October 1, 2019, ounce equivalents are used to determine the quantity of creditable grains.
8 Breakfast cereals must contain no more than 6 grams of sugar per dry ounce (no more than 21.2 grams sucrose and other sugars per 100 grams of dry cereal).
9 Beginning October 1, 2019, the minimum serving size specified in this section for ready-to-eat breakfast cereals must be served. Until October 1, 2019, the minimum serving size for any type of ready-to-eat breakfast cereals is ¼ cup for children ages 1-2; 1/3 cup for children ages 3- 5; and ¾ cup for children ages 6-12.

CACFP CHILD MEAL PATTERN

Lunch and Supper (Select all five components for a reimbursable meal)				
Food Components and Food Items[1]	**Ages 1-2**	**Ages 3-5**	**Ages 6-12**	**Ages 13-18**[2] (at-risk afterschool programs and emergency shelters)
Fluid Milk[3]	4 fluid ounces	6 fluid ounces	8 fluid ounces	8 fluid ounces
Meat/meat alternates				
Lean meat, poultry, or fish	1 ounce	1 ½ ounce	2 ounces	2 ounces
Tofu, soy product, or alternate protein products[4]	1 ounce	1 ½ ounce	2 ounces	2 ounces
Cheese	1 ounce	1 ½ ounce	2 ounces	2 ounces
Large egg	½	¾	1	1
Cooked dry beans or peas	¼ cup	⅜ cup	½ cup	½ cup
Peanut butter or soy nut butter or other nut or seed butters	2 tbsp.	3 tbsp.	4 tbsp.	4 tbsp.
Yogurt, plain or flavored unsweetened or sweetened[5]	4 ounces or ½ cup	6 ounces or ¾ cup	8 ounces or 1 cup	8 ounces or 1 cup
The following may be used to meet no more than 50% of the requirement: Peanuts, soy nuts, tree nuts, or seeds, as listed in program guidance, or an equivalent quantity of any combination of the above meat/meat alternates (1 ounces of nuts/seeds = 1 ounce of cooked lean meat, poultry, or fish)	½ ounce = 50%	¾ ounce = 50%	1 ounce = 50%	1 ounce = 50%
Vegetables[6]	⅛ cup	¼ cup	½ cup	½ cup
Fruits[6,7]	⅛ cup	¼ cup	¼ cup	¼ cup
Grains (oz. eq)[8,9]				
Whole grain-rich or enriched bread	½ slice	½ slice	1 slice	1 slice
Whole grain-rich or enriched bread product, such as biscuit, roll or muffin	½ serving	½ serving	1 serving	1 serving
Whole grain-rich, enriched or fortified cooked breakfast cereal[10], cereal grain, and/or pasta	¼ cup	¼ cup	½ cup	½ cup

1 Must serve all five components for a reimbursable meal. Offer versus serve is an option for at-risk afterschool participants.
2 Larger portion sizes than specified may need to be served to children 13 through 18 years old to meet their nutritional needs.
3 Must be unflavored whole milk for children age one. Must be unflavored low-fat (1 percent) or unflavored fat-free (skim) milk for children two through five years old. Must be unflavored low-fat (1 percent), unflavored fat-free (skim), or flavored fat-free (skim) milk for children six years old and older.
4 Alternate protein products must meet the requirements in 7 CFR Appendix A to Part 226.
5 Yogurt must contain no more than 23 grams of total sugars per 6 ounces.
6 Pasteurized full-strength juice may only be used to meet the vegetable or fruit requirement at one meal, including snack, per day.
7 A vegetable may be used to meet the entire fruit requirement. When two vegetables are served at lunch or supper, two different kinds of vegetables must be served.
8 At least one serving per day, across all eating occasions, must be whole grain rich. Grain-based desserts do not count towards the grain's requirement.
9 Beginning October 1, 2019, ounce equivalents are used to determine the quantity of the creditable grain.
10 Breakfast cereals must contain no more than 6 grams of sugar per dry ounce (no more than 21.2 grams sucrose and other sugars per 100 grams of dry cereal).

CACFP CHILD MEAL PATTERN

Snack (Select two of the five components for a reimbursable snack)				
Food Components and Food Items[1]	**Ages 1-2**	**Ages 3-5**	**Ages 6-12**	**Ages 13-18**[2] (at-risk afterschool programs and emergency shelters)
Fluid Milk[3]	4 fluid ounces	4 fluid ounces	8 fluid ounces	8 fluid ounces
Meat/meat alternates				
Lean meat, poultry, or fish	½ ounce	½ ounce	1 ounce	1 ounce
Tofu, soy product, or alternate protein products[4]	½ ounce	½ ounce	1 ounce	1 ounce
Cheese	½ ounce	½ ounce	1 ounce	1 ounce
Large egg	½	½	½	½
Cooked dry beans or peas	⅛ cup	⅛ cup	¼ cup	¼ cup
Peanut butter or soy nut butter or other nut or seed butters	1 tbsp.	1 tbsp.	2 tbsp.	2 tbsp.
Yogurt, plain or flavored unsweetened or sweetened[5]	2 ounces or ¼ cup	2 ounces or ¼ cup	4 ounces or ½ cup	4 ounces or ½ cup
Peanuts, soy nuts, tree nuts, or seeds	½ ounce	½ ounce	1 ounce	1 ounce
Vegetables[6]	½ cup	½ cup	¾ cup	¾ cup
Fruits[6]	½ cup	½ cup	¾ cup	¾ cup
Grains (oz. eq)[7,8]				
Whole grain-rich or enriched bread	½ slice	½ slice	1 slice	1 slice
Whole grain-rich or enriched bread product, such as biscuit, roll or muffin	½ serving	½ serving	1 serving	1 serving
Whole grain-rich, enriched or fortified cooked breakfast cereal[9], cereal grain, and/or pasta	¼ cup	¼ cup	½ cup	½ cup
Whole grain-rich, enriched or fortified ready-to-eat breakfast cereal (dry, cold)[9,10]				
Flakes or rounds	½ cup	½ cup	1 cup	1 cup
Puffed cereal	¾ cup	¾ cup	1 ¼ cup	1 ¼ cup
Granola	⅛ cup	⅛ cup	¼ cup	¼ cup

1 Select two of the five components for a reimbursable snack. Only one of the two components may be a beverage.
2 Larger portion sizes than specified may need to be served to children 13 through 18 years old to meet their nutritional needs.
3 Must be unflavored whole milk for children age one. Must be unflavored low-fat (1 percent) or unflavored fat-free (skim) milk for children two through five years old. Must be unflavored low-fat (1 percent), unflavored fat-free (skim), or flavored fat-free (skim) milk for children six years old and older.
4 Alternate protein products must meet the requirements in 7 CFR Appendix A to Part 226.
5 Yogurt must contain no more than 23 grams of total sugars per 6 ounces.
6 Pasteurized full-strength juice may only be used to meet the vegetable or fruit requirement at one meal, including snack, per day.
7 At least one serving per day, across all eating occasions, must be whole grain rich. Grain-based desserts do not count towards meeting the grains requirement.
8 Beginning October 1, 2019, ounce equivalents are used to determine the quantity of creditable grains.

9 Breakfast cereals must contain no more than 6 grams of sugar per dry ounce (no more than 21.2 grams sucrose and other sugars per 100 grams of dry cereal).
10 Beginning October 1, 2019, the minimum serving sizes specified in this section for ready-to-eat breakfast cereals must be served. Until October 1, 2019, the minimum serving size for any type of ready-to-eat breakfast cereals is ¼ cup for children ages 1-2; 1/

PROGRAM REQUIREMENTS CALENDAR Attachment 4

To ensure program compliance, please distribute a copy of this calendar to each of the staff responsible for completing the following tasks related to the National School Lunch Program (NSLP), School Breakfast Program (SBP), Summer Food Service Program (SFSP) and Afterschool Snack Program operations. All required records must be retained at the School Food Authority (SFA) for three prior school years, plus the current year of operation for audit compliance. If there is an open audit/investigation, retain longer.

INFORMATION	DUE DATE	SEND/FILE
SECURITY ACCESS FORM Access to: Michigan Electronic Grants System Plus (MEGS+) only	Submit when there has been a change in the designated individual.	Fax to Lucy Bailey at 517-241-0496.
CONTRACT RENEWAL and CONTRACT REBIDS Food Service Management Contracts (FSMC) or Vended School Meal Contracts (VSMC)	FSMC and VSMC contracts expire June 30 of each school year. Renewals of current contracts must be reviewed and approved and rebids of new contracts must be completed and approved by MDE prior to the June 30 deadline.	For information on obtaining contract renewal and contract rebid documents, including instructions on each process, visit the food service contract website at MDE - Food Service Contracts[3].
DIRECT CERTIFICATION REPORT	The Direct Certification Report must be accessed at a minimum three times during the school year: • At or around the beginning of the school year. • Three months after the initial effort. • Six months after the initial effort. The Center for Educational Performance and Information (CEPI) will refresh the Direct Certification Report monthly. The Direct Certification Report can be accessed through the Michigan Student Data System[4]	MDE encourages schools to access the Direct Certification Report each time it is refreshed to ensure eligible students receive proper meal benefits. Direct Certification Reports must be filed for three prior school years, plus the current year. Electronic files are acceptable.
ELIGIBILITY APPLICATIONS Free and Reduced-Price School Meals/Free Milk	Distribute at beginning of each school year, but *not* before July 1. Process completed applications within 10 school days after receipt.	File at the Local Educational Agency (LEA), also referred to as the SFA.

[3] http://www.michigan.gov/mde/0,4615,7-140-66254_61446-289948--,00.html

[4] https://cepi.state.mi.us/msds/

INFORMATION	DUE DATE	SEND/FILE
SCHOOL MEALS REPORT School Food Authority (SFA) Intermediate School District (ISD), and Public School Academy (PSA)	Report cost per meal for the School Breakfast Program (SBP) and the National School Lunch Program (NSLP). CEPI application available September 8 to upload with a final due date of November 1. Corrections/adjustments due by November 18.	Submit to CEPI via the Financial Information Database (FID) application[5]
SCHOOL LUNCH YEAR END REPORT (SLYER) Non-public schools and Residential Child Care Institutions (RCCIs) - School Meals Program Form SM-4012-A/R	Non-public schools and RCCIs SLYER will be made available August 7 and due September 11, 2020, for the prior school year.	Submit to MDE via the ~~MEIS Website~~[6] at the Michigan Nutrition Data (MiND) System.
APPLICATION – NEW SPONSORS MEGS+ CNP	New sponsors must complete both the MEGS+ CNP applications to be eligible for participation in the National School Lunch, Breakfast, and/or USDA Foods Commodities Program.	Submit to MDE via the MEIS Website at the Michigan Electronic Grants Plus System.
APPLICATION RENEWAL MEGS+ CNP	Available during summer with a due date of mid-September.	Submit to MDE via the MEIS Website at the Michigan Electronic Grants Plus System. Update during year as needed.
COMMUNITY ELIGIBILITY PROVISION (CEP) Application in the Michigan Electronic Grants Plus System – CNP Application	Available early May with a due date of June 30, 2018, for the 2018-2019 school year only. If you would like to opt in or opt out of CEP at a different time, contact MDE.	Submit to MDE via the MEIS Website at the Michigan Electronic Grants Plus System.
SELF-MONITORING REVIEWS Afterschool Snack Program (2 reviews required each school year)	1st review – Within first 4 weeks of Afterschool Snack Program. 2nd review - Completed after January.	File completed forms at SFA for three prior years and the current year.
VERIFICATION	Verification begins October 1 based on the number of approved applications. Verification MUST be completed by November 15. Organize documentation received from sampled household applications for confirmation of eligibility for free and reduced-price meals under the National School Lunch and School Breakfast Programs.	The information collected during Verification will be reported in the online School Food Authority Verification Collection Report (SFA-VCR). The SFA-VCR opens in December. Keep files for three prior years and the current year.
SCHOOL FOOD AUTHORITY – VERIFICATION COLLECTION REPORT (SFA-VCR)	The SFA-VCR must be submitted online in MiND by February 1, 2018. Report the data collected during Verification - October 1 - November 15 of the current school year.	Submit data collected during verification in the SFA-VCR online in MiND by February 1, 2018.

5 https://cepi.state.mi.us/FID/Dist/loginScreen.aspx?Mode=Logout

6 http://www.michigan.gov/mde/0,1607,7-140-5236_29341---,00.html

INFORMATION	DUE DATE	SEND/FILE
	The Direct Certification report that is refreshed near the end of October 2017 must be used for section 3 of the SFA-VCR.	Print the report and file the last 3 consecutive years and the current school year.
SELF-MONITORING REVIEWS NSLP/SBP	Complete monitoring and forms for all sites by February 1 annually. Fifty percent of the sites must also be monitored for the School Breakfast Program.	File completed forms at SFA for three prior school years, plus the current year.
DAILY PARTICIPATION RECORD/ EDIT CHECK	Daily/prior to submitting monthly claims.	File at SFA with monthly claim materials.
MENU PRODUCTION RECORDS	Daily records of meal production and meal service for each meal program (production plans, standardized recipes, Child Nutrition labels or production specifications).	File completed forms at SFA.
MEAL REIMBURSEMENT CLAIM	Within 60 days following claim month. Security access is granted by sponsor authorized official in MEGS+ application.	Submit to MDE via the MEIS Website at the Michigan Nutrition Data (MiND) System
APPLICATION/RENEWAL – Summer Food Service Program (SFSP)	May 1 (each school year).	Submit to MDE via the MEIS Website at the Michigan Electronic Grants Plus System.
SFSP CLAIM FORM	Within 60 days following the last day of operation. Security access is granted by sponsor authorized official in MEGS+ application.	Submit to MDE via the MEIS Website at the Michigan Nutrition Data (MiND) System
APPLICATION/RENEWAL – Summer Camp Special Milk (SCSM)	Application *must* be approved 2 weeks prior to start of camp.	Submit to MDE via the MEIS Website at the Michigan Electronic Grants Plus System.
SCSM CLAIM FORM	Within 60 days following claim month. Security access is granted by sponsor authorized official in MEGS+ application.	Submit to MDE via the MEIS Website at the Michigan Nutrition Data (MiND) System
APPLICATION/RENEWAL Fresh Fruit and Vegetable Program (FFVP)	Available by end of February with a due date of April 30.	Submit to MDE via the MEIS Website at the Michigan Electronic Grants Plus System.
FFVP CLAIM in MiND	Within 60 days following claim month. Security access is granted by sponsor authorized official in MEGS+ application.	Submit to MDE via the MEIS Website at the Michigan Nutrition Data (MiND) System

TITLE I CLUSTER

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

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

I. Federal Overview

II. State Overview

III. Flexibility Provisions

IV. District Considerations

V. Title I Staff Qualifications

VI. Audit Considerations

VII. Reference Materials and Personnel

I. FEDERAL OVERVIEW

A. Federal Agency
Student Achievement and School Accountability Programs, Office of Elementary and Secondary Education, U.S. Department of Education (USED)

B. Authorization
Title I, Parts A & D, Elementary & Secondary Education Act of 1965, as amended by Every Student Succeeds Act (ESSA) of 2015, Public Law 115-64.

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 CFDA.

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, onsite reviews, and program improvement assistance to low-achieving schools. School districts apply for Title I funds as part of a Consolidated Application.

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

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

FORM DESCRIPTION	DUE DATE
CONSOLIDATED APPLICATION (electronic form in Michigan Electronic Grants System *Plus – MEGS+*)	Prior to the beginning of the fiscal obligation period

The Consolidated Application contains a general description of the Title I program and budget information. An updated narrative plan including academic goals and strategies, student assessments, professional development, and other areas are in the AdvancED ASSIST Portal. A 15% limit applies to the amount of carryover funds, with a provision for a waiver once every three years. The 15% limit does not apply to districts with allocations of less than $50,000.

BUDGET AMENDMENT	DUE DATE
Use regular budget pages in Consolidated Application	As required, but no later than 9/30 for regular funds

A budget amendment is required when:

1. The LEA is not currently approved for its full allocation and wishes to increase the approved amount (request final allocations and add carryover).
2. The LEA wishes to add or delete staff or increase/decrease staff FTEs in its approved budget.
3. The LEA wishes to add a new function to its approved budget or new capital outlay items.
4. The sum of the expenditures that are over the approved amount by line item will exceed 10% of the approved item.
5. De-obligating funds.

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

FINAL EXPENDITURE REPORT (FER) 11/29 for regular funds
This report should reconcile to the Single Audit Report and the district's financial records.

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

III. FLEXIBILITY PROVISIONS

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

A. Fund Transfers
   The transferred funds should be included and reported (and audited, if major) in the program for which the funds were allocated. Budget details in the Consolidated Application display transferred amounts separately from amounts budgeted for the original program. For clarification, a footnote to the Schedule of Expenditures of Federal Awards may be included to indicate by program the amount of funds transferred between ESEA programs.
B. In conducting an audit, auditors should determine whether any written waivers have been granted by the USED or MDE. If a waiver was granted, the waiver approval is entered as a comment in the original approved application checklist in MEGS+.

IV. DISTRICT CONSIDERATIONS

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

A. Funding Periods
   1. Approval status screen confirms the beginning date.
   2. Districts must have an annual fiscal obligation beginning date.
   3. Districts cannot obligate funds until the applications are submitted in MEGS+. All applications must receive final approval.
   4. The fiscal obligation ending date for regular funds is September 30.
   5. The ending date of 9/30/19 does not allow for the subsequent school year's (18-20) expenditures (i.e., 10/15/19 payroll). Summer school expenditures can be charged to regular funds.

B. Eligible Attendance Areas (determined annually) – Title I funds may be expended only in eligible attendance areas - Documentation for 2017-18 submitted on the Title I School Selection worksheet in MEGS+.
   1. An eligible attendance area is a school attendance area in which the concentration of low-income children is equal to or greater than the average for the district or for a grade span. Eligibility can be determined based on factors such as Free and Reduced Lunches, Family Independence Program (FIP) information, breakfast programs, Medicaid, or a composite of such indicators. (MDE recommends that when using Free and Reduced Lunch counts, one date should be selected from the prior year that is most representative of the poverty concentrations in the schools.) Michigan participates in the Community Eligibility Provision (CEP) which allows for participating school buildings to record up to 100% of students as free and reduced (depending on their eligibility factor under the CEP option) in the Title I School Selection application in MEGS+.
   2. The Free and Reduced lunch counts, as well as the total enrollment counts, must be used from the same period. Both the numerator (free/reduced count public and private) and denominator (total enrollment public and private) must contain information from the same time period.
   3. All schools in the district must be included in the ranking process. This is true for specialized schools as well as regular schools (i.e., special education centers and alternative programs).
   4. A district may not skip a building in rank order for Title I funding purposes with two exceptions. A district may skip a building that is not in the grade span that it is serving (i.e., high school) or Section 1113(b)(1)(D)(ii) of Title I, Part A allows an LEA to skip an eligible school attendance area or school that has a higher percentage of poverty if the area or school is receiving supplemental funds from other State or local sources that are "spent according to the requirements of Section 1114 (schoolwide) or 1115 (targeted assistance program)."In an LEA with a total enrollment of fewer than 1,000 students K-12 or with only one school per grade span, all schools are eligible. Reference: P.L. 115-64, Section 1113 and Non-Regulatory Guidance. An electronic version of the Title I School Selection application was completed for 2017-18 and submitted in MEGS+.

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

C. Allocations to Eligible Attendance Areas (determined annually) – Documentation for 2018-19 submitted on the Title I School Selection application in MEGS+.
   1. School allocations are based on low-income counts; a minimum amount must be allocated to each school, starting with the highest-poverty school, until funds are exhausted. The minimum amount that must be allocated per low-income child is 125% of the amount of Title I funds received by the district for each low-income child in the district. This amount may be reduced by the amount of supplementary State or local funds, if any, being spent on programs that meet the Title I requirements.
   2. If all school attendance areas that are served have poverty percentages of at least 35%, the LEA is not required to follow the 125% rule, but must allocate funds based on low-income counts. If schools are allocated different amounts per low-income child, higher-poverty schools must receive larger amounts than lower-poverty schools. NOTE: A common misapplication is allocation by service level rather than by dollars. For example, if all Title I schools are allocated two teachers and one paraprofessional, the allocations are not likely to be equal. Higher seniority staff cost more than lower seniority staff. This must be accounted for in the allocations.
   3. The poverty-based formula does not apply to an LEA with a total enrollment of fewer than 1,000 students K-12 or with only one school per grade span. Reference: P.L. 115-64, Section 1113(a) (6) and Non-Regulatory Guidance. Also, see worksheet on Title I School Selection application in MEGS+.

D. Parent/Staff Involvement
   A district must provide opportunities for consultation with parents and teachers of eligible pupils, including those from private schools, in the design, implementation, and evaluation of the Title I project. LEAs with allocations of more than $500,000 must reserve at least 1% for parental involvement activities. The district must distribute not less than 90% of the amount reserved for parental involvement to schools receiving Title I services. Parents of participating children must be involved in discussions on the use of these funds.

E. Private School Involvement
   1. Pupils who are residents of a local district's eligible attendance areas and attend a private school, regardless of where the private school is located, must be offered service on an equitable basis with the school district's eligible pupils.
   2. Private allocations are based on the same poverty formula used for public schools.
   3. Private low-income students must be identified by Title I school attendance area and allocated the same amount of funds as per low-income public school students in that attendance area. That includes set-asides for professional development, parental involvement, salary differentials, and district-level instructional programs. The homeless set-aside may be accessed for services to homeless private school students.
   4. A documented offer and acceptance or rejection must be present. If the private school rejects the offer, the public school may utilize the Title I funds for its Title I program. Reference: P.L. 115-64, Section 1117.

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. 115-64, Sections 1114 & 1115.

G. Title I Evaluation
   1. The USED has determined that State assessment results will be used for evaluation of the Title I program.
   2. Determine whether the LEA disseminated information to all schools in the LEA and to all parents of students attending those schools and made the information widely available through public means, such as the Internet and the media. The reports are in mischooldata.com.

H. Allowable Expenditures
   1. Supplement, Not Supplant
      a. Title I funds must be used to supplement non-federal and other federal categorical funds normally provided by the district (e.g., collective bargaining agreements, charter agreements, board policy) or required by law. For example, replacing funding for an existing teacher or staff member with Title I funds is prohibited. In schoolwide programs, Title I funds must be used in accordance with the school's Title I schoolwide plan. In targeted assistance schools, Title I funds must be used to provide supplementary services to eligible students.
      b. If Title I services in a targeted assistance school are used to replace general education services, the district must provide a percentage of co-funding based on the number of children in replacement classes, if the number is greater than would be served by 1.0 full-time equivalent (FTE) teachers. Reference: P.L. 107-110, Section 1120A (b).

2. Comparability
   a. To be eligible to receive Title I funds, an LEA must use State and local funds to provide services in Title I schools that are at least comparable to services provided in non-Title I schools. If the LEA serves all of its schools with Title I funds within a particular grade span, the LEA must use State and local funds to provide services that are substantially comparable in each school.
   b. Districts must provide general education services in all Title I schools that are comparable to those provided in non-Title I schools in each grade span. If all schools are served by Title I, the general education services must be comparable in each school. The district must establish procedures for determining and maintaining comparability. The district is responsible for documenting its comparability status at least once every two years.
   c. Comparability is determined by comparing the instructional staff/pupil ratios or the per-pupil expenditures for instruction staff between equivalent grade span schools within the district. The average per-pupil expenditures instructional staff/pupil ratios on average for the buildings being compared may not be more than 10% lower in the Title I or high-poverty schools. The Office of Field Services is in the process of allowing Schoolwide Consolidation as a pilot for LEAs in select geographic areas. Some documentation requirements have been modified; currently there are six templates required to be uploaded and submitted with the Consolidated Application. Questions may be directed to 517-373-4004 to be forwarded to a regional consultant. Reference: P.L. 114-95, Section 1120A(c).
      - Information about Schoolwide Consolidation (including templates) are located under: http://www.michigan.gov/mde/0,4615,7-140-6530_30334_51051-254873--,00.html

3. Timekeeping
   a. See General Provisions for Selected Items of Cost – Compensation for Personal Services in this manual.
   b. Federal Education Department General Administrative Regulations (EDGAR) do not allow payment of a part of a building principal's salary out of Title I, Part A unless: documentation exists for board action which shows that the position as a principal is not full-time and documentation exists which states what part of the day, specifically, is designated for Title I activity – a reasonable time when the principal is not available as a principal to talk with students, parents, etc., because they are working on Title I activities (perhaps a separate office); and documentation exists that includes a time log of all activities charged to Title I and is maintained for single audit purposes. A stipend may be paid to a principal for Title I, Part A duties beyond the contract day/year. Time logs must be kept to ensure that only Title I activities are conducted during this time period.
   c. Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100%of compensated activities.

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

I. To Become Schoolwide
   1. If a building has 40% or greater poverty, it is eligible to be schoolwide. The recent waiver allows schools that are Targeted Schools with a lower poverty level to become schoolwide to improve academic achievement of all students.
   2. A building must complete one year of planning with an MDE-approved provider.
   3. If the building decides to convert to schoolwide, the program should impact all students.
   4. The program should be comprehensive.

V. TITLE I STAFF QUALIFICATIONS

A. Highly Qualified Teachers

   a. With the reauthorization of the Elementary Secondary Education Act (ESEA), MDE has determined that the reporting and verification of a teacher's No Child Left Behind Highly Qualified status is no longer required. However, Michigan Compiled Law (MCL) 380.1531 and the Administrative Rules Governing the Certification of Michigan Teachers (Teacher Certification Code) require teachers to hold the endorsement for the subject(s) in which they are assigned to teach. Teachers who hold the appropriate grade-level and content area endorsements on a valid Michigan educator certificate may be placed in an assignment to provide instruction in corresponding courses.

B. Paraprofessionals

   a. Paraprofessional staff that have taken the WorkKeys test from 2012-2014 have taken the WorkKeys assessment that only contains the "Business Writing" portion. "Business Writing" is not equivalent to the "Writing" portion that is necessary to qualify paraprofessional staff to work with students.

   b. Paraprofessional staff who have completed the WorkKeys assessment comprised of only "Business Writing" will need to take and pass the ETS Parapro Assessment with a score of at least 460.

   c. Should you discover that paraprofessional staff do not have the appropriate qualifications, you may provide the assessment to the paraprofessional candidate within a given period of time, as determined by the State of Michigan.

C. The Title I staff qualifications apply to Title I-funded staff in targeted assistance schools. The qualifications apply to all instructional staff in core academic subjects in Title I schoolwide programs. The paraprofessional qualifications do not apply to Title I paraprofessionals whose sole duty is parental involvement or who serve as bilingual translators. The qualifications also do not apply to paraprofessionals who are personal care aides, computer technicians, or perform only clerical duties.

D. The MDE Office of Educator Excellence (OEE) formerly Office Professional Preparation Services (OPPS) has oversight responsibility for assuring that each classroom teacher holds the appropriate certificate and endorsement for his or her assignment. OEE monitors assignments through a comparison to the certification database. To accomplish this task, the OEE requests the Center for Educational Performance and Information (CEPI) and the Department of Technology, Management and Budget (DTMB) to make a comparison of information on teacher assignments obtained from submissions to the Registry of Educational Personnel (REP) to the OEE certification records. A report of potential exceptions is generated and used as the basis for contact with the local school districts. The report is considered a preliminary screening of the data and may require additional refinement by contact with the district.

VI. AUDIT CONSIDERATIONS

The following suggested audit procedures are not to be considered all-inclusive or a substitute for professional judgment. Rather, these procedures, along with those listed in the OMB Compliance Supplement, are to help the auditor perform compliance procedures in an efficient and effective manner in accordance with professional standards and federal guidelines. Part 4 includes specific compliance requirements and Part 6 includes specific internal control requirements.

These audit considerations should be utilized when a specific compliance area is indicated that it is subject to audit in the Federal Compliance Supplement. Audit procedures described for areas not subject to audit are not required by MDE but may be utilized when auditor judgment has determined an area should be tested, or as part of an unpredictable audit procedure. Additionally, for those areas that are not subject to audit in a current year for major program purposes, auditors should still consider risks of potential material noncompliance and determine when testing procedures may be necessary to identify noncompliance that would be reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*

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. See section B Allowable costs for testing procedures applicable to types of services allowed.
B. Allowable Costs
   1. Review expenditure records and supporting documentation to ensure:
      a. In targeted assistance schools, determine that funds have been used for activities designed to serve children who are failing or most at risk of failing to meet State performance standards. These children have been identified for assistance based on local assessments related to the core academic curriculum. Different children may be served over the course of the year as needs are identified through ongoing assessment.

Note: Auditors should determine that expenditures are consistent with the approved grant application. Auditors may find it helpful to access the Consolidated Application in MEGS+ rather than requesting a paper copy from the district. Districts can give auditors read-only access to the Consolidated Application. The budget summary and detail are available. The system is tabbed with school-level budgets listed as links at the bottom of the budget summary page for easy access. If requesting a paper copy, make sure the copy includes the school-level budget detail for each Title I school in addition to the district details.

b. In both targeted assistance and schoolwide buildings, determine that expenditures are consistent with the approved application and with school wide buildings the schoolwide plan and with targeted assistance buildings the targeted assistance plan. These plans are available in the AdvancED ASSIST Portal.

c. Time/salaries spent working on Title I must be documented in compliance with 2 CFR Part 200.430
   i. Obtain a copy of the district's timekeeping procedures
   ii. Review a sample of payroll charges to determine compliance with 2 CFR 200.430

   NOTE: Questioned costs must be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports are not adequate. These costs should not be extrapolated but limited to the employee(s) affected.

d. For both targeted assistance and schoolwide buildings, indirect costs charged to the program must meet all of the following criteria:
   i. Verify that the correct rate category (restricted or unrestricted) was used according to grant guidelines; and
   ii. Verify that the rate applied was the MDE-approved rate for the current year; and
   iii. Verify that no indirect charges were applied to exclusions, such as equipment or flow-through dollars.

C. Cash Management –
   1. Determine that cash was requested as a reimbursement of funds expended. Payments to districts and recipients are on a reimbursement basis only.

D. N/A – Reserved

E. Eligibility and Allocation of Funds
   1. Review the Title I School Selection application in MEGS+. Trace amounts to source documents.
   2. Review adequacy and system of determination of attendance areas having the highest concentrations of low-income families.
   3. Review and verify that the data are supported by the books and records of the

district to ensure the allocation of funds to schools for compliance with the Title I formula.

F. Equipment - If equipment ($5,000 or > threshold) has been charged to the Basic Grant:
   1. Determine that the equipment is approved in advance in the approved budget.
   2. Determine that equipment purchased with grant funds was properly tagged and appropriately inventoried. An inventory control log must be maintained by the public school indicating the federal funding source, date purchased, description, serial number, cost, tag number, and location of the equipment.
   3. If the school transferred or disposed of equipment purchased with federal funds, determine if it followed the appropriate federal criteria.

G. Matching, Level-of-Effort, and/or Earmarking Requirements
   1. Matching
      a. There is no matching testing requirement
   2. Level of Effort
      a. Maintenance of effort is determined by MDE
      b. Supplement Not Supplant
         i. For any salary added to the grant, ask if the employee is a new hire. If not, how has the job description for the employee changed?
         ii. Is the service being offered by the grant one that the district has offered in the past using local/State funds to support?
         iii. Are there other sources of information to confirm that the funds are being used to fund an activity that was not previously funded by a local/State source of revenue
   3. Earmarking
      a. Parental Involvement – LEAs with allocations of more than $500,000 must reserve at least 1% of their allocation for parental involvement activities. Determine whether the district has distributed not less than 95% of the amount reserved for parental involvement to schools receiving Title I services. Determine that the school and parents have jointly developed activities within the guidelines described in Section 1118 of the Title I legislation and that the resulting expenditures are for those activities only.
   4. Carryover – Determine whether an LEA with an allocation of $50,000 or more has carried over no more than 15% of its Title I, Part A allocation, unless a waiver was granted. If a waiver was granted, the waiver approval is entered as a comment in the MEGS+ application checklist. The carryover limit applies only to the LEA's total allocation, not to individual school allocations. Carryover funds can stay with the building they were originally allocated to or they can be reallocated using the regular allocation rules.
   5. Comparability
      a. Determine whether the district has established procedures for determining and maintaining comparability.
      b. Determine if the district determines its comparability status every year. Determine if the district's computation of comparability is accurate biennially. Review the 2017-18 Comparability worksheets which are posted on the OFS website: Title I Comparability Worksheet.

For each school, (only schools that are in a grade span with at least one school receiving Title I, Part A funds need to be reviewed) determine that information about instructional staff working at the school is accurate which includes determining that any staff member either no longer works at that school, works solely with preschool students, or has a non-instructional position (such as secretary, clerk, health aide). This includes determining that the FTEs entered are accurate. These entries should reflect the portion of an instructional staff member's FTE that is paid for with any federal funding source. All federal funding sources should be included, not just the federal funding sources contained in the Consolidated Application. This includes determining that, if the district excluded Section 31a teachers for any elementary building, Section 31a-funded teachers must be excluded in all other buildings.

6. Schoolwide Programs – Determine if the LEA has schoolwide programs. If so, perform the following procedure: Determine whether the school met the eligibility requirements in the first year of implementing a schoolwide plan. The school's poverty percentage must be at least 40% in the first year of implementation. Determine whether the schoolwide plan contains all the required components. Refer to Section 1114 of Title I, Part A of P.L. 115-64. See Attachment D, Schoolwide School Planning document.
7. Comprehensive and Targeted Schools
   a. Determine whether the LEA disseminated information to all schools in the LEA and to all parents of students attending those schools and made the information widely available through public means, such as the Internet and the media. The reports are in mischooldata.org.

H. Period of Performance
   1. Obligation of Grant Funds
      a. Examine transactions recorded after the Period of Performance to determine if the underlying obligation was recorded in the proper period.
      b. Test some transactions that were recorded within the Period of Performance to determine if the underlying obligations occurred within the Period of Performance.
      c. The summer school expenditures which comply with Title I legislation are allowable as current year Title I grant expenditures.
      d. Regular programs end September 30 of each year.

I. Procurement Suspension & Debarment
   1. Refer to 2 CFR 200 for testing compliance requirements

J. Program Income
   1. Refer to 2 CFR 200 for testing compliance requirements

K. N/A – Reserved

L. Reporting
   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 "FER."

2. If this program is tested, auditors are required to test the Special Tests and Provisions applicable to this program, as discussed in Part N below.

M. Subrecipient Monitoring

1. Refer to 2 CFR 200 for testing compliance requirements

N. Special Tests and Provisions

1. Participation of Private School Children
   a. Review procedures for determining allocations for services to private school children. Ensure that funds are not passed to private schools. Review procedures for identifying children in private schools who are failing to meet State performance standards and are eligible for Title I services. That includes set-asides for professional development, parental involvement, salary differentials, and district-level instructional programs. The homeless set- aside may be accessed for services to homeless private school students.

2. Other Special Tests

   a. Refer to 2 CFR 200 for testing compliance requirements for all other special tests

VII. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

1. 2 CFR 200 Uniform Administrative Requirements
2. Public Law Every Student Succeeds Act 2015, Title I, Parts A & D
3. Catalog of Federal Domestic Assistance – Section 84.010 – Educationally Deprived Children – local education agencies
4. OMB Compliance Supplement – Section 84.010
5. Identifying Eligible Title I Schools Non-Regulatory Guidance, USED
6. School Program Study Guide – Title I: On Site Review Materials can be found in the new Grant Electronic Monitoring System (GEMS). On the Documentation tab, select Program Documents.
7. Federal Grants Management Handbook – Grants Management Advisory Service, Thompson Publishing Group
8. The Michigan Definition for Identifying Highly Qualified Teachers

B. Personnel:

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SPECIAL EDUCATION CLUSTER

CFDA #84.027A – SPECIAL EDUCATION – GRANTS TO STATES IDEA

CFDA #84.173A – SPECIAL EDUCATION - PRESCHOOL

CFDA #84.181A – SPECIAL EDUCATION - INFANTS AND TODDLERS (Not part of the Cluster)

I. Federal Overview

II. State Overview

III. District Considerations

IV. Audit Considerations

V. Reference Materials and Personnel

NOTE: The above programs are included in the "Special Education Cluster" according to the OMB Compliance Supplement and must be audited together (CFDA numbers 84.027, 84.173 and 84.181). Risk should be based on the cluster.

NOTE: Transfers of Federal awards to another component of the same auditee do not constitute a subrecipient or vendor relationship for purposes of the 2 CFR part 200, subpart F.

ATTACHMENTS

A. Uniform Guidance 34 CFR 200.313-Equipment

I. FEDERAL OVERVIEW

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

B. Authorization
P.L. 108-446, the Individuals with Disabilities Education Act (IDEA), as amended. MDE is the primary grant recipient and the state subgrants to ISDs and state agencies, hereafter referred to as "subrecipients."

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.

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 subrecipients as a condition of receiving special education funds. All subrecipients are required to be audited yearly. In those cases where ISD distributes funds to local public schools (LEA) and public school academies (PSA), it is the ISD's responsibility to ensure that LEAs and PSAs comply with the Uniform Guidance 2 CFR 200-Subpart F requirements.

B. Accounting Criteria
The general accounting procedures are found in the Michigan School Accounting Manual (Bulletin 1022). A specific list of allowable expenditures is found in the document titled "Allowable Costs, State Aid and IDEA Part B, Section 611" that enumerates eligible categories of expenditures by function and object code. This document is updated periodically and is available on the MDE- Office of Special Education (OSE) website. Items not listed in the document may not be charged without prior written approval of OSE.

Description

Special Education includes specially designed instruction, at no cost to the parent, to meet the unique needs of a child with a disability, including instruction conducted in the classroom, in the home, in hospitals and institutions and in other settings, and instruction in physical education. Related services include transportation and such developmental, corrective and other supportive services as may be required

to assist a child with a disability to benefit from special education. Related services do not include a medical device that is surgically implanted or the replacement of such device. A portion of these funds, under conditions specified in the laws, may also be used by the LEA for: services and aids provided to a child with a disability that also benefit non-disabled children; for early intervening services; to establish and implement high-cost or risk-sharing funds; and for administrative case management (20 USCS 1400).

PART B, SECTION 611 – FLOWTHROUGH

A State is eligible for assistance under Part B of the Act for a fiscal year if the State submits a plan that provides assurances to the Secretary that the State has in effect policies and procedures to ensure that the State meets the conditions in section 300.101 through 300.176.

300.101 (a) General. A free appropriate public education must be available to all children residing in the State between the ages of 3 and 21, inclusive, including children with disabilities who have been suspended or expelled from school, as provided in section 300.530(d).

PART B, SECTION 619 – PRESCHOOL

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

PART C – INFANTS & TODDLER PROGRAMS

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

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

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

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

III. DISTRICT CONSIDERATIONS

This section includes the requirements of the Compliance Supplement and has been adapted by MDE.

A. Allowable Costs – An LEA may use federal funds under IDEA, Part B for the excess costs of providing special education and related services to children with disabilities.

B. Compensation for Personal Services: See General Audit Issues, Section F – Compensation for Personal Services in this manual.

C. Procurement – See General Audit Issues, Section G - Procurement, Suspension and Debarment in this manual.

D. Maintenance of Effort (MOE) - The requirements found at IDEA 34 CFR §§300.203-300.205 are applicable. 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 or the combination of local and state funds in total or per capita (head count) below the level of those expenditures for the preceding fiscal year. The "preceding fiscal year" means the last fiscal year in which the LEA met MOE using the same method by which it is establishing compliance. (See Appendix E to Part 300.)

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

F. Excess Cost – The requirements found at IDEA 34 CFR §300.16 are applicable. (See Appendix A to Part 300 for an example of the Excess Cost calculation.)

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

H. Financial Reporting – Review the prior year Final Expenditure Report submitted to the MDE during the current fiscal year. Verify that the figures on the report are a true and accurate representation of expenditures for each project.

I. Cash Management

1. ISDs are expected to use good business practices when disbursing federal funds to constituent LEAs and PSAs. They should not disburse cash at a faster rate or in a manner different from that with which they handle their own cash.

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

3. Payments to the ISDs and constituent LEAs and PSAs are on a reimbursement basis only.

J. Monitoring – ISDs that distribute federal funds to LEAs and PSAs must monitor them to ensure IDEA grant requirements are met overall.

IV. AUDIT CONSIDERATIONS

Refer to the OMB Compliance Supplement for federally mandated compliance testing. Part 4 includes specific compliance requirements and Part 6 includes specific internal control requirements.

These audit considerations below should be utilized when a specific compliance area is indicated that it is subject to audit in the Federal Compliance Supplement. Audit procedures described for areas not subject to audit are not required by MDE but may be utilized when auditor judgment has determined an area should be tested, or as part of an unpredictable audit procedure. Additionally, for those areas that are not subject to audit in a current year for major program purposes, auditors should still consider risks of potential material noncompliance and determine when testing procedures may be necessary to identify noncompliance that would be reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*

Allowable Activities

1. See Allowable Costs for testing and Refer to the Federal Compliance Supplement for testing compliance requirements

B. Allowable Costs
1. Test: Obtain the grant application to determine allowable costs. Also refer to the Office of Special Education (OSE) Allowable Costs State Aid and IDEA Part B Section 611 document, found on the OSE website. Sample the expenditures to determine that they are for allowable costs.
2. Test: Obtain a copy of the district's compensation procedures. Review a sample of payroll charges to determine compliance with the Uniform Guidance 2 CFR 200.430.

C. Cash Management
1. Determine that cash was requested as a reimbursement of funds expended.
2. Determine that the district did not distribute cash at a faster rate, or in a manner different from with which they handle their own cash.
3. Determine if the district was advanced more cash than was needed, the district refunded the excess federal funds.

D. N/A – Reserved

E. Eligibility
1. Refer to the Federal Compliance Supplement for testing compliance requirements if any are applicable

F. Equipment
   1. If ($5,000 or greater) is charged to the grant:
      a. Determine that the equipment is approved in advance by 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.
   2. If items of interest less than $5,000 (such as computing devices, iPads, assistive technology) are charged to the grant, determine that the items of interest purchased with grant funds were properly tagged and appropriately tracked.

G. Matching, Level of Effort, Earmarking

   1. Maintenance of Effort (MOE)

   Test: MOE eligibility and compliance standards are demonstrated as being met by the ISD, as the subrecipient, in the aggregate for all the LEAs/PSAs in their jurisdiction.

   Eligibility standard: Verify documentation that supports information submitted to the MDE in demonstrating eligibility to receive an award for any exceptions and adjustment provided in 34 CFR sections 300.204 and 300.205 that the ISD:

      i. Take in the intervening year or years between the most recent fiscal year for which information is available and the fiscal year for which the ISD is budgeting; and

      ii. Reasonably expects to take in the fiscal year for which the ISD is budgeting.

   Compliance Standard: The compliance standard is tested at the ISD level as the subrecipient in the aggregate by the MDE. There is no testing for this standard for the single audit.

   Report when the ISD does not provide documentation that supports information submitted to the MDE for purposes of demonstrating their eligibility to receive an award for any exceptions and adjustment provided in 34 CFR sections 300.204 and 300.205.

   Note: Due to LEA MOE eligibility and compliance standards being tested at the ISD in the aggregate as the subrecipient, there is no testing for these standards at the LEAs/PSAs within the ISD's jurisdiction.

   2. Excess Cost:

   Test: Excess Cost compliance is demonstrated as being met by the ISD as the subrecipient, in the aggregate for all the LEAs/PSAs in their jurisdiction.

Verify that the ISD and the LEAs/PSAs within their jurisdiction computes excess costs in accordance with the requirements in 34 CFR §300.16 and Appendix A to 34 CFR Part 300, utilizing the direction provided by the MDE. ISDs, LEAs, and PSAs are to complete the required documentation for the excess cost calculation following direction from the MDE. Test to determine if the required information the ISD/LEA/PSA has completed and provided to the ISD for aggregate threshold setting and compliance testing is reasonably calculated.

The threshold setting and compliance with the excess cost requirement is tested at the ISD level as the subrecipient in the aggregate, for all of the LEAs/PSAs within their jurisdiction. Test to determine if the ISD has computed their excess cost in the aggregate in accordance with the requirements in 34 CFR §300.16 and Appendix A to 34 CFR Part 300, utilizing the direction provided by the MDE.

Note: Due to the excess cost compliance being tested at the ISD in the aggregate as the subrecipient, there is no testing for compliance of the excess cost requirement at the LEAs/PSAs within the ISD's jurisdiction.

The testing being performed at the LEAs and PSAs is to ensure that the information being provided to the ISD in meeting the ISD compliance testing, is reasonably accurate.

Note: The Excess Cost threshold setting activity for the 2019-20 fiscal year was implemented in December 2019. The Excess Cost Compliance activity for the 2019 fiscal year will be performed in Fall 2020. The 2019-20 fiscal year threshold and compliance activities are being implemented as a Pilot. Only the Pilot Excess Cost threshold setting activity will be completed for the 2019-20 single audit.

H. Period of Performance of Federal Funds

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

I. Procurement
See General Audit Issues, Section G - Procurement, Suspension and Debarment in this manual.

J. Program Income
1. Refer to the Federal Compliance Supplement for testing compliance requirements if any are applicable

K. N/A – Reserved

L. Financial Reporting

Test: Expenditures to verify that grant funds were only expended on listed in the approved application.

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.

ISDs, LEAs and PSAs are limited to their federal restricted indirect rate.

M. Monitoring

Test: Review the ISDs system for obtaining, reviewing, and acting on LEA audit reports when the ISD distributes funds to LEAs. Determine that funds distributed to the LEAs are reported on the LEAs Schedule of Expenditures of Federal Awards (SEFA) and that these amounts agree to ISD records.

N. Proportionate Share

Test: Proportionate Share compliance is demonstrated as being met by the ISD, as the subrecipient, in the aggregate for all the LEAs/PSAs in their jurisdiction.

The Proportionate Share calculations must be calculated on the entire allocation at the ISD level. The auditor should verify that the ISD has performed the correct calculations for both the section 611 and section 619 funds separately, for ages 3-21 and 3-5, respectively, using countywide student counts. The ISD must budget and expend the calculated amount under function code 371 or inform the LEAs to budget and expend an amount under function code 371 to equal the countywide required amount. The ISD and/or LEA should demonstrate that the required amount of IDEA Part B funds based on the calculations has been expended out of section 611 and section 619 grants separately for this purpose in the current year or have the remaining funds set-aside for this purpose in the carryover year.

The ISD and/or LEAs State and local funds may supplement, and in no case, supplant the federal funds required to be expended (34 CFR §300.131 (2) (d). Expenditures for this purpose should be based on actual time and not on anticipated (budgeted) amounts, supported by appropriate documentation.

Report, for 611 and 619 grants separately, when an ISD has not performed the correct calculations, informed the LEAs of their amount, if applicable, or budgeted the entire amount under the 371 function code at the ISD or LEA levels, if applicable. Report where the ISD in the aggregate has not expended the required amounts of IDEA Part B funds in the current year and have not set-aside the remaining funds to be expended in the carryover year, for each grant separately.

Note: Due to the proportionate share compliance being tested at the ISD in the aggregate as the subrecipient, there is no testing for compliance of the proportionate share requirement at the LEAs/PSAs within the ISD's jurisdiction.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

1. Catalog of Federal Domestic Assistance, Special Education, State Grants (Individuals with Disabilities Education Act, Part B) Section 84.027 Flowthrough & Section 84.173 Preschool and (Individuals with Disabilities Education Act Part C, Infants and Toddlers) Section 84.181.

2. Public Law 108-446 of 2004, as amended.

3. OMB Compliance Supplement.

4. Statement of Assurances for the Appropriate Use of funds Under IDEA.

5. Guidance Related to Equipment.

6. OSE Allowable Costs State Aid and IDEA Part B, Section 611 document.

B. Personnel

1. Questions regarding Special Education Flowthrough (Part B, Section 611), approvals, or specific grant requirements should be directed to the Office of Special Education, Program Finance at (517) 241-1235.

2. Questions regarding Special Education Preschool (Part B, Section 619) and Infant and Toddlers (Part C) should be directed to the Office of Great Start/Early Childhood Education and Family Services: (517) 335-1958.

Attachment A

EQUIPMENT
Uniform Guidance 34 CFR 200.313

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.

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.

References:

1. Property records must be maintained accurately with complete descriptions and history [34 CFR 200.313(d) (1)].

2. Physical inventory at least once every two years [34 CFR 200.313(d)(2)].

3. Security controls [34 CFR 200.313(d)(3)]. 4. Maintenance [34 CFR 200.313(d)(4)].

4. 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 [34 CFR 200.313(5)].

TITLE II, PART A

IMPROVING TEACHER QUALITY STATE GRANTS

CFDA #84.367

I. Federal Overview

II. State Overview

III. District Considerations

IV. Audit Considerations

V. Reference Materials and Personnel

I. FEDERAL OVERVIEW

A. Federal Agency

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

B. Authorization

Title II, Part A, Every Student Succeeds Act (ESSA) of 2015, Public Law 115-64.

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

MDE, Office of Field Services (OFS), 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. MDE relies on the single audit to determine that Title II, Part A, funds are used only for approved activities within the correct project period and to verify reported expenditures.

Title II, Part A has three priorities. The first priority is to ensure the hiring and recruiting of high-quality teachers and principals (not the salary and benefits of the teacher or principal once recruited and hired). The second priority is professional development to improve the teaching strategies of all teachers. The third priority is class size reduction.

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

1. Costs associated with recruiting and retaining highly qualified teachers, principals, and pupil services personnel (not to include salary and benefits of recruited staff).
2. Costs associated with retaining highly qualified teachers and principals in schools with low achievement through (not to include salary and benefits of recruited staff):
   a. Teacher mentoring from exemplary teachers, principals, or superintendents (not to meet the State requirement for non-tenure teachers).
   b. Induction and support for teachers and principals in their first three years (not to meet the State requirement for non-tenure teachers).
   c. Incentives to teachers and principals with record of success in improving achievement of low-achieving students.
3. Costs associated with (not to include salary and benefits of recruited staff) recruiting and hiring highly qualified teachers in academic subjects where there is a shortage.

4. Recruit, hire and pay salaries for highly qualified teachers (after all district recruiting is fulfilled) to reduce regular and special education class size, particularly in the early grades Title II, Part A, class size reduction:

    - Identified in Comprehensive Needs Assessment
    - Research supports the following:

      -- Only in grades K-3
      -- Where adding teacher reduces class size to 17
      -- Serving high-risk students
      -- When sustained over multiple years
      -- Instructional strategies are changed
      -- Impact on achievement is measurable

    - See item J under "District Considerations"

5. Costs associated with (not to include recruited teacher's salary and benefits) training and hiring regular and special education teachers, including special education teachers to team-teach.

6. Costs associated with (not to include recruited teacher's salary and benefits) training and hiring teachers of special needs children and specialists in core academic subjects to individualize instruction.

7. Costs associated with (not to include recruited teacher's salary and benefits) recruiting professionals from other fields and highly qualified paraprofessionals, and provide alternative routes to certification.

8. Costs associated with (not to include recruited teacher's salary and benefits) providing increased opportunities in the teaching profession for minorities, individuals with disabilities, and other underrepresented individuals.

9. Provide professional development to improve knowledge of teachers, principals, and paraprofessionals in:

    a. Core academic subjects, effective instructional strategies, and use of State standards and assessments.

    b. Instructional practices involving collaborative groups of teachers and administrators.

    c. Addressing needs of students with different learning styles and providing early and appropriate interventions.

    d. Improving student behavior in the classroom.

    e. Involving parents in their child's education.

    f. Using data and assessments to improve teaching and learning.

10. Improve quality of teacher force through:

    a. Training to integrate technology into curriculum and instruction.

    b. Cost-effective professional development, such as use of technology and distance learning.

    c. Tenure reform.

    d. Merit pay.

    e. Testing teachers in academic subjects.

11. Provide teacher advancement initiatives emphasizing multiple career paths and pay differentiation.

12. Improve quality of principals and superintendents, such as management and instructional leadership academies.

Charges to Title II, Part A for salaries and wages must be based on records that accurately reflect the total activity of the work performed. Compliance with 2 Code of Federal Regulations (CFR) Part 200, refer to subsection 200.430(i), in this section, for more detail.

III. DISTRICT CONSIDERATIONS

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

A. Funding Periods

1. The Consolidated Application must be submitted to receive funds.

2. Applicants must complete a budget to show how Title II, Part A funds will be used.

3. Title II, Part A, expenditures may be incurred during a 15-month program period covering July 1, 2017, through September 30, 2018, provided that an application has been submitted to MDE in substantially-approvable form. Funds that are not expended by September 30, 2018, are available for use in a carryover period extending from October 1, 2018, through June 30, 2019.

B. Time Certification

See General Audit Issues, Section F - Compensation/Time and Effort Certifications in this manual.

C. Procurement

See General Audit Issues, Section G - Procurement, Suspension and Debarment in this manual.

D. Participation of Non-Public Schools

Non-public schools must be provided with the opportunity to participate in the Title II, Part A program on an equitable basis. Equitable participation is based on the portion of Title II, Part A funds used for professional development. The minimum amount required for professional development for non-public schools is equal to the funds available to them under Eisenhower Professional Development Program ESEA, Title II – Part B, 2001-02 Allocations. Funds must remain in the control of the district or other public agency.

E. Financial Reports

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

F. Retention of Records

Federal regulations require schools to retain records related to Title II, Part A for three years after the FER for the project is filed.

G. Inventory of Materials and Equipment

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

H. Budget Amendments

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

I. Monitoring

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

J. Supplement, Not Supplant

Title II, Part A funds may only be used to supplement local eligible expenditures and may not be used to supplant any funds from non-federal sources. To determine whether a teacher is supplementary, calculate the student-to-teacher ratio without the class size reduction-funded teacher and determine if this teacher is supplemental based on the documents that exist for that building or district (e.g., collective bargaining agreements, charter agreements, board policy for class size, or in the absence of documents, the established historical class size number for a given grade span). Calculations are based on number of students in a school building, not by adding all students in a district by grade level.

K. Consultation

The Federal Title II legislation requires districts to consult with teachers, principals, other relevant school personnel, and parents in the planning of Title II, Part A programs.

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.

These audit considerations below should be utilized when a specific compliance area is indicated that it is subject to audit in the Federal Compliance Supplement. Audit procedures described for areas not subject to audit are not required by MDE but may be utilized when auditor judgment has determined an area should be tested, or as part of an unpredictable audit procedure. Additionally, for those areas that are not subject to audit in a current year for major program purposes, auditors should still consider risks of potential material noncompliance and determine when testing procedures may be necessary to identify noncompliance that would be reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*

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

A. Activities Allowed or Unallowed and Allowable costs

1. Review the final version of the approved project application and budget in the Michigan Education Grants System *Plus* (MEGS+) for guidance on eligible expenditures.

2. Review the internal controls designed to ensure that the district or academy uses funds for allowable activities.
3. Review expenditure records and supporting documentation to determine if funds have been spent on allowable activities and are in accordance with the district or academy's application.
    a. Title II, Part A funds may be used to purchase equipment if the use of the equipment fits into one of the allowable areas.
    b. Indirect costs are allowable under Title II, Part A up to the restricted indirect cost rate approved for the district by MDE. Indirect costs charged to the program must meet the following criteria:
        i. The correct rate category (restricted) was used according to grant guidelines;
        ii. The rate applied was the MDE-approved rate for the current year; and
        iii. No indirect charges were applied to exclusions, such as equipment or flow-through dollars. (See General Audit Issues, Section E - Indirect Cost Rates, for more information on indirect cost rates.)
    c. Time Certification

        See General Audit Issues, Section F - Compensation/Time and Effort Certifications in this manual.

C. Cash Management
1. Determine that cash was requested as a reimbursement of funds expended. Payments to districts and recipients are on a reimbursement basis only.
2. If a district is advanced more cash than is needed, the district must refund the excess federal funds.

D. N/A - Reserved

E. Eligibility
1. Refer to the Federal Compliance Supplement for testing compliance requirements if any are applicable

F. Equipment/Real Property
1. Refer to the Federal Compliance Supplement for testing compliance requirements if any are applicable

G. Matching, Level of Effort, Earmarking
1. Title II, Part A funds may only be used to supplement local eligible

expenditures and may not be used to supplant any funds from non-federal sources (e.g., collective bargaining agreements, charter agreements, board policy for class size, etc.). To determine whether a teacher is supplementary, calculate the student-to-teacher ratio without the class size reduction-funded teacher and determine if it is reasonable based on documents that exist for that building or district.

2. See item J under "District Considerations."

3. 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.

4. Test the system to determine if the grantee used federal funds to supplant non- federal funds.

H. Period of Performance

1. Review starting and ending transactions against the grant award letter.

2. Review expenditures to determine whether the funds were obligated within the appropriate time frame.

I. Procurement and Suspension and Debarment

See General Audit Issues, Section G - Procurement, Suspension and Debarment in this manual.

J. Program Income

1. Refer to the Federal Compliance Supplement for testing compliance requirements if any are applicable

K. N/A – Reserved

L. Reporting

1. Refer to the Federal Compliance Supplement for testing compliance requirements if any are applicable

M. Subrecipient Monitoring

1. Refer to the Federal Compliance Supplement for testing compliance requirements if any are applicable

N. Special Tests and Provisions

1. Evaluate the adequacy of the policies and procedures used by the school for determining the needs of staff in non-public schools to ensure that the professional development services provided to non-public schools' staff are equitable.

2. Determine whether the school followed these policies and procedures.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

1. Public Law 115-64, Elementary and Secondary Education Act of 1965 as amended, Title II, Part A
2. Title II, Part A Non-Regulatory Draft Guidance, USED
3. Catalog of Federal Domestic Assistance, Section 84.367, Improving Teacher Quality State Grants
4. OMB Compliance Supplement, Section 84.367, Preparing, Training, and Recruiting High Quality Teachers and Principals

B. Personnel

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Michigan Department of Education
517-241-5388
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CAREER AND TECHNICAL EDUCATION

CFDA #84.048A – BASIC GRANTS TO STATES

NOT A CLUSTER

I. Federal Overview

II. State Overview

III. District Considerations

IV. Audit Considerations

V. Reference Materials and Personnel

ATTACHMENT

Attachment A: Education Department General Administrative Rules – Equipment

I. FEDERAL OVERVIEW

A. Federal Agency

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

B. Authorization

The Carl D. Perkins Strengthening Career and Technical Education for the 21st Century Act (Perkins V). The State Board of Education is the primary grant recipient and the Office of Career and Technical Education (OCTE) disburses to some school districts, intermediate school districts and postsecondary institutions, hereafter referred to as "grant recipients."

C. Purpose of Perkins V

To develop more fully the academic knowledge and technical and employability skills of secondary education students and postsecondary education students who elect to enroll in career and technical education programs and programs of study. It further expands on how this should be accomplished, including by developing and assisting students in meeting high standards; preparing students for high-skill, high-wage, or in-demand occupations in current or emerging professions; integrating academic and career and technical instruction; linking secondary and postsecondary education; increasing state and local flexibility; collecting and disseminating research and information on best practices; providing technical assistance and professional development; supporting partnerships among diverse stakeholders; providing individuals with the knowledge and skills to keep the United States competitive; and increasing the employment opportunities for populations who are chronically unemployed or underemployed.

D. Types of Assistance

Formula grants

E. Eligibility Requirements

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

II. STATE OVERVIEW

A. Statement of Assurance

The annual grant application package includes the assurances agreed to by the grant recipients as a condition of receiving career and technical education funds. All recipients are required to be audited yearly. In those cases where the intermediate school district (ISD) reimburses 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. A specific list of allowable expenditures is available in the "CTE Perkins Uses of Funds Guide". This is updated annually and is available from the OCTE. In addition, guidelines for career and technical education (CTE) administrators are in the Administrative Guide available from the OCTE.

III. DISTRICT CONSIDERATIONS

This section includes the requirements of the 2 CFR Part 200 Uniform Guidance and has been adopted by the OCTE.

A. BASIC GRANTS TO STATES

1. The Carl D. Perkins Strengthening Career and Technical Education for the 21st Century Act (Perkins V).

   Michigan's approved State Plan (2019-2023). Michigan's Career and Technical Education (CTE) system will provide learners with access to equitable, high-quality secondary and postsecondary CTE Programs aligned to rigorous academic and technical standards, and career ready practices.

The CTE system will:

Encompass multiple Career Pathway entry and exit options, including progressively intensive work-based learning, and leadership opportunities, culminating in a postsecondary credential;

Cultivate multi-stakeholder collaboration with business, industry, labor, and community partners, to develop in-demand, credential driven, robust career pathways;

Support strong alignment and partnership between K-12 educators, employers, community colleges and higher education institutions and;

Prepare the existing and emerging workforce to result in educated, skilled, informed and responsible residents.

2. Activity Categories:

   - Provide career exploration and career development activities through an organized, systematic framework designed to aid students before enrolling and while participating in a career and technical education programs.
   - Provide professional development for teachers, faculty, school leaders, administrators, specialized instructional support personnel, career guidance and academic counselors, or paraprofessionals.

- Provide within Career and Technical Education the skills necessary to pursue careers in high-skill, or in-demand industry sectors or occupations.
- Support integration of academic skills into career and technical education programs and programs of study
- Plan and carry out elements that support the implementation of career and technical education programs and programs of study and that result in increasing student achievement of the local levels of performance.
- Develop and implement evaluations of the activities carried out with funds under this part, including evaluations necessary to complete the comprehensive needs assessment.

3. Definition of Participating Agency
   Participating agencies are public secondary education agencies that are within the state-designated regional structure AND have a signed cooperative agreement with the regional Perkins fiscal agency AND EITHER operate a state-approved CTE program OR send students to another agency with a state-approved CTE program.

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

5. Period of Performance of Federal Funds
   Costs charged to each grant must be within the grant period in the grant approval letter.

6. Transfer Monitoring
   410 & 411 Transfer Monitoring – Fiscal agents that transfer federal funds to participating agencies as part of the regional CTE annual application must monitor those recipients.

7. Federal Assurances
   The application for funds contains both general grant assurances that are contained in all federal applications, as well as specific assurances pertaining to the Carl D. Perkins Strengthening Career and Technical Education for the 21st Century Act (Perkins V). These assurances must be certified electronically by the designated administrators (including superintendents, regional CTE administrators, etc.) when submitting the annual grant application. Acceptance of federal grant funds is accompanied by requirements for strict compliance with terms, conditions, and regulations. Since grants are awarded to an institution, not an individual, the grantee organization accepts full legal responsibility for the program and for fulfilling the granting agency requirements.

8. Cash Management
   A. Determine that cash was requested as a reimbursement of funds expended. Payments to districts and recipients are on a reimbursement basis only.

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

9. Level of Effort – Supplement Not Supplant
   Grant recipients may use funds for CTE activities that shall supplement, and shall not supplant, non-federal funds expended to carry out CTE activities (Perkins V, Section 211(a) Fiscal Requirements.

10. Coordination of Services – Section 224 Student Assistance and Other Federal Programs.
    Funds made available under Act (Perkins V) may be used to pay for the costs of Career and Technical Education services required in an individualized education program developed pursuant to section 614(s) of the Individuals with Disabilities Education Act and services necessary to meet the requirements of section 504 of the Rehabilitation Act of 1973 with respect to ensuring equal access to career and technical education.

11. Compensation/Time and Effort: See Uniform Guidance 2 C.F.R. Part 200.430 Compensation - Subpart E Cost Principles

12. Procurement
    USED procurement requirements are addressed in 2 CFR Part 200 §200.317-326 Grant Recipients are required to follow their own procurement procedures provided that they conform to state and federal laws and standards. Grant Recipients must maintain a procurement and contract administration system which ensures that procurements are in accordance to procedures and contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.

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

IV. AUDIT CONSIDERATIONS

A. BASIC GRANTS TO STATES

Refer to 2 CFR Part 200 Uniform Guidance

These audit considerations below should be utilized when a specific compliance area is

indicated that it is subject to audit in the Federal Compliance Supplement. Audit procedures described for areas not subject to audit are not required by MDE but may be utilized when auditor judgment has determined an area should be tested, or as part of an unpredictable audit procedure. Additionally, for those areas that are not subject to audit in a current year for major program purposes, auditors should still consider risks of potential material noncompliance and determine when testing procedures may be necessary to identify noncompliance that would be reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*

1. **Allowable Costs**
   Test: Obtain the grant application to determine allowable costs. Sample the expenditures to determine that they are for documented and allowable costs.
   Test: Check starting and ending transactions against the grant award letter.
   Test: Review the ISD/LEA process for obtaining, reviewing, and acting on audit reports when the ISD/LEA transfers grant funds to local public schools. Determine that flow-through funds reported on the district's Schedule of Expenditures of Federal Awards agree with ISD/LEA records.
   Test: Review copies of the signed assurance statements submitted with the grant application.
2. **Cash Management**
   Test: Determine that cash was requested as a reimbursement of funds expended. Effective July 31, 2018, payments to districts and recipients will be on a reimbursement basis only.
   Test: Determine if the district was advanced more cash than was needed, the district refunded the excess federal funds.
3. **Level of Effort**
   Test: Sample expenditures and check against previous year to ensure funds are not being used to supplant other funds.
4. **Earmarking**
   Test: Sample expenditures for the grant to ensure that funds are used to improve secondary career and technical education programs and/or articulated secondary programs with a participating postsecondary institution.
5. **Period of Performance**
   Test:
   a. Test expenditures to verify that grant funds were only expended on programs listed in the approved application. In the case of a 410 transfer, you will need additional supporting documentation.
   b. Verify that grants are not commingled by determining that each funding source is identified separately in the accounting records. Revenue and expenditures must be accounted for by project, funding source, and grant fiscal year.
6. **Equipment/Real Property**
   Test: If equipment ($5,000 or > threshold) has been charged to the Basic Grant:
   a. Determine that the equipment is approved in advance by the OCTE.
   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.

7. **Timekeeping**
   Refer to Section E Uniform Guidance
8. **Procurement**
   Test: Refer to 2 CFR Part 200 Uniform Guidance. If a payment on a contract purchase order or other procurement is selected for testing, perform the following audit procedures:
   a. Obtain the district's procurement policies/procedures. Determine that they are in compliance with state and federal procurement requirements.
   b. Determine that the district complied with bidding requirements.
   c. Determine that the district has a system in place to ensure that it doesn't enter into a contract with a suspended or debarred party.
   d. Determine that vendor invoices include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders.
   e. Determine that payments to contractors and vendors were according to the contract or purchase order.
   f. If the contract or purchase order is a renewal or extension, determine that the conditions are the same as the original contract or purchase order.
   g. Determine that the district maintained a compliance system so that contractors complied with the terms and conditions of the contract.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

Source of Governing Requirements – Basic Grants to States – This program is authorized by the Strengthening Career and Technical Education for the 21st Century Act (Perkins V).

1. 2 CFR Part 200 Uniform Guidance, 34 CFR Part 75, 76, 77 and 81
2. Classification of Instructional Program (CIP) Code Book, U.S. Department of Education
3. Statement of Assurances for the Appropriate Use of Funds under Carl D. Perkins

B. Personnel

1. Questions regarding career and technical education grant applications, approval, or specific grant requirements direct to the OCTE, (517) 241-5342.
2. Questions regarding these audit procedures can be directed to the Office of Financial Management – (517) 241-2225
3. Questions regarding the final expenditure report direct to OCTE, (517) 241-5342.

Attachment A

Educational Department General Administrative Regulations
Equipment

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

Budgeting

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

Use and Management of Equipment

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

Disposition

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

1. Items of equipment with a current per unit fair market value of less than $5,000 may be retained, sold, or otherwise disposed of with no further obligation to the awarding agency.

2. Items of equipment with a current per unit fair market value in excess of $5,000 may be retained or sold; and the awarding agency shall have the right to an amount calculated by multiplying the market value or the proceeds from the sale by the awarding agency's share of the equipment.
3. In cases where a grantee fails to take appropriate disposition actions, the awarding agency may direct the grantee to take excess and disposition actions.

References

2 CFR Part 200.313

MEDICAID

CFDA #93.778

I. Definitions

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I. DEFINITIONS

- AOP – Administrative Outreach Program – A component of the state's Medicaid School Based Services program. It provides Medicaid reimbursement to enrolled school districts that are working to inform students and families about the Medicaid program, how to access it, and provide application assistance and referral for eligibility determination. The outreach activities involve working with the entire student population regardless of their eligibility status for Medicaid or special education. It provides reimbursement to the districts that work to identify school children who are uninsured and may qualify for Medicaid coverage.
- Claims Development Software – The name of the state's RMTS and Claims Development software that is used for all School Based Services providers in Michigan to complete the Medicaid claims.
- CMS – (Centers for Medicare and Medicaid Services) – A federal agency within the U.S. Department of Health and Human Services. CMS administers the Medicare and Medicaid programs – two national health care programs.
- DHHS – (U.S. Department of Health and Human Services) – The federal government's principal agency for protecting the health of all citizens and providing essential human services for those who are least able to help themselves.
- Eligible Cost/Cost Pool Summary Reports – A summary of the allowable expenditures (salaries/benefits, material and supplies, etc.) associated with the school district employees, contractors and support staff who provide Medicaid covered services.
- EPSDT – *(Early and Periodic Screening, Diagnosis and Treatment)*—A mandatory Medicaid benefit for children under the age of 21 which, at a minimum, must include screening services, vision services, dental services, hearing services, and other necessary diagnostic and treatment services within the Federal Medicaid statute whether or not the services are generally included under a State Medicaid Plan.
- FFP – *(Federal Financial Participation)*—The amount of federal money a state receives for expenditures under its Medicaid program. For most administrative expenditures, states receive FFP at a rate of 50%. For medical assistance percentages (that is, payment for the cost of medical care and services), states receive FFP at a rate referred to as the Federal Medical Assistance Percentage (FMAP), and each state FMAP is unique and adjusted annually based on a formula that includes the state's *per capita* income.
- IDEA – *(Individuals with Disabilities Education Act)*—The federal statute that regulates special education in the U.S. It requires public schools to determine whether a child has a disability, develop a plan that details the education and support services that a student will receive, provide the services, and re-evaluate the plan periodically.
- IEP – *(Individualized Education Program)*—A written plan for services to eligible children between the ages of 3 and 26, as determined by the federal IDEA statute, Part B. Medicaid funds are available to reimburse for certain health and medical services that are a part of a student's IEP.

- IFSP – *(Individualized Family Services Plan)*—A plan for services and supports for a child with a disability who is between the ages of birth and 3 years, as determined by the federal IDEA statute, Part C. It is developed jointly by the family and appropriate qualified personnel and is based on multidisciplinary evaluation and assessment of the child's unique strengths and needs, as well as on a family-directed assessment of the priorities, resources, and concerns. Medicaid funds are available to reimburse for certain health and medical services that are a part of a child's IFSP.
- Indirect Cost Rate (ICR) – Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and are not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. Indirect costs are normally charged to federal awards by the use of an indirect cost rate. The local educational agency (LEA)/DPS indirect cost rate must be calculated using 2 CFR, Part 200, Subpart E, Cost Principles, "Indirect (F&A) Costs". The methodology used to determine the indirect cost rate specific to each district has been approved by the federal cognizant agency, the U.S. Department of Education. In Michigan, the indirect cost rates are updated annually by MDE using the approved methodology. The Medicaid SBS program indirect cost rate is referred to as the "Unrestricted ICR" which Medicaid has capped at 25%.
- ISD – *(Intermediate School District)* – A corporate body established by statute in the Michigan Revised School Code (PA 451 of 1976) that is regulated by an intermediate school board. Michigan has 56 ISDs.
- MDHHS – *(Michigan Department of Health and Human Services)* – A department within the State of Michigan responsible for health policy and management of the state's publicly-funded health service systems. It is also the State's Medicaid Agency.
- MDE – *(Michigan Department of Education)*—A department within the State of Michigan responsible for improving, facilitating, and regulating public education in Michigan, that is administered by the State Board of Education.
- Medicaid Eligibility Rate – The percentage of students in the total school population, using the fall and winter pupil counts collected and published by the Michigan Center for Educational Performance and Information, who are eligible for Medicaid (i.e., Medicaid Eligible Students/Total Student Population). The rate is applied to certain activities in the Medicaid Administrative Outreach claim calculation formula, which results in an adjustment to Medicaid specific activities.
- Medicaid Health-Related Eligibility Rate – The percentage of the special education and Early On student population in an ISD/DPS/MSD that is Medicaid eligible and who receive health related services as documented in the Annual MDE Special Education and Early On Child Count Report. It is applied in the Medicaid expenditure report for direct health care services covered in the FFS SBS Program. *In 2016, the 'count' was conducted on October 5, 2016.*
- Medical Allowable Expenditures Report *(MAER)* – An annual report that drives the updated cost reconciliation and cost settlement process. Providers are reimbursed based on the actual costs reported by the LEAs/ ISDs for the Direct Medical Staff services and Transportation costs.

- Medical Direct Services Program (previously called Fee For Service) (FFS) – A component of the Michigan School Based Services Program that provides reimbursement for direct medical services, specialized transportation services, personal care services and targeted case management services to Medicaid eligible students under the age of 21. All 56 Michigan ISDs, Detroit Public School Community District (DPSCD) and the Michigan School for the Deaf (MSD) are enrolled Medicaid providers. Reimbursement for this program is based on a cost based methodology. Although claims are submitted through the invoice processing system, payments are based on submitted annual cost reports. Interim estimated payments are adjusted each year and sent monthly to the ISDs to maintain cash flow and each year's payments are reconciled after receipt of the actual cost reports.
- Provider/Staff Pool Listing – A list of all personnel in the school district (both school district employees and contractors) who may perform Medicaid-covered activities for which reimbursement is allowed, and who are eligible to participate in periodic time studies. This listing is also known as the sample pool.
- RMTS – *(Random Moment Time Study)*—A process used to measure the work effort of a group of approved school staff who may perform Medicaid covered activities. The results are then used in a methodology that determines which costs are directly related to support of the Medicaid program. Costs are isolated and identified to calculate the amount claimed for reimbursement.
- State Plan – *(Medicaid State Plan)*—A formal agreement between the state and federal governments (Medicaid agencies) that details the scope of the Medicaid program in the state by listing the services offered, any applicable requirements and limitations, and the payment methodologies for those services.
- Support Staff – For purposes of the Medicaid SBS (Administrative Outreach Program), staff who provide assistance to the individuals identified on the provider/staff pool listing, who may have a direct reporting and/or supporting relationship (i.e., administrative or clerical personnel).

II. BACKGROUND

MDHHS provides Medicaid School Based Services (SBS) reimbursement to school districts that provide Medicaid covered health and health-related services.

There are two components of the Medicaid SBS program and they are:

1. Medical Direct Services (includes specialized transportation, personal care services and targeted case management services).
2. Medicaid Administrative Outreach Program (AOP).

Details for each component of the program are provided in Subsections G and H below.

A. Authorization

The federal law that authorizes the Medicaid program is Title XIX of the Social Security Act (the Act), enacted in 1965 and subsequently amended (42 USC 1396, et. seq.). The Medicare Catastrophic Coverage Act of 1988 amended Section 1903(c) of the Act to allow for Medicaid payments for health services provided to Medicaid eligible children under the Individuals with Disabilities Education Act (IDEA). IDEA obligates schools to identify and provide special education and early intervention health related services that are required to help a child with a disability benefit from special education, transportation services, and school-based health services (i.e., physical, occupational, and speech therapy; and diagnostic, preventive, and rehabilitative services). Schools may also receive reimbursement for the cost of performing administrative activities related to Medicaid (Administrative Outreach Program) under provisions of the Early and Periodic Screening, Diagnosis and Treatment Program (EPSDT) (Section 1902(a) (43) of the Social Security Act). Administrative Outreach reimbursement is for activities not associated with a covered Medicaid medical service and includes activities such as: informing students and families about the Medicaid program and how to access it; providing application assistance and referral for eligibility determination; identifying school children who are uninsured and may qualify for Medicaid coverage.

B. Federal Agency

The U.S. Department of Health and Human Services (DHHS), Centers for Medicare and Medicaid Services (CMS), formerly known as the Health Care Financing Administration, is the federal agency responsible for administering the Medicaid program, and several other health-related programs. At the national level, CMS approves and monitors the various state School Based Services programs in accordance with applicable federal Medicaid laws and regulations.

C. State Pass-Through Agency

The MDHHS-Medical Services Administration is responsible for developing Medicaid policy, establishing program requirements under the State's Medicaid Plan, ensuring compliance with Medicaid claiming requirements, providing technical assistance, reimbursing providers of Medicaid covered direct services, and administrative activities in support of the Medicaid program, and submitting claims to CMS for reimbursement.

D. Eligibility

Those beneficiaries who are served by the Medicaid Direct Services program are individuals with physical and/or behavioral disabilities, ages 0-21, who meet the eligibility requirements of the Federal IDEA Statute and the Michigan Board of Education Administrative Rules for Special Education. Medicaid covers some medical services included in an Individualized Education Program (IEP) or Individualized Family Service Plan (IFSP) for Medicaid eligible students as follows:

1. Medically necessary services included in a Medicaid covered category (i.e., speech therapy, physical therapy, occupational therapy, etc.).
2. Services that are included in the State's Medicaid Plan.

For an enrolled school district to receive reimbursement, the services provided must meet all other Federal and State Medicaid regulations and provisions, including those for provider qualifications, comparability of services, and the amount, duration, and scope of services.

E. Matching Requirements
Medicaid is an entitlement program that requires a state match. In Michigan State Aid and local dollars expended on health and health-related activities provided by school districts are utilized as the non-federal share to obtain Medicaid reimbursement. In other words, schools are able to cover a portion of their health care costs through the federal match gleaned by providing some services to Medicaid eligible children. Because the state match is provided at the time that the services are provided, **100% of the funds received for the Medicaid Administrative Outreach** claims are considered **federal funds** subject to the single audit requirements. Matching requirements for each component of the Medicaid SBS program are detailed in Subsections G and H.

F. School Based Services Providers
1. Medical Direct Services – The 56 ISDs, DPSCD, and the Michigan Schools for the Deaf.
2. Medicaid Administrative Outreach – The 56 ISDs and DPS.

G. Medical Direct Services
School districts that provide direct medical services and specialized transportation, personal care services and targeted case management services to special education students, and Early On Program infants and children, who have an individualized education program or individualized family service plan, are reimbursed based on a cost-based, ISD-specific, annually reconciled and cost settled methodology. The school districts are considered "vendors" rather than "subrecipients" for funds received under the Medical Direct Services component of the Medicaid SBS Program (i.e., health care services provided in a doctor's office, clinic or hospital). Therefore, funds received for the Medical Direct Services component are not subject to the Single Audit Act and should be recorded as **local source revenue** by the district. According to the Michigan School Accounting Manual, the appropriate major class code is "181" or "519" if received through another public school district.

Matching Requirement: The October 1, 2018, through September 30, 2019, fiscal year federal share of approved costs or Federal Medical Assistance Percentage (FMAP) rate for Michigan is 64.45% for most health services. The remaining 35.55% is the matching requirement provided by the Local Educational Agencies (LEAs) or ISDs. For the period of October 1, 2017 through September 30, 2018, the FMAP rate for Michigan was 64.78%

H. Medicaid Administrative Outreach

The Medicaid Administrative Outreach component of the SBS program provides reimbursement to school districts based on administrative functions performed that support the Medicaid program. The Medicaid Administrative Outreach component of the SBS program is subject to the Single Audit Act requirements, because the school district is considered a "subrecipient" of the MDHHS, and these administrative activities are not direct patient care services. The Medicaid Administrative Outreach reimbursement received by the school district should be recorded as **federal revenues** by the district using the appropriate federal major class code from the Michigan School Accounting Manual (either "412" or "418" depending on how the funds are received by the district).

Please Note: School District's financial statements should reflect the following guidance when accounting for the CMS Medicaid Administrative Outreach Program settlement:

A) Paying Back Revenue Recorded in a Prior Year

If an ISD/district is simply paying back revenue that had been recorded in a prior year, the payback to MDHHS should be recorded as a prior period adjustment in function "491" or "492" depending on the materiality.

B) Distribution of Revenue Previously Deferred and Subject to Repayment

The Medicaid Administrative Outreach Program revenue should be recorded net of the amount the district is paying back to MDHHS, for those instances where the fiscal agent ISD has disbursed the deferred revenue and also provided invoices to local school districts to pay a portion of the funding back to MDHHS. (e.g., many ISDs held Medicaid Administrative Outreach funds pending settlement of the issue, and as a result the constituent districts didn't actually receive the Medicaid revenue in a prior year). A note to the financial statements should be added, if considered material.

Matching Requirement:

The FFP for all Medicaid Administrative Outreach activities is 50%.

Allowable Activities:

Participants in the time studies that are conducted throughout the state are from local and intermediate school districts. Those eligible to be randomly selected to participate are on the "staff pool lists." There are only certain activities reimbursed, called "allowable" activities that are performed by certain individuals who are placed on the Medicaid Administrative Outreach staff pool list. Those individuals selected for the time study then complete the RMTS form and turn them in to the State RMTS contractor, who employs one individual who codes the statements made on the RMTS form. **The auditor need only be concerned with whether the total salaries, less applicable offsets, were properly paid and reported to the sub-contracted claim preparer**.

The Medicaid Administrative Outreach activities considered **allowable** (reimbursable) are as follows:

Activity Code 1 - Medicaid Outreach and Public Awareness
Activity Code 3 - Facilitating Medicaid Eligibility Determination
Activity Code 5 - Program Planning, Policy Development and Interagency

Coordination Related to Medical Services
Activity Code 7 - Referral, Coordination, and Monitoring of Medicaid Services
Activity Code 10 - Medicaid-Specific Training on Outreach, Eligibility and Services
Activity Code 14 - Transportation and Translation Services in Support of Medicaid Covered Services
Activity Code 16 – General Administration

Unallowable Activities:
The activities that are considered **unallowable** (not reimbursable) are as follows:
Activity Code 2 – Non-Medicaid Outreach
Activity Code 4 – Facilitating Application for Non-Medicaid Programs
Activity Code 6 – Program Planning, Policy Development and Interagency Coordination Related to Non-Medical Services
Activity Code 9 – Referral, Coordination, and Monitoring of Non-Medicaid Services
Activity Code 12 – Non-Medicaid Training
Activity Code 13 – IEP/IFSP Direct Medical Services
Activity Code 13 (A) – IEP/IFSP Personal Care Services
Activity Code 13 (B) – IEP/IFSP Targeted Case Management Services
Activity Code 13 (C) – Other and Non-IEP/IFSP Direct Medical Services
Activity Code 15 – Transportation and Translation Services in Support of Non-Medicaid-Covered Services
Activity Code 17 – School-Related and Educational Activities
Activity Code 17 (D) – Non Returned Moments
Activity Code 18 – Not Scheduled to Work and Not Paid

Claiming Process:
The Medicaid Administrative Outreach claim development process is conducted by a Claims Development Contractor. Public Consulting Group (PCG) is the contractor that administers the claims development process for the contract period October 1, 2017 through September 30, 2018. School districts are required to utilize PCG during this period and share the contract cost with MDHHS.

Each ISD and DPS submits cost reports on a quarterly basis (quarters ending March 31, June 30, September 30, December 31), to PCG to be used in the claim development. (The September 30th quarter requires two separate cost reports to accommodate the effects of summer vacation on claim development.). Staff salaries and related costs are reported directly on each of the local school districts. PCG combines the costs and applies various allocation percentages and submits the claim directly to MDHHS for review, processing and payment for each fiscal quarter. The claim consists of the results of a quarterly random moment time study (RMTS) conducted by PCG on the approved staff pool for the quarter and the correlating allowable costs applied to the reimbursement methodology.

III. AUDIT CONSIDERATIONS

According to Section 1903(a)(7) of the Social Security Act and the implementing regulations at 42 CFR 430.1 and 42 CFR 431.15, for the cost of any activities to be allowable and reimbursable under Medicaid, the activities must be "found necessary by the Secretary for the proper and efficient administration of the State plan." Auditors should apply the principle of costs being necessary for the proper and efficient administration of the Medicaid State Plan in determining allowable and reimbursable costs. In addition, 2 CFR, Part 200, Subpart E, Cost Principles, which contains the cost principles for state, local and Indian tribal governments for the administration of federal awards, states that, "The non-federal entity is responsible for the efficient and effective administration of the federal award through the application of sound management practices." Under those provisions, costs must be reasonable and necessary for the operation of the governmental unit or the performance of the federal award.

2 CFR, Part 200, Subpart F, Audit Requirements, provides standards for obtaining consistency and uniformity among federal agencies for the audit of non-federal entities expending federal awards. DHHS has identified the Medicaid Assistance Program as a program of higher risk. When a school district recognizes $750,000 or more of expenditures for the Medicaid Administrative Outreach component of the SBS Program, when applying the risk-based approach for determining major and non-major programs, it would typically be considered a high-risk Type A program. Local school district auditors also have the responsibility of testing the Medicaid Administrative Outreach component of the SBS Program similar to other Type A or B programs. However, they should consult with the ISD auditor to avoid duplication, if possible. This designation, however, does not preclude an auditor from determining that the Medicaid Cluster qualifies as a low-risk program (i.e., because prior audits have shown strong internal controls and compliance with Medicaid requirements).

MDE, MDHHS, and MDE Auditor Referent Group will continue to work proactively to determine a consistent, statewide approach to auditing the Medicaid Administrative Outreach program.

If the Medicaid SBS program is selected for testing, the following minimum procedures should be performed and documented. These suggested audit procedures are not to be considered all-inclusive and should not be used as a substitute for the auditor's professional judgment.

Medical Direct Services:
Exempt from the Single Audit requirements.

A. Medicaid Administrative Outreach:
The expenditures that support the revenue currently being received and recognized in accordance with generally accepted accounting principles should be audited. Auditors should consider the following when testing this program:

1. **Eligible Cost/Cost Pool Summary Reports.** Auditors should audit, on a sample basis, the quarterly Eligible Cost/Cost Pool Summary Reports (cost reports) submitted by the school districts. This will require obtaining and testing intermediate and local district source data. Auditors should take a representative sample of cost reports and determine their accuracy by performing the following steps:
   a. Compare the names of employees on the cost reports to the provider/staff pool listing. Verify that only the employees who are listed on the provider/staff pool listing are charged on the cost reports, along with their support staff.
   b. Verify that costs comply with the cost allocation principles described in 2 CFR, Part 200, Subpart E, Cost Principles which requires that costs be "necessary and reasonable" and "allocable" to the Medicaid program. For your audit, a cost should be considered "necessary" and "allocable" if it is (1) the salary of a person on the AOP staff list (less any offset, as discussed in paragraph 1.e.) or, (2) a cost incurred to support that AOP staff person's work (i.e., salary). (The actual portion of the audited costs considered allocable to Medicaid will be determined by the RMTS performed by a state contractor.) The 2 CFR part 200 guidance should be used for determining reasonableness.
   c. Verify the reported amount of salaries and benefits of the school district employees (clinicians, teacher consultants, administrators, counselors, etc.) contractual employees, and support staff, to make sure that these costs are accurate. Example: verify the accuracy of the clinician payroll cost by confirming the quarterly payroll costs with the amounts reported on the federal quarterly 941s filed with the Internal Revenue Service. Budget estimates based on contracted salaries are not necessarily equal to the salaries paid during a claim period and cannot be used for AOP cost reports. The financial data reported must be based on actual detailed expenditures from local educational agency payroll systems. Payroll data must be applied using generally accepted governmental accounting standards and principles, or applicable administrative rules. The expenditures accumulated must correlate to the claiming period.

d. Verify that costs claimed as direct costs do not duplicate those costs reimbursed through the application of the approved indirect cost rate and that the correct indirect cost rate was used to prepare the claim. Claims for the school district's indirect costs are allowable when the entity has an approved indirect cost rate issued by the cognizant agency and costs are claimed in accordance with the rate. With respect to school-based administrative costs, the cognizant agency is the U.S. Department of Education or its delegate. The indirect cost rate is updated annually by MDE using the approved methodology, and each district is notified of the unrestricted indirect cost rate (ICR). The Michigan Medicaid Program has capped this rate for Medicaid SBS reimbursement purposes at 25% "Medicaid Rate."
e. Verify that the cost claimed on the cost report is accurate, and that offset revenue has been applied when appropriate. Duplicate payment for the same cost is unallowable. Discounts and other expenditure offsets collected from non-governmental sources must be offset against claims for Medicaid funds. Cost reductions and/or offsets of revenue are required whenever a Medicaid **administrative activity** is claimed for reimbursement or as matching costs under another federal grant or contract. By definition, direct medical services are **not** administrative activities. The entire salary of employees on the Administrative Outreach staff list who provide direct medical services may, therefore, be reported without any offset for the reimbursement received for their medical services. Any salary earned while performing the non-administrative activity will be identified in the RMTS and the unallowable costs will be removed by a reduced allocation rather than a reduction of the cost pool.
f. Verify that the amounts charged for materials and supplies, purchased services, training, and other costs are accurate. The financial data reported must be based on actual detailed expenditures from local educational agency financial systems. Financial system data must be applied using generally accepted governmental accounting standards and principles, or applicable administrative rules. The expenditures accumulated must correlate to the claiming period.
g. Verify on a test basis that the cost reports are signed by the appropriate individual (i.e., chief financial officer, superintendent of the district, or their designee), and the reported costs were used to prepare the claim.
h. Verify that the cost reports were filed within 120 calendar days after the end of the school district's reporting quarter.

2. **Claims Development.** Auditors should determine if the proper methodology to develop the Medicaid Administrative Outreach claims was applied. When a contracted service organization is involved in the claims development, the auditor should gain an understanding of internal controls over the service organization's processes. The auditor should determine the significance of the internal controls of the service organization to the internal control structure of the school district. If the auditor determines that the internal control policies and procedures at the service organization are significant to the internal control structure at the school district, the auditor should gain a sufficient understanding of those controls to plan the audit, as required by Statements on Auditing Standards (SAS) No. 109, *(Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement)*, and SAS No. 110 *(Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained).*

   Statement on Standards for Attestation Engagements (SSAE 16) – Reporting on Controls at a Service Organization: Auditors may rely on a SSAE No. 16, *Reporting on Controls at a Service Organization,* report issued by the service organization's auditor. When relying on a SSAE 16 report, auditors should determine the impact of the report's findings on the nature and extent of the audit procedures required at the school district. If not relying on a SSAE No. 16 report, the auditor should contact the service organization to make arrangement s to review their process to determine that adequate internal controls exist and that the claims were accurately calculated.

   In accordance with the *Medicaid Provider Manual, School Based Services Random Moment Time Study,* the State Contractor is required to have a Type II audit to provide the necessary assurances that the claiming process (e.g., methodology, time studies, cost allocations, etc.) have been properly applied. The State Contractor must undergo a SSAE 16 audit annually. The SSAE 16 audit must cover, at a minimum, the most recent six months. The SSAE 16 audit must be submitted within 90 days after the end of the examination period.

3. **Schedule of Expenditures of Federal Awards Reporting.** Auditors should make sure that all transactions related to Medicaid Administrative Outreach claims are recorded properly in the Schedule of Expenditures of Federal Awards (SEFA).

The expenditures reported on the SEFA should equal the Medicaid Administrative Outreach revenues received and recognized. School districts should report only in the SEFA the federal Medicaid Administrative Outreach revenue that is recognized in accordance with generally accepted accounting principles. ISDs should report all of the federal revenue that is recognized in accordance with generally accepted accounting principles in the SEFA, including the revenue that is forwarded to local school districts.

The expenditures reported on the SEFA will not agree with the expenditures reported on the Eligible Cost/Cost Pool Summary Reports for the Medicaid Administrative Outreach program, because the time study results, Medicaid Eligibility Rate, and the FFP are applied to the allowable costs to determine the reimbursement amount that is reported on the SEFA. Consideration should be given to including a footnote to the SEFA pertaining to the Medicaid Administrative Outreach program expenditures reported in the schedule (i.e., Eligible Cost/Cost Pool Summary Reports reflect the financial accounting records for Medicaid Administrative Outreach activities. However, the amounts that are reimbursed and reported as both revenue and expenditures reflect the application of the time study results, the Medicaid Eligibility Rate and the FFP.)

(**Please Note: Medicaid Administrative Outreach Program funding that is currently being recognized by the ISD's and/or distributed to local school districts that was previously deferred due to uncertainties resulting from the CMS Settlement is considered federal funding, and should be reported on the SEFA, with a corresponding note disclosure).**

4. **Pass Through of Funds and Subrecipient Monitoring.** For approximately half of Michigan ISDs, Medicaid funds may pass through ISDs to local school districts (subrecipients). Auditors should consider the following when auditing under these circumstances:
   a. Verify that the agreement was followed in those instances when an agreement exists for Medicaid Administrative Outreach funds distribution.
   b. Verify that the internal controls over the pass-through process are adequate.
   c. Verify that the ISD has implemented adequate subrecipient monitoring procedures. Subrecipient monitoring is applicable regardless of whether the Medicaid funds are passed through to local school districts. Given the nature of the program, it is imperative that the ISD implement procedures to monitor the local districts for the purpose of gaining the necessary assurances that the financial information provided to the State Claims Development Contractor is accurate. This can be accomplished through a review of the district's single audit report (if the Medicaid Administrative Outreach program was selected as a major program), site visits, limited scope audits, or other means as deemed appropriate.

IV. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

1. Title XIX of the Social Security Act, enacted in 1965, as amended (42 USC 1396, et. seq.)
2. Medicare Catastrophic Coverage Act, as amended in 1988
3. Individuals with Disabilities Act Amendments of 1997 (Idea 97, P.L. 105-17)
4. Single Audit Act Amendments of 1996 (USC 7501 et seq. of title 31)
5. 2 CFR, Part 200, Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards
6. Government Auditing Standards – AICPA Audit Guide
7. State Medicaid Plan for School Based Services
8. Medicaid and School Health: A Technical Assistance Guide, August 1997
9. Medicaid Provider Manual, School Based Services Administrative Outreach Program, Claims Development
10. *Medicaid Provider Manual, School Based Services, random Moment Time Study*
11. CMS, Medicaid School Based Administrative Claiming Guide, May 2003

B. Personnel

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

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AN OVERVIEW OF THE

MICHIGAN DEPARTMENT OF EDUCATION

GRANTS SYSTEM

I. Objective

II. Overview

III. Description of the Michigan Electronic Grants System Plus (MEGS+)

IV. Auditor Access to MEGS+

V. Description of Cash Management System (CMS)

VI. CMS System Components

VII. Auditor Access to CMS

VIII. Contacts

I. OBJECTIVE

To provide information to public school districts and independent auditors on the MDE grants process, including information on the Michigan Electronic Grants System Plus (MEGS+) and the Cash Management System (CMS).

II. OVERVIEW

MDE provides funding to Michigan educational organizations through a variety of state and federal grants. The U.S. Department of Education (USED) is the largest federal grantor agency. For federal grants, MDE serves as the state education agency (SEA) and is responsible for the management of all federal awards. MEGS+ is the electronic grant management system used to review grants and then, when appropriate, make award recommendations. CMS is used by grantees to request their funds. CMS is also used to process state grants; however, the majority of state grants payments are processed through the State Aid Management System. The Workforce Development Agency and the Center for Educational Performance and Information also use MEGS+ and/or CMS for certain programs.

III. DESCRIPTION OF THE MICHIGAN ELECTRONIC GRANTS SYSTEM PLUS (MEGS+)

The Michigan Electronic Grants System Plus (MEGS+) was initiated in 2011 by MDE. MEGS+ is a comprehensive web-based grant application that provides a centralized means to manage and control grant programs administered by MDE.

The purpose of MEGS+ is to address three main objectives:

- Provide grant applicants with a streamlined, consistent grants application process.
- Provide program offices with effective grants management system that will allow them to efficiently manage the grant application process.
- Provide access to grant application information and reporting data that is stored centrally, allowing department-wide access to grant-related data.

In order to improve the flow of information in the grants process, MEGS+ interacts with a variety of other State of Michigan applications. These systems include MEIS, the CMS, the Education Entity Master (EEM), MSDS, and Registry of Education Personnel (REP).

IV. AUDITOR ACCESS TO MEGS+

Auditors may use MEGS+ to view and/or print applications for federal grants that have been submitted in MEGS+. Budgets can be downloaded into spreadsheets, and PDFs can be printed of the Final Expenditure Reports.

Please note that not all MDE grants are available in MEGS+. A limited number of federal grants may be processed outside of MEGS+.

Auditors seeking access to MEGS+ will be required to first obtain an MEIS number. Once a MEIS number has been granted, auditors should contact the agency being reviewed to request their MEIS number be added as an agency contact. Questions or concerns regarding this process can be directed to the MDE Office of Financial Management, Grants Coordination and School Support Unit at (517) 241-5386 or by email at MEGS@Michigan.gov.

V. DESCRIPTION OF CASH MANAGEMENT SYSTEM (CMS)

The Cash Management System (CMS) was initiated in 2006 by MDE. CMS is a comprehensive web application to support federal and state cash management processes related to grants. For grants utilizing CMS, the CMS objectives include:

1. Control cash reimbursements and requests.
2. Paying recipients (interface to the Statewide Integrated Government Management Application [SIGMA] to trigger payments to recipients).
3. Final expenditure reporting.
4. Fiscal monitoring.

For grants with applications in MEGS+, CMS accesses MEGS+ data for project approvals and budgets. Payments processed within CMS are sent to SIGMA for generation of payment warrants.

CMS can be accessed at https://mdoe.state.mi.us/cms/. Log-in is allowed if access has been granted. Recipient training information is also available from this link.

VI. CMS SYSTEM COMPONENTS

A. CMS Accounting Functions

1. Expenditure Accounting
2. Project/Program/Grant Accounting
3. Payment Processing
4. Cash Monitoring
5. Financial Reporting
6. Cost Accounting and Allocation
7. Appropriation Accounting
8. Inter-Agency Grant Accounting
9. Budget Control/Monitoring

B. Grant Identification

1. Grant Award - For federal funds, MDE starts with a grant award document that lists the amount of the award, the length of the grant, the federal law governing the grant, and the CFDA number.

2. CFDA Number (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 school districts. **NOTE:** Programs with reference numbers starting 99.XXX are non-federal (or state funded) programs. The format is the same as CFDA numbers, but these are non-federal programs.
3. Recipient Code - Recipient agencies are identified by a recipient code. The recipient code is a code designed to identify the sub-grantee. All Michigan public schools have five-digit codes starting with the first two digits being the county number (for example, Ingham County is 33). The third digit for public school academies is a 9 or a 7. Non-public school sub-grantees have codes longer than five digits, but still start with the appropriate two-digit county code.
4. Grant Numbers - A federal grant award is assigned one or more six-digit alpha/numeric "grant number" code to permit tracking the funds through the grant cycle. Similarly, each state-funded grant appropriation is assigned a grant number. The relative positions of the six digits and the numbers themselves have significance to users. XXYYYY, where XX is the last two digits for the fiscal year and YYYY is the program code.
5. Project Number - Project numbers are assigned with different schemes, depending upon the needs of the particular Program Office/Service area.
6. The combination of Grant Number, Project Number and Recipient Code uniquely identify a particular project.

C. Grant Award Notification (GAN) - MDE program offices provide a notification letter and GAN to the school district stating all the terms and conditions of the award. The letter and the grant award notification are contained in MEGS+ for some grants.

D. Requesting Funds - School districts and other sub-grantees are able to request funds via the internet using CMS. The system is secure and provides school districts and other sub-grantees with the project number, approved amount, amount previously paid, and the balance remaining displayed on-line. The system requires school districts and other subrecipients to enter project-to-date expenditures on-line. School districts and other subrecipients are provided the details explaining their payment via e-mail.

E. Cash Management - The Federal Cash Management Information Act requires that neither the state nor any sub-grantee may accumulate interest earnings from drawing federal cash in advance of needs. MDE is required by the Federal Cash Management Improvement Act (CMIA) to manage federal cash so that excess balances do not accumulate in school districts' 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.

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

G. Grants Auditors Report - MDE provides this report as a service to CPA firms in confirming the amount of cash received by recipients. CMS produces this report, which lists the CFDA number, project name, project number, amount approved, current payment, cumulative payment, and balance remaining. Now available on the Office of Financial Management - Audits' webpage or at https://mdoe.state.mi.us/cms/grantauditorreport.aspx.

H. Grants Management Report - This report contains a variety of basic information about the sub-grant, 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 MDE program staff.

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

I. CMS Functionality - For recipient agencies, primary functionality in CMS includes:
   1. Requesting funds for projects in process based upon interim cumulative expenditures.
   2. Reporting Final Expenditures after the completion of a project (by function code and object code, as defined in the MDE Accounting Manual and allowable for the funding source).
   3. Controlling Access of users within the recipient agency (by users with appropriate authority).
   4. Viewing Data - Users, project approvals, payment ledgers, disbursements, Grant Auditor reports, and overpayments.

VII. AUDITOR ACCESS TO CMS

CMS has security requirements utilizing the MEIS security identification framework. For access to CMS, a user must first obtain a MEIS identification number, username and password.

To access MEIS, go to http://cepi.state.mi.us/MEISPublic/. Access MEIS User Management by clicking on the MEIS user management box and follow the instructions given. Due to security requirements, MEIS account numbers are not transferrable. Therefore, each person within a school district or accounting firm is required to have their own account number.

Give your MEIS number to the agencies you are auditing and request that you be assigned as a Recipient View User for their agency.

VIII. CONTACTS

A. MEGS+ Contact

(517) 241-5386, MEGS@Michigan.gov
Grants Coordination and School Support Unit
Michigan Department of Education
P.O. Box 30008
Lansing, Michigan 48909

B. CMS Contact

CMS Help Line (517) 335-0534, mde-cms@michigan.gov
Office of Financial Management
Grants Cash Management and Reporting
Michigan Department of Education
P.O. Box 30008
Lansing, Michigan 48909

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MICHIGAN PUBLIC SCHOOL EMPLOYEES

RETIREMENT SYSTEM

PREPARED BY THE

DEPARTMENT OF MANAGEMENT AND BUDGET

OFFICE OF RETIREMENT SERVICES

I. Audit Requirements

II. Contribution Rates

III. Governmental Accounting Standards Board (GASB) Statement No. 68 and 75

IV. Payments

I. AUDIT REQUIREMENTS

Public Act 300 of 1980, as amended, requires each K-12 school district, ISD, Charter/PSA, district library, community colleges, and the seven 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 established annually. The rate changes are effective October 1 of each year.

II. CONTRIBUTION RATES

ORS Administers multiple plans held within MPSERS, including a Defined Benefit pension plan, Defined Contribution plan, and a hybrid of the two; so that the member has a traditional pension as well as a DC component when they retire.

Defined Benefit plan (DB) is a retirement plan that provides a guaranteed lifetime pension payment in retirement based on a set formula. A DB plan is a traditional pension in which a member receives a predetermined monthly payment in retirement for their lifetime.

Defined Contribution (DC) is a retirement plan in which a percentage of earnings are set aside each pay period by the employer and employee for the benefit of the employee. DC contributions are invested in the State of Michigan 401(k) and 457 Plans.

Contribution rates changed in October 2019. Current rates can be found under http://www.michigan.gov/psru/0,2496,7-284-60462---,00.html.

All MPSERS reporting units must contribute the predetermined contribution rate of their gross reportable payroll to the retirement system. 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 ensure compensation paid is reportable for retirement purposes. As per Retirement Act 300 of 1980, as amended, the statutory definition of reportable compensation differs from the IRS statute; therefore, a definition of reportable compensation for retirement purposes is provided below.

III. GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

A. In 2012, Governmental Accounting Standards Board (GASB) published Statement No. 68, which changes the way a public pension plan like Michigan Public School Employees Retirement System (MPSERS) discloses its pension information.

B. In 2015, GASB published Statement No. 75, which defines how Postemployment Benefits Other than Pensions (OPEB) are to be reported in the financial statements.

C. MPSERS is a cost-sharing multiple-employer defined benefit pension plan. As such, it is required to follow the guidelines for such plans as explained in GASB Statement No. 68. All financial disclosures made by MPSERS are contained in its audited *Comprehensive Annual Financial Report* (*CAFR)* that is published annually. *GASB Statement No. 68, Accounting and Financial Reporting for Pensions,* affects the financial statements of MPSERS reporting units (employers).

D. Any reporting unit that was required to report to ORS during the measurement period (October 1, 2018 – September 30, 2019) is also required to comply with GASB 68 and GASB 75 in its financial statements for the fiscal year ending June 30, 2020. This website will provide most of the information needed for MPSERS reporting units to comply with GASB Statement No. 68 and GASB 75. Additional sensitive data will be provided to your reporting unit via the File Transfer Service (FTS). ORS will notify reporting units via email when this data is available.

E. The net pension liability is the amount of the total pension benefit that is not funded by investment assets. This net unfunded pension benefit will be a line item in your balance sheet. As a MPSERS participating employer you are required to record your proportionate share of the net pension liability. This liability is not new; it exists as a normal part of pension funding where a pension system can be overfunded or underfunded depending on the value of the investments. MPSERS has had a net pension liability since the early 2000s, worsened by the market losses in 2008 and 2009. It is possible to have a net pension asset in cases where assets exceed the liabilities of the system. While the goal of prefunding the pension is to be 100% funded, funding a pension benefit is very long term in nature. During this time span, it is normal for the retirement plan to be either overfunded or underfunded at any given point in time.

F. Each year, the pension plan's actuary calculates the amount of money needed to fund the accrued benefits of both active and retired members. This liability is compared to the market value of current assets. The net pension liability is the difference between the assets and the liability. The actuarial calculation is based on assumptions such as how long people work, how much they are paid, when they will retire, life expectancy, etc.

G. In Note 4: Net Pension Liability, we provide tables that show the net pension liability at the plan level (non-university or university) at the measurement date (September 30, 2019) and at the beginning of the measurement period (September 30,2018). We also provide your proportionate share of the net pension liability for the measurement date in the *GASB 68 Pension Amounts by Reporting Unit* data table ($ Column F). For your proportionate share of the beginning net pension liability, multiply the plan-level Net Pension Liability as of October 1, 2018 (from the second table in Note 4) by your proportionate share percent (Column D)

H. For each MPSERS fiscal year (October 1 – September 30), ORS will determine the total pension contributions required of all reporting units and each reporting unit's required pension contributions for that plan year. ORS and its actuary will calculate each reporting unit's proportionate share percent by dividing the reporting unit's contributions by the total contributions to MPSERS (calculated separately for universities and non-universities) for that fiscal year. The actuary determines the net pension liability for universities and for non-universities as of the measurement date (9/30) and multiplies the total net pension liability or pension expense by the reporting unit's proportionate share percent. The proportionate share for a given year is based on the prior year's contributions; thus the net pension liability reported in your reporting unit's financial statement for FYE June 30, 2020 is based on contributions from October 1, 2018 - September 30, 2019.

I. For the purposes of GASB 68 and GASB 75, a "covered employee" means an employee for whom the employer is required to make contributions to cover the unfunded accrued actuarial liability (UAAL). Include in your covered-employee payroll the gross earnings of any retirees who were reported with employer contributions.

Note: GASB 68 defines "covered-employee payroll" as gross earnings, not reportable compensation. Gross earnings include any compensation reported on an employee's W-2 or 1099R form. See the Reporting Instruction Manual (RIM) Sections 4.00 Reportable and Non Reportable Compensation and 4.01.01 Gross Earnings for DC Plans. Note also that ORS requires that you use a DTL4 record to report gross earnings only on members with a DC component (DC-converted plans, Pension Plus, or any plan with a personal healthcare fund (PHF)), but GASB 68 requires you to report gross earnings on all covered employees, regardless of their plan type.

For more information see www.michigan.gov/psru.

IV. PAYMENTS

ORS has designated a schedule of payment due dates based on payroll cycle dates. Failure to submit payment by the designated scheduled dates will result in late fees and interest charges. The retirement law provides for the assessment of interest and late fees to be charged to any reporting unit that fails to submit contributions or reports/records by the established due date.

The reporting unit is responsible for sending the correct member contributions to ORS regardless of the amount withheld from the members' wages or workers' compensation payments. Corrections to withholding should be handled directly with your employees.

A. Employer contributions, employee contributions, and tax-deferred payment (TDP) deductions must be submitted by the 7th State of Michigan business day after the related pay period end date in which the compensation was paid or deductions were withheld.

B. Retirement reports must be accepted by the 5th business day and payment to ORS must be submitted by the 7th business day after your pay cycle end date. Defined Benefit and Defined Contribution records, that can be accepted and posted by the employer, must be posted by the 10th business day after your pay cycle end date.

C. MDE provides section 147c to revenue for reporting units for months November through August. An invoice is received from ORS for an equivalent amount that must be paid by the corresponding due date.

For more information see www.michigan.gov/psru.

STATE REQUIREMENTS

I. The State School Aid Act of 1979

II. The Michigan School Accounting Manual – Bulletin 1022

III. The Michigan Administrative Rules

IV. The Revised School Code

V. School Bond Qualification and Loan Program

VI. The Uniform Budgeting and Accounting Act

VII. The Municipal Finance Act

VIII. Economic Development Tax Incentive Programs

IX. Property Taxable Values

X. Contact Person

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

I. . THE STATE SCHOOL AID ACT OF 1979
(PA 94 of 1979, as amended, MCL 388.1601-388.1896). This is amended every year.

A. Section 17a(1) – Withholding Payments for Outstanding Obligations in Default

B. Section 18(1) – Application of Money Received under the Act
The act states, in part, "Except as provided in another section of this article, each district or other entity shall apply the money received by the district or entity under this article to salaries and other compensation of teachers and other employees, tuition, transportation, lighting, heating, ventilation, water service, the purchase of textbooks, 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 sections 22a and 22b or received by an intermediate district under section 81 may be transferred by the board to either the capital projects fund or to the debt retirement fund for debt service."

C. Section 18(2) and 18(3) – Budget Transparency Posting on District's Website
The State School Aid Act requires local districts, intermediate districts and public school academies to post various financial information including the annual operating budget and subsequent amendments on the district website under a standard "Budget Transparency "icon. MDE guidance on Budget Transparency may be found at:
http://www.michigan.gov/mde/0,4615,7-140-6530_6605-159882--,00.html
Additional information related to the level of detail necessary for a budget may be found in the *Michigan Public School Accounting Manual, Section IV, Budget Preparation and Management* available on our website at:
http://www.michigan.gov/documents/sc-iv_13270_7.pdf

D. Section 18 (4) – Audit Requirements
The act states, in part, "For the purposes of determining the reasonableness of expenditures… whether a violation of this act has occurred… The department shall 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(4) of the State School Aid Act and Single Audit Act of 1984, as amended. When these entities expend $750,000 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 district will file the audit reports with the intermediate district not later than 120 days (October 28) after the end of each school fiscal year. The audit report must be filed with MDE not later than November 1.

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 – At Risk
Provides funds for instructional programs and direct non-instructional services for at-risk pupils, and prohibits the use of funds for at-risk pupils to be used for administrative costs. It does not require submission of an application. It requires a program report by July 15 of the current fiscal year, and 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 carryover funds are used as outlined in #1 above.
3. Verify the information submitted in Part II of the 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 61(a)(1) – Added Cost for Career and Technical Education (CTE) Programs
The act states that, " The department shall prioritize the allocation of added cost funds based on the capital and program expenditures needed to operate the career and technical education programs provided; the number of pupils enrolled; the advancement of pupils through the instructional program; the existence of an articulation agreement with at least 1 postsecondary institution that provides pupils with opportunities to earn postsecondary credit during the pupil's participation in the career and technical education program and transfers those credits to the postsecondary institution upon completion of the career and technical education program; and the program rank in student placement, job openings, and wages, and shall ensure that the allocation does not exceed 75% of the added cost of any program."

If testing this, the auditor should determine that 90% of Section 61(a)(1) funds were spent for allowable costs:

a. Local Travel
b. Equipment Rental and Maintenance
c. Supplies, Materials, and Other Expenses
d. Career Guidance – Pupil
e. Student Organizations – Pupil
f. Career Placement and Follow-Up Survey – Pupil
g. Professional and Curriculum Development – Improvement of Instruction
h. Planning, Research, Evaluation, and Marketing – Central Services
i. Advisory Committees – Community Services, Other
j. Equipment Instruction – Capital Outlay
k. Equipment Support – Capital Outlay
l. Summer Agriculture Production Salaries
m. Summer Coop Coordination Salaries

1. Each fiscal agent must expend local funds greater than or equal to the difference between the amounts of added cost funding received (75% of the added cost) and added cost funding at 100%. If testing this, the auditor should examine procedures/records for education agency added cost annual final expenditure report development. Each fiscal agent must also expend funds for its CTE programs that reflect a cost comparable to "regular" education programming. This is referred to as the Non-Vocational Cost of running a program. The Department uses one-sixth of the foundation allowance, i.e., one hour, as the Non-Vocational Cost per student hour. Then, this cost is multiplied by the number of reimbursed student hours to determine the total Non-Vocational Cost for the fiscal agency. Testing would require an examination of the foundation allowance financial records, cost records, and student records.

I. Section 61(a) (2) – Career and Technical Education (CTE) Administrator Reimbursement.
The act states: "Except for a district that served as the fiscal agent for a vocational education consortium in the 1993-94 school year, the department shall reimburse districts and intermediate districts for local career and technical education administration, shared time career and technical education administration, and

career education planning district career and technical education administration. The superintendent shall adopt guidelines for the definition of what constitutes administration and shall make reimbursement pursuant to those guidelines."

J. Section 102(1) – Deficit Districts
The act states, in part, that, "A school district, intermediate school district, or public school academy shall not adopt or operate under a deficit budget, and a school district intermediate school district or public school academy shall 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 district will be required to submit a deficit elimination plan to MDE. If the school district passes a budget projecting a deficit in its general fund during the district's fiscal year, it should notify MDE. A district reporting a general fund deficit must notify the State Aid and School Finance Unit as soon as the deficit is confirmed and must not wait until the FID is filed. Contact information for this notification and additional resources may be found on MDE's website. MDE staff will work with the public school district to ensure that a reasonable plan to eliminate the deficit is established. The district is required to submit monthly budgetary control reports after a deficit elimination plan is approved by MDE.

K. Section 107 – Commingling of Adult Education Funds
The act states, in part, that, "A funding recipient shall not commingle money received under this section or from another source for adult education purposes with any other funds and shall establish a separate ledger account for funds received under this section. 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: Wanda Stokes, Director, Talent Investment Agency – Workforce Development, 517-335-5858 or Sandy Thelen, Talent Investment Agency – Workforce Development, 517-930-9130.

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, 2009" which is a national standard for reporting financial data by state departments of education and public school districts. 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 the Office of State Aid and School Finance (517) 241-2208.

III. THE MICHIGAN ADMINISTRATIVE RULES

The Michigan Administrative Rules governing Financial Accounting Systems for Public Schools:

A. R 340.851 Applicability
Rule 1. All local public school districts 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 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 MDE. (MDE has granted no approvals to date.)

C. R 340.853. Accrual System of Accounting
Rule 3. A system of modified accrual accounting shall be adopted by each school district to ensure that services and materials purchased for a given fiscal year are booked in the accounting system for that year. **Note:** It is the intent of the Michigan School Accounting Manual that the transactions accounted for and funds used on the financial statements and on FID should be in accordance with Generally Accepted Accounting Principles (GAAP).

IV. THE REVISED SCHOOL CODE (PA 451 of 1976)

Non-compliance with the Revised School Code could have a material effect on the financial statements or a significant effect on a fund or fund type. Following are the essential requirements.

Part 16 – Board of Education, Powers and Duties Generally

MCL 380.1211 – Mills levied for school operating purposes; limitation; reduction of mills from which homestead, qualified agricultural property, qualified forest property, supportive housing property, and industrial personal property are exempt; effect of insufficient mills allowed to be levied under subsection (1); additional mills; number of mills school district may levy after 1994; approval by school electors; excess tax revenue; shortfall; allocation under property tax limitation act; definitions.

MCL 380.1212 – Sinking fund; creation; purpose; tax levy; audit; submission of proposition to school electors; election; ballot; approval.

MCL 380.1215 – Accounting for moneys; fund designations

(1) 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.

(2) Library money shall be accounted for under the title of "Library Fund."

(3) 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.

(4) Taxes collected for retiring bonded indebtedness shall be accounted for as required by the Revised Municipal Finance Act, 2001 PA 34, MCL 141.2101 to 141.2821.

MCL 380.1216 – Use of money raised by tax.
Except as provided by the Revised Municipal Finance Act, 2001 PA 34, MCL 141.2101 to141.2821, as provided in section 15 of the state school aid act of 1979, MCL 3881615, or for purposes authorized under 1211(5), 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 a regular or special school election.

MCL 380.1223 – Investment of funds; commingling prohibited, exceptions; earnings.
(1)(h) Investment pools, as authorized by the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 120.1111 to 129.118, composed entirely of instruments that are legal for direct investment by a school district.

(1)(j) Includes 380.622 (j), became effective June 29, 2012 to address the management of deposit accounts for school district funds. It is the interpretation of MDE that the purpose of these sections was to allow school districts to invest funds into CK accounts that are part of the CDARS (Certificate of Deposit Account Registry Service) network. All CDARS are to be fully insured, therefore, this section provided for investment in Certificates of Deposits in CDARS. This section does not require all general district deposit accounts to be fully insured by FDIC.
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 as follows:

(3)(a) The board of a school district may establish and maintain one common debt retirement fund for issues of bonds of similar character.

(3)(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).

(4) 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.

MCL 380.1274 – procurement of supplies, materials, and equipment; written policies; competitive bid; approval of purchase; adjustment of maximum amount; local policy giving preference to Michigan-based business; items purchased through cooperative bulk purchasing program; acquisition of equipment; payment; purchase of heating and cooking equipment; "Michigan-based business: defined.
Auditors should study the purchasing of public school districts to assure:

a. Procurements by small purchases are properly documented
b. Procurements in excess of $20,959 receive a sealed bid, formal advertisement, and a reasonable bid specification is used
c. Procurement base for Section 1267 pertaining to construction, renovation, repair, or remodeling is $20,959
d. The public school did not use a "cost plus a percentage of cost or cost plus percentage of income" method
e. 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
f. Bid specifications used by the district cannot limit the supplier companies' operation or structure on geographic preference. Open and fair competition must be maintained.

Any person who develops or drafts specifications, requirements, statement of work, invitations for bid, requests for proposals, contract and conditions, or other documents is excluded from competing for contract awards resulting from that procurement.

Part 17 – Bonds and Notes

MCL 380.1351 through 380.1372 – Bonds and Notes

MCL 380.1363 – School districts subject to revised municipal finance act; handling moneys received to discharge indebtedness.

V. SCHOOL BOND QUALIFICATION AND LOAN PROGRAM

PA 92 of 2005 prescribes the procedures, terms, and conditions for the qualification or approval of school bonds and authorizes the loans to school districts for the payment of debt service on qualified bonds. Following are the requirements for borrowing from/repayment to the School Loan Revolving Fund (SLRF):

A. Loans Made to School Districts (MCL 388.1923, Section 3 and 388.1929, Section 9): Except as otherwise provided in the act, a school district may borrow from the state an amount not greater than the difference between the proceeds of the school district's computed millage and the amount necessary to pay principal and interest on its qualified bonds, including any necessary allowances for estimated tax delinquencies.

   "Computed millage" means the number of mills in any year, not less than 7 mills and not more than 13 mills, determined on the date of issuance of the order qualifying the bonds or on a later date if requested by the school district and approved by the state treasurer, that, if levied by the school district, will generate sufficient annual proceeds to pay principal and interest on all the school district's qualified bonds plus principal and interest on all qualified loans related to those qualified bonds no later than the final mandatory repayment date.

   For school districts having qualified loans outstanding as of July 20, 2005, the final mandatory repayment date is 72 months after the date on which the qualified bonds most recently issued by the school district were due and payable. For qualified loans related to qualified bonds issued after July 20, 2005, the qualified loans shall be due 72 months after the date on which the qualified bonds for which the school borrowed from the state are due and payable.

   A school district shall continue to levy the computed mills until it has completely repaid all principal and interest on its qualified loans.

   An updated computed millage calculation is required any time an Order Qualifying Bonds is issued for a School Building and Site Bond or Refunding Bond. Starting October 1, 2013, school districts will recalculate their computed millage each year and may be required to adjust the computed millage to ensure that all qualified loans are repaid by the final mandatory repayment date.

The school board may apply to the State Treasurer prior to June 1st for an annual waiver to waive a portion of the computed millage otherwise required if certain conditions are met pursuant to Section 9(7) of the Act. The waiver must be beneficial to the state, the school district or both. The millage may not be reduced below 7 mills or the computed millage stated on the loan agreement, whichever is higher.

All qualified loans shall bear interest at the greater of 3% or the average annual cost of funds used to make qualified loans plus 0.125%, but not less than the cost of funds on outstanding qualified notes and bonds issued by the Michigan Finance Authority to finance loans computed by the state treasurer not less often then annually.

B. Repayment of Loans to the State:
Districts are required to begin repaying outstanding loans as soon as annual tax collections exceed annual debt service payment requirements. The loans must be repaid no later than the final mandatory repayment date. At least once a year, districts in repayment mode will receive an invoice for the amount it is estimated the district will be able to repay in that fiscal year.

However, because the repayment depends upon any balance that may be available, it is indefinite and uncertain as to the amount and time of repayment to the state. Therefore, material amounts of interest may be outstanding and continue to accrue from year to year. The interest and principal should be reported in the Long-Term Debt and the notes to the financial statements.

The note disclosure should be adequate and should include the pertinent provisions of the law and its effect on the financial statements. The note should indicate that the State of Michigan makes loans to school districts to assist the districts in the payment of debt service on their outstanding general obligation bonds. These loans carry variable interest rates and are to be repaid whenever the school district's property tax levies, dedicated to service general obligation bonds, result in funds in excess of those requirements. Based on the flow of current financial resources approach and generally accepted accounting principles, the accrued interest should not be reported as expenditure because it is not due on any certain date and it is not considered an "other financing source." These requirements may be considered relevant to the accounting standards and for compliance with laws, rules, and department policy, etc.

In the past, school districts reported accrued interest on general obligations in various ways due to the nature of the transaction and because there was no government accounting and reporting standard that provided appropriate guidance. MDE obtained guidance from the GASB whose views are as follows:

1. "Disagree with simply disclosing accrued interest in notes to the financial statements (no financial statement effect)."
2. "We do not believe it is appropriate to recognize accrued interest expenditures (offset by another financing source) in a flow of current financial resources operating statement. The amounts so recognized are neither increases nor

decreases in expendable available financial resources. Further, this reporting results in double counting of interest, once when annually accrued and again when actually paid. Finally, under current generally accepted accounting principles, interest on general long-term debt is usually required to be reported as expenditure when payment is due. Because repayment in your situation is not based on any definitive, established due dates, but rather on the availability of whatever excess property taxes remain after satisfaction of bonded debt service, we believe interest is best recognized when payment is made."

3. "Therefore, we believe the preferable method of reporting accrued interest on school bond loans is…to report the annual accrual as a GLTDAG liability."

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

D. Use of Remaining Bond Proceeds (MCL 388.1938, Section 18):
If a school district has completed the projects approved by the school electors of the school district to be funded from proceeds of qualified bonds, a school district may use any remaining proceeds of the qualified bonds as follows:
1. To pay debt service on the qualified bonds.
2. To repay the state.
3. If, in the written opinion of the school district's bond counsel, using the remaining funds to pay debt as described above would adversely affect the tax treatment of bonds, then remaining bond proceeds sufficient to alleviate that risk may be used to pay for enhancements to the projects approved by the voters as described in the ballot language.

VI. THE UNIFORM BUDGETING AND ACCOUNTING (UB&AA)

The UB&AA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UB&AA, including but not limited to general fund deficits, should be reported as financial statement findings in the audit report.

Section 17 of the UB&AA (MCL 141.437) states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the chief administrative officer or fiscal officer shall present recommendations to the legislative body which, if adopted, would prevent expenditures from exceeding available revenues for the fiscal year.

Sections 18 and 19 (MCL 141.438 and 141.439) state that an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. Additionally, the chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money for purposes inconsistent with those specified in the appropriations.

Section 20 (MCL 141.440) requires MDE to notify the Attorney General of violations of Sections 17 to 19 that are disclosed in audits of school districts that have an "absence of reasonable procedures in use by the local unit to detect such violations."

Noncompliance includes, but is not limited to, over-expending the budget authorized by the legislative body. MDE is analyzing the general fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level.

VII. THE MUNICIPAL FINANCE ACT (PA 34 of 2001, effective March 1, 2002)

A. Section 141.2701 – Disposition of Money Remaining in or on Account with Debt Retirement Fund. Money remaining in a debt retirement fund from the levy of a tax or an account within a debt retirement fund from the levy of a tax after the retirement of all municipal securities payable from that fund shall be used in the following order or priority:
   1. To pay other outstanding unlimited tax full-faith and credit municipal securities
   2. To pay other outstanding limited tax full-faith and credit municipal securities
   3. To be deposited in the general fund

B. Section 141.2705 – Separation and Use of Debt Retirement Funds
   Debt retirement funds, except in the case of a common debt retirement fund maintained by a school district pursuant to Section 1223 of the Revised School Code, shall be accounted for separately and, debt retirement funds, except as provided in Section 701(5), shall be used only to retire the municipal securities of the municipality for which the debt retirement fund was created.

VIII. ECONOMIC DEVELOPMENT TAX INCENTIVE PROGRAMS

Several state laws enable municipalities to attempt to stimulate economic growth and commercial and industrial expansion in Michigan. These laws either cut property taxes or allow tax revenue to be diverted or "captured" from other taxing units, such as school districts, often at the discretion and initiative of local municipalities seeking to influence business location or expansion in their communities. School districts annually lose substantial amounts of tax revenue from these programs. When faced with this situation, the best course of action available to a school district is to become knowledgeable of the government statute and exercise whatever options may be allowed under the law.

A. Discussion of the Issue:
   State laws provide two distinct approaches to stimulate economic development through the property tax system: Tax Increment Financing (TIF) and Tax Abatements.
   1. Tax Increment Financing: Tax increment financing is used by local governments to finance infrastructure improvements. It allows public projects in a designated area to be financed by diverting or "capturing" revenue derived from increases in property value as compared with an established base valuation. An example of how this works is shown below:

Description	Dollar Amounts
Initial Assessed Value of Tax Increment Area	$10,000,000
Assessed Value of new private development	$1,500,000
Inflationary Increase in value of existing property	$500,000
Total Assessed Value	$12,000,000
LESS:	
Initial Assessed Value	$10,000,000
Captured Assessed Value	$2,000,000

In the above example, all taxes generated from millage levied by local taxing units such as school districts on the $2,000,000 of "captured" assessed value is diverted to the use of whatever Tax Increment Financing (TIF) authority is in place in the area. A school district levying 18 mills could lose at least $36,000 in tax revenue on the increased value of "captured' property within the TIF authority for each year of the life of the authority. Ten state laws authorize tax increment financing in Michigan: the Downtown Development Authority (DDA) Act, P.A. 197 of 1975; the Tax Increment Finance Authority (TIFA) Act, P.A. 450 of 1980; the Local Development Financing (LDF) Act, P.A. 281 of 1986; the Brownfield Redevelopment Financing (BRF) Act, P.A. 381 of 1996, the Tax Reverted Clean Title Act, P.A. 260 of 2003, the Historical Neighborhood TIFA Act, P.A. 530 of 2004; the Corridor Improvement Authority Act, P.A. 280 of 2005; the Neighborhood Improvement Authority Act, P.A. 61 of 2007; the Water Resource Improvement TIFA Act, P.A. 94 of 2008, and the Nonprofit Street Railway Act, P.A. 35 of 1867, as amended by P.A. 486 of 2008. Each authority has specific powers and limitations. For a detailed analysis of each, the individual statute should be consulted. Only the following six laws allow capture of school taxes:

a. Downtown Development Authority (DDA) Act, PA 197 of 1975:
The DDA Act may be used by a city, township or village in an area of the downtown of a municipality zoned and used principally for business. The purpose of a DDA is to prevent deterioration and promote economic growth within a business district by developing, adopting, and implementing development plans. The Authority may construct, rehabilitate, equip, improve, maintain, or operate any building within the downtown district for public or private use. To support these activities, the Authority may obtain revenue from several sources, including:
- Incremental tax revenue on "captured" property. Beginning in 1994, plans may only capture school taxes to repay contracts and advances entered into before August 19, 1993, and to repay obligations issued before 1995 to finance a project. (Additional conditions and exceptions apply.)
- Tax revenue generated from up to 2 mill taxing authority.
- Proceeds from revenue bonds.
- Leased or owned property rented for profit.
- Loan proceeds from the governing municipality.
- Proceeds from state and federal grants or public/private contributions.

b. Tax Increment Finance Authority (TIFA) Act, PA 450 of 1980:

The TIFA Act authorized cities to create a TIFA district, with specific boundaries, anywhere in the city, not just downtown. The TIFA is governed by a 7-13 member board of directors appointed by the city council. The purpose of a TIFA is to halt a decline in property values and promote growth within an area designated as a TIFA district. A TIFA has broad powers to plan and implement projects within the boundaries of the TIFA district. To support its activities, a TIFA may:

- "Capture": all taxes levied by any taxing authority within the TIFA district on incremental property values above those established at the inception of the TIFA. Beginning in 1994, plans may only capture school taxes to repay contracts and advances entered into before August 19, 1993, and to repay obligations issued before 1995 to finance a project. (Additional conditions and exceptions apply.)
- Plan, development, acquire and control property.
- Borrow from the governing city council.
- Issue revenue bonds to finance large projects.
- Receive public and private contributions as well as state and federal grants.

P.A. 280 of 1986 amended the Tax Increment Finance Authority Act to prohibit the establishment of a new authority of expansion of an existing authority district after December 31, 1986. Existing authorities were not eliminated under this legislation and will continue to function indefinitely or until they are dissolved by their governing body.

c. Local Development Financing (LDF) Act, PA 281 of 1986:

The LDF Act succeeds P.A. 450 and is an attempt to improve on the previous legislation. Unlike either P.A. 197 (DDA) or P.A. 450 (TIFA), Public Act 281 (LDF) can only be used to provide public facilities for manufacturing and agricultural processing activities. The authority may, however, be created by a city, village or urban township, not just by a city as under P.A. 450. Beginning in 1994, plans may only capture school taxes to repay contracts and advances entered into before August 19, 1993, and to repay obligations issued before 1995 to finance a project. (Additional conditions and exceptions apply.) P.A. 281 attempted to remedy other deficiencies by:

- Not allowing for the capture of a facility's taxes if the construction of the facility has the effect of transferring 50 or more jobs from another municipality unless permission is given by the affected community.
- Excluding debt millage.
- Requiring Board of Control to consist of one representative appointed by the county board of commissioners, one representative of any local community college or junior college whose revenues are affected by the plan, two representatives of any unit of government levying at least 20 percent of total ad valorem property taxes in the development area (school district), and not less than seven members appointed by the chief executive officer of the city, village or urban township creating the authority.

The reduction in school operating millage resulting from the adoption of Proposal A created an uncertainty for LDFs, DDAs, and TIFAs to meet their obligations. The legislature passed Acts 280, 281, 282, P.A. 1994, to help reduce the impact of the school finance reform on DDAs, TIFAs, and LDFs respectively. The new amendments provide authorities, with eligible obligations, a three-step process to fund the related debt. If the first step does not provide sufficient funding, the authority goes to the next step.

The three steps are: 1) captured school revenues; 2) captured revenues from non-school millage; and 3) the state will provide reimbursement to the authorities up to the amount that would have been captured if the 1993 school mileages were still being levied.

d. Brownfield Redevelopment Financing (BRF) Act, PA 381 of 1996:
The BRF Act may be used statewide to capture taxes from a site of environmental contamination in order to pay for clean-up costs of the site. The act may also be used to pay for infrastructure improvements in certain "qualified local governmental units." A plan may capture local school district operating taxes and the SET without state approval to pay for limited environmental assessments and planning, but otherwise may capture school taxes only if the work done at the property is consistent with a work plan approved by the Department of Environmental Quality (DEQ) before January 1, 2013, or by the Michigan economic growth authority.

e. Smart Zones Act, PA 248 of 2000:
Smart Zones expanded the LDF Act to allow the creation of up to 10 "Certified Technology Parks," a type of high technology industrial park. Subsequent legislation allowed the MEDC to designate an additional eight Smart Zones. The Smart Zones may capture ½ of local school operating taxes and SET, with approval of the state treasurer.

f. Tax Reverted Clean Title Act, PA 260 of 2003:
For five years after a land bank authority sells property, 50% of the specific tax on the property is retained (captured) by the authority as provided in the Land Bank Fast Track Act, P.A. 258 of 2003. No ad valorem tax is captured under this act.

g. Corridor Improvement Authority Act, PA 280 of 2005:
Allows an authority to capture taxes in a development area that is by either an arterial (major) highway, or a collector road that connects local roads to an arterial road. In a city with a population of 700,000 or more on land owned by the state of Michigan on December 31, 2003 and subsequently sold, a plan may capture school taxes and SET, if approved by Michigan Economic Growth Authority. (This provision was written for the State Fairgrounds property in Detroit.) Otherwise, plans under this act may not capture school taxes.

2. Tax Abatements:
   Tax abatements were designed to provide a stimulus in the form of significant property tax reductions to industrial and commercial interests to renovate and expand aging plants and commercial facilities in Michigan. There is one primary instrument for providing tax abatement incentives: The Plant Rehabilitation and Industrial Development District Act, PA 198 of 1974.

   Other tax incentives have more recently been permitted in an effort to revitalize economically distressed areas of the state, both urban and rural; these include the Michigan Renaissance Zone Act, Neighborhood Enterprise Zones, the Commercial Rehabilitation Act, the Obsolete Property Rehabilitation Act and personal property tax waivers.

   a. The Plant Rehabilitation and Industrial Development District Act, PA 198 or 1974:
      The legislative body of a local governmental unit (city, township or village) is authorized under PA 198 of 1974 to issue an industrial facilities exemption certificate to a replacement facility (including a restored facility), a new facility or a speculative building. A facility issued an exemption certificate is exempt from *ad valorem* taxation but is subject to the industrial facilities tax. Industrial property eligible for an exemption certificate includes land improvements, buildings, structures, and other real property and machinery, equipment, furniture, and fixtures used in the manufacturing and processing of goods or materials. Recent legislation now includes creation and synthesis of biodiesel fuel, high technology activity, qualified start-up businesses and logistical optimization centers as types of activities that quality for an IFT exemption. The duration of the exemption is left to the discretion of the local legislative body but may not extend beyond 12 years after the completion of the facility.

      The manner in which the industrial facilities tax is calculated and the amount of the tax is dependent on the type of facility qualifying for the exemption. For a new facility or speculative building, the total taxable value of the facility (excluding land) each year is multiplied by one-half of the total mills levied by all taxing jurisdictions in the district, except that the Michigan Economic Development Corporation may require the facility to pay 0, 3, or all 6 of the State Education Tax Mills. The net effect is that the industrial facilities tax is about 50% of what taxes would be if the facility were subject to general *ad valorem* property taxation. For a replacement or restored facility, the taxable value of the obsolete facility (excluding land) in the year preceding the issuance of the industrial facilities exemption certificate is multiplied by the total mills levied by all taxing jurisdictions in the district. The industrial facilities tax, in effect, exempts from taxation the increased value of the replacement or restored facility for a period of up to 12 years. Industrial facilities tax receipts are distributed among the taxing jurisdictions in the same manner as *ad valorem* property taxes, except that the share of the tax attributable to local school operating mills is paid to the school aid fund. The share of IFT attributable to special education and vocational education mills

levied by "in-formula" ISDs is also paid to the state school aid fund (see A(p) below). Upon expiration of the certificate, the abated facility is placed on the *ad valorem* property tax roll.

b. Michigan Renaissance Zone Act, PA 376 of 1996:
The state administrative board with recommendations from the president of the Michigan Strategic Fund is authorized under PA 376 of 1996 to designate 11 areas in Michigan as Renaissance Zones. Effective January 1, 1997, an individual living in or a business located in a Renaissance Zone will receive an exemption, deduction or credit from certain state and local taxes for up to 15 years. Enabling legislation which was passed after P.A. 376 exempts individuals and businesses in a Renaissance Zone from various taxes including, but not limited it, the following state and local taxes: Michigan Business Tax; Michigan Income Tax; Michigan's 6-mill State Education Tax; local personal and real property tax, other than sinking fund mills, ISD enhancement mills, debt mills, and special assessments (The Court of Appeals has ruled that RZ property is exempt from school debt mills. The ruling will likely be appealed.); City Income Tax; and Utility Users Tax. The obvious impact to school districts is a reduction in local tax revenue; however, school operating tax revenue lost as a result of exempting property under this act is reimbursed by the state to school districts via Section 26a of the State Aid Act. State school aid calculations use districts' taxable values including the value of renaissance zone property.

PA 259 of 2000 and subsequent legislation created 20 Agricultural Processing Renaissance Zones that provided tax breaks for specific areas that meet the agricultural processing requirements.

PA. 512 of 2002 created one Alternative Energy Renaissance Zone for a term not longer than 20 years that promotes research, development and manufacturing of alternative energy technology.

PA. 266 of 2003 created tool and die renaissance recovery zones to allow eligible tool and die businesses to qualify for tax breaks associated with renaissance zones. These recovery zones are industry-based and are company specific. The boundaries of the zone may include more than one local unit.

Other legislation created renaissance zones for renewable energy and forest product processing zones.

c. Neighborhood Enterprise Zone Tax Abatements, PA 147 of 1992:
This abatement provides for the development, rehabilitation of residential housing located in eligible distressed communities. In lieu of general property taxation for up to 15 years after rehabilitation or completion of a facility that is granted an exemption, certificate holders pay a specific tax known as the Neighborhood Enterprise Zone Tax. For the Neighborhood Enterprise Zone Tax, the ISD millage for in-formula districts is paid to the School Aid Fund.

Applications are filed, reviewed and approved locally while the State Tax Commission is responsible for final approval.

There are different tax rates and bases depending on the type of facility that qualifies for the NEZ exemption. The most common type is a new facility that is a principal residence where the tax rate on the property is one-half the statewide average on principal residence property from the preceding year. In 2010, the NEZ millage rate on a principal residence new facility was 15.665 mills.

A rehabilitated facility has a frozen value and pays no taxes on the improvements. A recent legislative change creates a homestead facility which provides a 50 percent tax exemption on local unit and county operating millage.

A homestead facility must be located within an established NEZ and be purchased or transferred to the owner after December 31. 1997. Please see the State Tax Commission website for further information.

d. Michigan State Housing Development Authority (MSHDA) Act, PA 346 of 1966:
Housing projects financed with a federally-aided or authority-aided mortgage and owned by a nonprofit housing corporation, consumer housing cooperative, or a limited dividend housing corporation, receiving benefits under the MSHDA Act is exempt from ad valorem property taxation and is subject to a specific tax of up to 10% of rent, as determined by the local government. The specific tax is distributed based on ad valorem millage rates; the local school operating share is calculated using the 1993 rate less six mills and is paid to the school aid fund. All ISDs receive their share of the MSHDA specific tax.
Note the MSHDA specific tax provisions are entirely separate from MCL 211.7d that requires the State Treasurer to make a payment in lieu of tax for certain housing facilities for the elderly and disabled. The 211.7d property remains on the tax roll, and the state payments are simply distributed like a property tax. The state does not make a payment for SET, and starting in 2010, will not make a payment for school operating tax. Therefore the 211.7d property should be classified as 100% PRE, beginning in 2010.

e. Commercial Forest Program, MCL 324.51105 (formerly PA 94 of 1925):
Land enrolled in the commercial forest program is exempt from ad valorem taxation. Landowner and State each pay $1.20 per acre. For FY 2010 and FY 2011, the state payment is prorated. The payments are distributed like IFT, except that all ISDs receive their share of the first 15 cents of landowner tax and the first 25 cents of state payment, and the local school operating share is calculated using the district's 1993 rate less six mills.

f. Mobile Home Trailer Coach, PA 243 of 1959, MCL 125.1041:
Occupied trailer coaches (including mobile homes) in licensed trailer coach

parks pay a $3 per month specific tax; $2 is paid to the school aid fund; 50 cents to the county; and 50 cents to the municipality.

g. DNR-Purchased Lands, MCL 324.2154:
On land purchased by DNR after 1932, the state pays a specific tax based on the 2004 taxable value of the property (adjusted for inflation after 2008) and the local millage rates (not to exceed the 2004 rates); SET and special assessments are not paid. Property is classified as qualified agricultural property, so the state does not pay school operating mills. Beginning in 20007, the property is listed on a separate tax roll, but must still be included in districts' reported taxable values.

h. DNR-Tax Reverted, Recreation, and Forest Lands, MCL 324.2150:
On lands held by DNR, except land purchased after 1932, the state pays a specific tax of $2 per acre, one-half going to the county and one-half going to the township.

i. Low-grade Iron Ore Specific Tax, PA 77 of 1951:

Low-grade iron ore mining property pays a specific tax based on the price of ore extracted and the five-year average production. The specific tax is distributed like a property tax; with the school operating share calculated using the 1993 rate less six mills and the school operating share paid to the school aid fund. Currently two mines in Marquette County are subject to the tax. Because Marquette ISD receives no special ed. millage equalization funding under section 56 (and levies no voc. ed. millage), it receives its full share of the iron ore tax.

j. Tax Reverted Clean Title Act, PA 260 of 2003:
For five years after property is sold by a land bank fast track authority, the property remains exempt from ad valorem property tax but is subject to the eligible tax reverted property specific tax (ETRPST). One-half of the specific tax is paid to the land bank authority; the other half is paid to the taxing units based on their millage rate. The local school operating share is paid to the school aid fund. The ISD share is distributed as described in E2 below.

k. Commercial Rehabilitation Act, PA 210 of 2005:
This act offers owners of certain rehabilitated commercial facilities in certain districts property tax abatement for up to 10 years. The property must meet the required obsolescence of the act as determined and certified by the local unit assessor. A property must receive final approval from the State Tax Commission. The property taxes are based on prior year's taxable value for millage other than school related mileages. There are no tax cuts for school mileages. A certificate holder remits a commercial rehabilitation tax in lieu of the ad valorem property tax. For the commercial rehabilitation tax, the local school operating millage and ISD millage for in-formula districts are remitted to the School Aid Fund.

l. Obsolete Property Rehabilitation Act, PA 146 of 2000:
This act provides commercial and commercial housing property tax exemptions for 1 to 12 years from the *ad valorem* property tax. The property that is rehabilitated must meet obsolescence requirements as provided by the act and be located in a qualified governmental unit. The exemption from ad valorem property taxes does not include land or personal property Certificate holders pay a specific tax known as the Obsolete Properties Tax. The value of the property before rehabilitation is frozen and is subject to the full millage rate of the local unit in which it is located. The increased value of the facility from rehabilitation is exempt from all local unit millage. The State Treasurer can grant an exemption of one-half of the local school operating millage and the SET for up to 25 certificates a year. For the obsolete properties tax, the local school operating millage and ISD millage for in-formula districts are paid to the School Aid Fund.

m. Personal Property Tax Waiver, PA 328 of 1998:
This act provides a 100 percent personal property tax exemption for specific businesses (primarily engaged in manufacturing, mining, research and development, wholesale trade or office operations) located in eligible distressed communities. The exemption is for all new personal property placed in a district established by a local unit of government which also determines the number of years granted for the exemption. The State Tax Commission is responsible for final approval. See the State Tax Commission website for approved exemptions.

n. Commercial Redevelopment Act, PA 255 of 1978:
Public Act 227 of 2008 reauthorized use of this act to provide a property tax abatement for a mixed-use development that includes high-density residential use in a qualified downtown revitalization district.

o. Summary of specific tax distributions affecting local school districts:
   i. Except for IFT, obsolete properties tax, ETRPST, 211.7d, DNR-purchased lands, DNR-tax-reverted lands, and mobile home tax, the local school district operating share of the specific taxes is calculated using the district's 1993 operating millage rate less six mills.
   ii. The local school district operating share of specific taxes is paid to the school aid fund.
   iii. Local school districts keep the share of specific taxes attributable to debt, sinking fund, and recreation mills.

p. Summary of specific tax distributions affecting ISDs:
   i. For IFT, NEZ, OPRA, Commercial Forest Tax, Commercial Rehabilitation Tax, Commercial Facilities Tax, ETRPST, and Iron Ore Tax only:
      a) The share of the tax attributable to ISD special ed. mills is paid to the school aid fund if the ISD receives special ed. millage equalization funding under section 56 (ICD 450); and

b) The share of the tax attributable to ISD vocational ed. mills is paid to the school aid fund if the ISD receives voc. ed. millage equalization under section 62 (ICD 510).

ii. Otherwise, the ISD share of specific taxes is paid to the ISD.

B. Impact of Tax Increment Financing:
Although school districts and other local governmental taxing units are thought to be most heavily impacted by Tax Increment Financing, the State of Michigan is a major contributor through the school aid fund. Normally, when taxable value increases, school aid payments decrease proportionately. However, the School Aid Act has been amended to exempt increased taxable value captured by a tax increment plan from the calculation of state aid. School aid payments to these districts are, therefore, increased from the levels that they would otherwise be. Thus, state school aid fund monies are diverted to replace monies captured by the TIFAs. Similarly, the state school aid fund replaces monies lost as a result of exempting property within renaissance zones.

Tax increment financing affects the state budget in another manner also. When property tax abatements are used as an inducement for industrial and commercial development, the business that receives the abatement pays a specific tax in lieu of the property tax. For example, the specific tax under P.A. 198 of 1974 is known as the industrial facility tax (IFT). The portion of IFT due to a school district for operating millage is paid instead to the school aid fund. However, if the IFT revenues are captured by a tax increment finance plan, the revenues flow to the TIF authority instead of the state.

Districts faced with the implementation of a Tax Increment Financing plan should contact MDE, State Aid and School Finance Office, to assure that any taxable value adjustments are properly noted.

C. Cautions:
If the amount of school taxes captured by a TIF plan exceeds the eligible obligations, refunds are to be made from the TIFAs to the school districts. These amounts must be reported to MDE, State Aid and School Finance Office, so that state aid can be recalculated.

School districts should be aware there are differences in the way that tax collecting treasurers handle the distribution of current and delinquent tax collections within their respective communities.

Tax levy adjustments (board of review, tribunal, etc.) and charge-backs are to be made in total against the payments made to the tax increment financing authority until those amounts equal the amount of taxes previously distributed to the tax increment financing authority. School districts concerned with the method of distribution used by their local or county treasurer may contact the Michigan Department of Treasury, Local Government Audit Division for guidance.

"Out of Formula" ISDs (ISDs not receiving Section 56 or 62 State Aid) should ensure they are receiving their full share of specific taxes since it is possible the local unit treasurer may be remitting the ISD taxes to the state. It would be wise to notify all local unit treasurers that you are an "out of formula" ISD and, as such, are entitled to receive all specific tax amounts.

D. Suggested Audit Procedure for Tax Increment Financing Plans:

1. Check the Form 2604 to determine if there are TIF plans (DDA, LDFA, or TIFA) operating in the district, which might be capturing school taxes. If there are no TIF plans that might be capturing school taxes from the school district, skip audit step 2a and go to audit step 2b.

2. For DDA, LDFA, TIFA:

   a. For each of the TIF plans that might be capturing school taxes from the school district, ask the school district for:

      i. Michigan Department of Treasury Form 2604, entitled, "Tax Increment Financing Plan Report for Capture of Property Taxes and State Reimbursement Amount," OR

      ii. Michigan Department of Treasury Form 2967, entitled, "Tax Increment Financing Plan Report for Capture of Property Taxes and State Reimbursement Amount for Plans Capturing Taxes from Two or More School Districts."

   The 2604 and 2967 forms are prepared by the DDA, LDFA, and TIFA authorities, and the authority should send a copy to the school district each year. The due date for the form is July 31. There should be one form for each TIF plan reported as capturing school taxes from the school district. Compare the captured assessed values (CAV) on the 2604 and 2967 forms (step 5, line 27) to the value reported by the county to MDE via the web at https://mdoe.state.mi.us/TaxableValue/login.aspx (Form DS-4410-B).

   Additional information for DDAs, LDFAs, and TIFAs: Forms 2604-2967 also report the amount of school taxes that the plan may capture (in tax dollars) in step 5, line 12. Line 12, column A is the amount the authority has calculated as the allowable capture. Column B is the amount the authority is reporting it DID capture. Columns C and D are the adjustments the authority is reporting (the difference between the allowable amount and the amount it DID capture). Line 12 includes school operating mills from *ad valorem* property and school debt mills from all property. Step 5, worksheet A shows the detail of all calculations.

   b. For TIF plans under the Brownfield Redevelopment Finance (BRF) Act: BRF authorities do not file Form 2604/2967. If there is a BRF authority, contact the authority or the local treasurer to determine the amount, if any, of ad *valorem* Commercial Personal and Other Non-homestead local school operating taxes captured by the BRF authority. For 2010 (FY11), the amount of Other Non-homestead captured assessed value equals the 2010 Other Non-homestead local school operating taxes captured divided by the Other Non-homestead school operating millage rate (e.g., 0.018). For commercial

personal property, use the rate levied (e.g. 0.006). Add any non-homestead captured value for school operating taxes under the BRF Act to the DDA, LDFA, and TIFA captured values under a), and compare the total to the values reported to MDE at https://mdoe.state.mi.us/TaxableValue/login.aspx. For questions regarding the BRF Act, please contact Jim Mills, Michigan Department of Treasury, and (517) 335-4669.

i. The auditor should note any discrepancies in the management letter with instructions for the district to notify the county treasurer. If there is a discrepancy, the auditor should send a copy of the management letter to Phil Boone, MDE.

ii. If a school has received revenue from a TIF plan, verify that the reported captured value has been reduced to reflect the payment to the school district. If the captured value has not been properly reduced, note the discrepancy in the management letter with instructions for the district to notify the county treasurer. If there is a discrepancy, the auditor should send a copy of the management letter to Phil Boone, MDE.

E. Suggested Audit Procedures for Tax Abatements

1. For local school districts:
   a. Verify the districts have received their share of specific tax payments for debt mills, sinking fund mills, and recreation mills.
   b. Verify the distrcts' share of specific tax payments for operating mills has been paid to the school aid fund, not the local school district.
2. For ISDs:
   a. Verify the districts have received their share of specific tax payments for debt mills and enhancement mills.
   b. For ISDs receiving funding under section 56, verify that the special ed. mills share of specific tax payments specified in A.(p) above has been paid to the school aid fund.
   c. For ISDs receiving funding under section 62, verify that the vocational education mills share of specific tax payments specified in A.(p) above has been paid to the school aid fund.
   d. For "out-of-formula" ISDs, verify that the share of specific tax payments for special education and vocational education mills has been paid to the ISD.

F. Suggested Audit Procedures for Renaissance Zone (RZ) Payments (section 26aRZ payments reimburse for property taxes not collected due to the RZ program. The RZ payments should be considered part of a district's foundation allowance payments. The RZ payment is not in addition to a district's foundation allowance revenues, and should not be budgeted or treated as "extra" revenue.

G. Suggested Audit Check for Combined State and Local Revenue

The following per pupil amounts should total to a district's per pupil foundation allowance:

1. property tax revenue (current year).
2. delinquent tax revolving fund pay-out (before charge-back deduction).
3. uncollected personal property tax.
4. Proposal A obligation payment.

5. Discretionary payment.
6. Renaissance Zone payment.

If the sum of (a) – (f) is materially different than the district's foundation allowance totals, the auditor should note any material discrepancy in the management letter and send a copy of the management letter to Phil Boone, MDE.

IX. PROPERTY TAXABLE VALUES

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 $12 billion this current fiscal year. The taxable value of property and pupil counts are the two main components of the foundation formula which regulates how much each school district, public school academy, and ISD 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 non-PRE and commercial personal taxable value on the taxable value website to the State Aid Status Report. The taxable value website reports a district's taxable value by local unit within a county. Note: A district may have more than one unit and may be in more than one county. However, the data on the website is aggregated by district and includes the values from all counties and units.
2. Inquire of the school district whether there are any taxable value adjustments that have been reported to them but are not reported by the county to the state.
3. Any discrepancies should be noted in the management letter with instructions for the district to notify the county treasurer and Phil Boone, MDE.

X. CONTACT PERSON:

Phil Boone
Office Financial Management
Michigan Department of Education
(517) 335-4059
BooneP2@michigan.gov

XI. BOND CONSTRUCTION AND SINKING FUNDS

BULLETIN FOR SCHOOL DISTRICT AUDITS
OF BONDED CONSTRUCTION FUNDS
AND OF SINKING FUNDS
IN MICHIGAN

Access at:

http://www.michigan.gov/documents/mde/BondConstSinkFunds_455955_7.pdf

PUPIL MEMBERSHIP

I. Objectives

II. Overview

III. Audit Considerations

IV. Reference Materials

V. Contact Person

ATTACHMENT

Confirmation Request Form

I. OBJECTIVES

A. To determine that state revenue reported in the general purpose financial statements:
   1. Meets the measurable and available criteria for the fiscal year;
   2. Meets the compliance requirements related to the pupil count included in the State School Aid Act, the Pupil Accounting Manual, and other authoritative sources that could have a material effect on the general purpose financial statements; and
   3. Is accurately stated on the financial statements.

B. To assess the adequacy of the district's internal controls related to its pupil membership accounting and reporting process.

II. OVERVIEW

State School Aid, which approximates $13 billion annually, is allocated to school districts based on a formula. One of the primary components of the formula is the number of full-time equivalent (FTE) memberships as of the "count date" and the "supplemental count date." Statewide, the State School Aid Fund provides approximately 74% of a district's operating revenue. Section 18 of the State School Aid Act indicates that MDE shall require each district and ISD to have a pupil membership audit performed by either the ISD or a certified public accountant (CPA). MDE has traditionally allowed the districts to obtain pupil membership audits from either ISDs or CPAs, and the districts traditionally have chosen to have their pupil memberships audited by ISDs. Because a substantial portion of the school districts' operating revenue comes from the State School Aid Fund, public accounting firms, within the scope of their financial audits, should consider the impact of the reported pupil memberships on the financial statements. In their consideration of the pupil memberships reported, public accounting firms may be able to rely on ISDs' pupil membership audits. However, this reliance should be based on an assessment of the school district's internal control structure and an assessment of the ISD's independence and competence and the scope of the ISD's pupil membership audits in accordance with Statement on Auditing Standards No. 73 (Using the Work of a Specialist).

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, the auditor should make a preliminary assessment of the likelihood of a material misstatement.

C. Based on the inherent risks of the student population, identify potential areas that are high risk for material misstatement.

D. Obtain information from the ISD auditor to assess the competency of the ISD auditor performing the audit and the scope of the audit performed for each pupil count. An optional "Confirmation Request" form is provided for your consideration. See attached.

   §81(5) (a) of the State School Aid Act specifies that in order to receive funding under the act, an ISD shall demonstrate to the satisfaction of MDE that the ISD employs at least one person who is trained in pupil accounting and auditing 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 membership auditor.

F. If risks have not been adequately addressed, determine what additional audit procedures are necessary to achieve the audit objectives. Such audit procedures could include analytical procedures, substantive procedures, and testing of controls required to assess control risk below maximum.

G. Perform analytical procedures on the count data to determine if the revenue generated from the count meets expectations.

IV. REFERENCE MATERIALS

A. Pupil Accounting Manual. This is available at: http://www.michigan.gov/mdeaudit

B. Pupil Membership Auditing Manual. This is available at: http://www.michigan.gov/mdeaudit

C. The State School Aid Act of 1979 (amended annually). The compiled law is also available online at: http://www.michiganlegislature.org.

D. Statement on Auditing Standards No. 55, Consideration of the Internal Control Structure in a Financial Statement Audit.

E. Statement on Auditing Standards No. 78, Consideration of Internal Control in a Financial Statement Audit: An Amendment to SAS No. 55.

F. Statement on Auditing Standards No. 73, Using the Work of a Specialist.

V. CONTACT PERSON

Questions may be directed to:
Gloria Suggitt
Single Audit Coordinator
Pupil Membership Auditor
MDE – Office of Financial Management
517-241-2225
suggittg@michigan.gov

CONFIRMATION REQUEST

_____ School District

Auditing Procedures Completed by_____ISD

Count Dates _____

Purpose – This form is to be completed by the school district to provide standard information for the public accountant who is auditing the financial records of the 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. Identify the individual(s) who audited the pupil membership counts and graduation and drop out (GAD) data. Include their years of experience, education, and any recent pupil membership and GAD training they have attended.

Auditor	Years Experience	Training: Course Title	Training: Date
_____	_____	_____	_____
_____	_____	_____	_____

2. Indicate any relationships the pupil membership auditors may have with the local school district or its employees that may impair the pupil membership auditor's independence.

   _____

   _____

3. Desk audits were performed for the following buildings/programs for the:

   October Count: _____

   February Count: _____

4. Field audits were performed for the following buildings/programs for the:

   October Count: _____

   February Count: _____

5. Report the number of state aid memberships:

	General Ed K-12	Special Ed K-12 Sec. 52	Special Ed K-12 Sec. 53a	Total
October	_____	_____	_____	_____
February	_____	_____	_____	_____

6. Did the ISD use the Michigan Department of Education (the Department) audit process?
   _____ Yes _____No

   If not, did the ISD use a standardized approach to the audit process?
   _____ Yes _____No

   Please describe the audit process used and include a copy of the audit program (not the work papers) if the Department audit program was not used.

   _____

   _____

7. As part of your audit procedures, was the district's entry of the individual building pupil counts into the district-wide total for MSDS (Form DS-4061) reviewed for reasonableness?
   _____ Yes _____No If no, please explain.

   _____

   _____

8. Did the local district provide required supporting records for verification of the count?
   _____ Yes _____No If no, please discuss which significant records were missing.

   _____

   _____

9. Did the ISD auditor perform a building risk assessment and perform sampling based on the risk assessment? _____Yes ____No.
   Please describe the risk factors considered and the sampling method used.

   _____

   _____

10. Were higher risk programs and issues (Population III categories) considered in the scope of the audit? _____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?_____Yes _____No
    Please indicate any exceptions or shortages of days or hours.
    _____
    _____

15. 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? _____ Yes _____No
    If yes, please explain any potential shortages noted.
    _____
    _____

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 If no, please explain.
   _____
   _____

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).
_____
_____

Exit Status, Drop Out Rates, and Graduation Rate Audits

1. Desk or field audits were performed for the:

February Count_____October Count _____

2. Did the ISD use the Department audit process? _____Yes _____No
If not, did the ISD use a standardized approach to the audit process?____Yes____No
Please describe the audit process used and include a copy of the audit program (not the work papers) if the Department audit program was not used.
_____
_____

3. Were any building error rates greater than 5%?__Yes ___No
If yes, describe the results of the expanded audit procedures.
_____
_____

Completed by: _____

Title:_____Date: _____

Appendix A

ACRONYMS

The following is a list of abbreviations and acronyms commonly used in this manual:

AICPA	-	American Institute of Certified Public Accountants
CFDA	-	Catalog of Federal Domestic Assistance
CFR	-	Code of Federal Regulations
CPA	-	Certified Public Accountant
DDA	-	Downtown Development Authority
FFP	-	Federal Financial Participation
FID	-	Financial Information Database
FNS	-	Food and Nutrition Services
GAAS	-	Generally Accepted Auditing Standards
GAGAS	-	Generally Accepted Government Auditing Standards
GAO	-	General Accounting Office
GAS	-	Government Auditing Standards
GASB	-	Governmental Accounting Standards Board
GLTDAG	-	General Long Term Debt Account Group
IDEA	-	Individuals with Disabilities Education Act
ISD	-	Intermediate School District
LDFA	-	Local Development Financing Act
LEA	-	Local Educational Agency
MDE	-	Michigan Department of Education
MEGS+	-	Michigan Electronic Grants System +
MEIS	-	Michigan Education Information System
MPSERS	-	Michigan Public School Employees Retirement System
NCLB	-	No Child Left Behind
NCP	-	National Commodities Processing
NSFSA	-	Nonprofit School Food Service Account
NSLP	-	National School Lunch Program
OMB	-	Office of Management and Budget
OVS	-	Offer vs. Serve
PAL	-	Planned Assistance Level
SAS	-	Statement on Auditing Standards
SEFA	-	Schedule of Expenditures of Federal Awards
SFA	-	School Food Authorities
SIGMA	-	Statewide Integrated Government Management Application
SFQC	-	Schedule of Findings and Questioned Costs
TIFA	-	Tax Increment Financing Act
USDA	-	United States Department of Agriculture
USED	-	United States Department of Education
WIA	-	Workforce Investment Act

Appendix B

AUTHORITATIVE LITERATURE

AICPA Audit Guide: Audit Guide, Audits of State, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards

Catalog of Federal Domestic Assistance (CFDA)

Code of Federal Regulations (CFR)

Codification of Governmental Accounting and Financial Reporting Standards, Promulgated by Governmental Accounting Standards Board (GASB)

Cost Principles for State and Local Governments (2 CFR part 225)

Education Department General Administrative Regulations (EDGAR), Published by USED

Generally Accepted Accounting Principles (GAAP)

Generally Accepted Auditing Standards (GAAS)

Governmental Auditing Standards (GAS) (2011 Update Revision) or Yellow Book Published by General Accounting Office

Michigan Administrative Code

Michigan School Accounting Manual (Bulletin 1022)

Michigan School Auditing Manual

Michigan State School Aid Act (PA 94 of 1979, as amended)

Office of Management and Budget (OMB) 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

OMB Compliance Supplement

Pupil Accounting Manual

Pupil Membership Auditing Manual

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)

Appendix C

USEFUL ONLINE RESOURCES

AICPA	www.aicpa.org
Association of School Business Officials International	www.asbointl.org
Catalog of Federal Domestic Assistance	www.cfda.gov/
Federal Audit Clearinghouse	http://harvester.census.gov/sac/
General Accounting Office (GAO)	www.gao.gov/
Governmental Accounting Standards Board	www.gasb.org
List of Parties Excluded from Federal Procurement or Non- Procurement Programs	http://epls.arnet.gov
MDE GASB 34 Guidance (Under Programs and Offices, State Aid and School Finance)	www.michigan.gov/mde
Michigan Department of Education	www.michigan.gov/mde
President's Council on Integrity and Efficiency (PCIE) Quality Control Review (QCR)	www.ignet.gov/single/qcrreview.doc
US Department of Education	www.ed.gov
US Office of Management and Budget	www.whitehouse.gov/OMB

Appendix D

MDE SCHOOL AUDITING MANUAL REFERENT GROUP

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