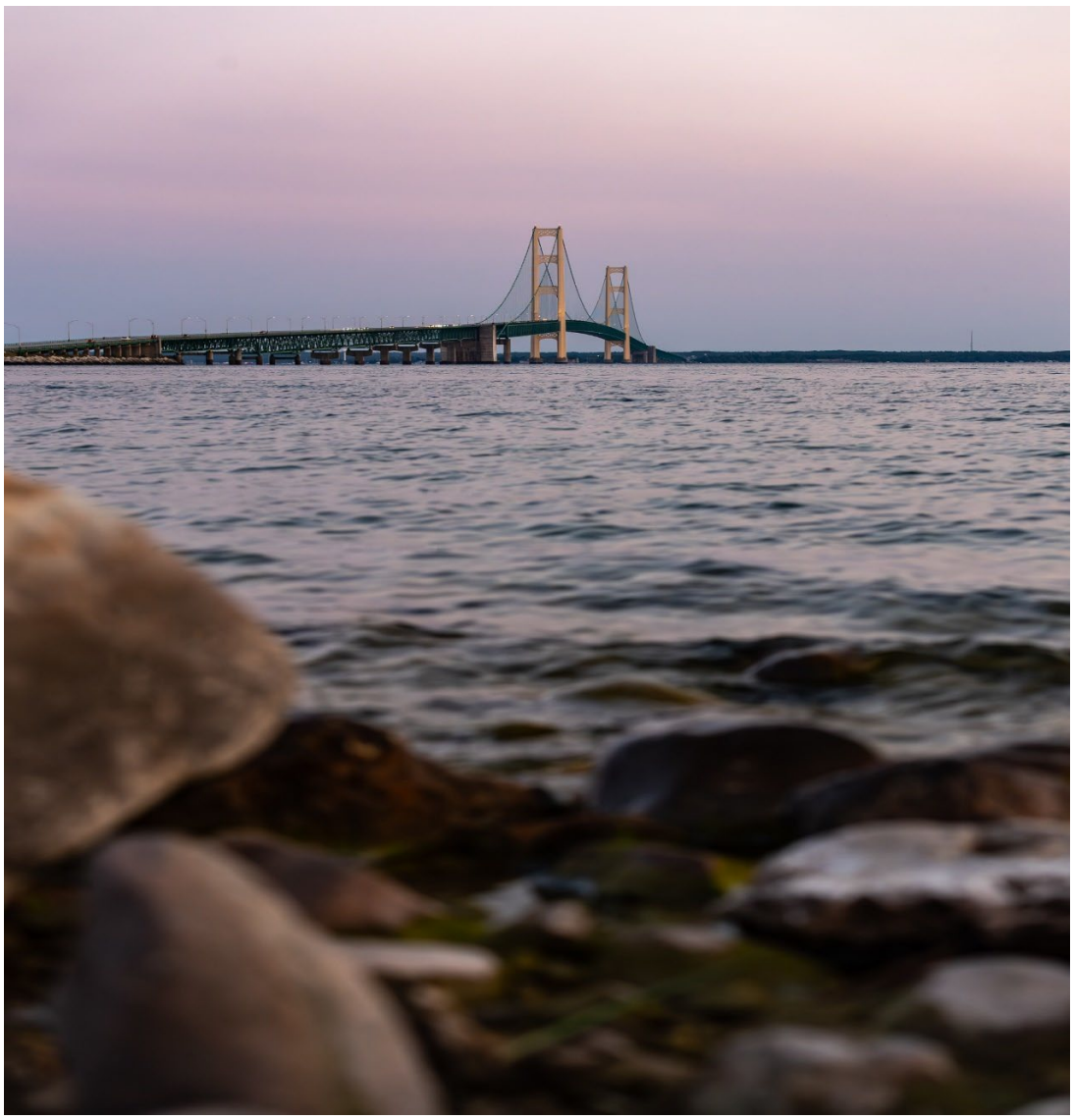
MICHIGAN
Department of Education



MICHIGAN SCHOOL AUDITING MANUAL

EFFECTIVE FOR AUDITS DURING THE 2025 - 2026 SCHOOL YEAR

Instructions for Use of the Michigan School Auditing Manual

The Michigan School Auditing Manual helps auditors' complete year-end audits for the period ending June 30, 2026. It provides extra guidance to support the federal Compliance Supplement, especially for education-related grants.

Purpose of the Manual

- The manual helps auditors apply the federal Compliance Supplement when auditing Michigan public schools.
- It is supplemental guidance—auditors should use it *alongside* the Compliance Supplement.
- New requirements or important reminders are highlighted within the manual.

Compliance Supplement ("Pick 6")

- The 2025 Compliance Supplement uses the "pick 6" method to identify which compliance requirements must be tested.
- Large changes to education-grant compliance requirements are not expected, but auditors still need to consider the possibility when planning federal program testing.

Best Practice for Using Both Documents

- Start with the Compliance Supplement to identify which requirements must be tested.
- Review the Supplement's guidance.
- Then use the School Auditing Manual for detailed testing steps and Michigan-specific instructions.

Guidance for Auditors

- Major program selection requires an accurate projection of federal expenditures. Auditors must understand:
  - Total federal spending
  - Whether programs are Type A or Type B
  - Any major changes in grant activity
- Apply major program selection rules carefully. You may need to revisit selections once the final Schedule of Expenditures of Federal Awards (SEFA) is available and risk assessments are complete.
- Fraud risk increases when big changes happen quickly. Fraud assessments must consider these risks.
- Not all federal funds passed through MDE appear in the NexSys Grant Auditor Report. Auditors must confirm all federal receipts and expenditures directly with the district.

Staying Updated

The Michigan Department of Education posts current guidance at Michigan.gov/MDE. Local education agencies (LEAs) and auditors should check this site regularly for the latest information on grants management and planning for 2026 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) Code of Federal Regulations (2 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 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 as 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. It should be noted that independent auditors are not required by the OMB to test every compliance requirement of a federal program. School districts are still required to maintain compliance with all requirements and may be audited on those requirements by MDE as part of subrecipient monitoring.

Every public school district, including public school academies (PSAs) and intermediate school districts (ISDs), 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 November 1, as the audit due date. It is MDE's responsibility to review the audits for the purpose of ensuring: 1) 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) all findings, questioned costs and other audit issues are resolved in a timely manner.

Generally Accepted Government Auditing Standards (GAGAS) require the staff assigned to conduct the audit to collectively possess adequate professional proficiency for the required tasks. 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.

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OVERVIEW

I. PUBLIC SCHOOL DISTRICT RESPONSIBILITIES

A. Determine the type of audit required. §200.501

1. All public-school districts, including public school academies (PSAs) and intermediate school districts (ISDs), must have a financial audit performed in accordance with Generally Accepted Government Auditing Standards (GAGAS).
2. A public school district that spends $1,0000,000 or more in federal awards must also have a single audit as required by OMB 2 CFR Part 200.
3. A public school district that spends less than $1,000,000 in federal funds is exempt from federal audit requirements, unless required by the terms of the award, but is required by MCL 388.1618 (Section 18 of the State School Aid Act) to have a financial audit.
4. If the audited financial statements report federal funds received in excess of $1,000,000 but the district did not spend $1,000,000 or more in federal funds and therefore is not required to have 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) – Both 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 and Government Accounting Standards Board (GASB) 34. 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 detail 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 the established Federal agency policies.

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 for audits subject to Uniform Guidance. Data Collection Form is required to be submitted and fully certified within 30 days of the date that the single audit report was made available to the district or nine months after the end of the audit period (whichever is earlier).

F. MDE will not require the district to submit the DCF with the audit package. The district or district's auditor should notify MDE that the audit has been certified on the FAC website. The MDE auditor can either retrieve the DCF from the FAC website, or the DCF can be converted to pdf and sent directly to MDE-FinAudit@Michigan.gov.

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 findings). 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 a document on the district letterhead and separate from the auditor's findings. This document must be included in the audit package submitted to MDE.
   6. See General Audit Issues - Section A, IX. Corrective Action Plan in this manual.

J. Report Submission
   1. 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.
3. Written Policies and Procedures – Required by the Uniform Guidance
4. Cash Management - §200.302(b)(6) requires written procedures to implement the requirements of §200.305.
5. 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.
6. 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.
7. Procurement - §200.319(c) requires written procedures for procurement transactions.
8. Time and Effort - §200.430(i)(1)(v) requires documentation of personnel expenses to comply with established accounting policies and practices.
9. Equipment Management - §313(d) - requires procedures for managing equipment acquired either in whole or in part by a federal award.
10. Travel Reimbursement - §200.475(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. Contact the MDE Audits Unit as soon as this may be an issue.
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 per §200.518, §200.519 and §200.520. 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.

D. Audit Findings §200.516
   1. Report audit findings in a Schedule of Findings and Questioned Costs (SFQC).
   2. Note if the finding is material noncompliance or immaterial noncompliance.
   3. 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.
   4. See General Audit Issues, Section A - Reports and Schedules, VI. Schedule of Findings and Questioned Costs in this manual.

E. 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 engagement, the independent CPA should be constantly aware of the possibility of fraud, defalcation, misfeasance, nonfeasance, malfeasance, and/or embezzlement. AU §316 should be followed where applicable. If there is 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 the 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, 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, MDE 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 to the requirements above, the district should consider referring the situation to the appropriate law enforcement agency. If reported to law enforcement, MDE should be notified.

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 (unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion) on whether the audited financial statements were prepared in accordance with GAAP.
   b. 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. A statement about significant deficiencies or material weaknesses in internal control over major programs were disclosed by the audit.
   e. The type of report the auditor issued (unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion) on compliance for major programs.
   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 and as shown on the schedule 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 questions about costs for federal awards. which must include audit findings as defined in §200.516(a):

   a. Audit findings (for example, internal control findings, compliance findings, questioned costs, or fraud) that relate to the same issue must 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 must be reported in both sections of the schedule. However, the reporting in one section of the schedule may be in summary form and reference a detailed reporting in the other section.

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) materially 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. The Federal program and specific Federal award identification, including the Assistance Listings title and number, Federal award identification number and year, the name of the Federal agency, and name of the applicable pass-through entity. When information, such as the Assistance Listings title and number or Federal award identification number, is unavailable, the auditor must provide the best information available to describe the Federal award.
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. The possible asserted effect to provide sufficient information to the auditee and Federal agency or pass-through entity to permit them to determine the cause and effect to facilitate prompt and proper corrective action.
7. Identification of known questioned costs, by applicable Assistance Listing number(s) and Federal award identification number(s), and how these questioned costs were computed.
8. When there are known questioned costs, but the dollar amount is undetermined or not reported, a description of why the dollar amount was undetermined or otherwise could not be reported.
9. 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 sample was a statistically valid sample.
10. Identification of whether the audit finding is a repeat of a finding in the immediately prior audit. The audit finding must identify the applicable prior year audit finding reference numbers in these instances.
11. Recommendations to prevent future occurrences of the deficiency identified. The recommended action may consist of returning funds received for disallowed expenditures.
12. Views of responsible district officials of the auditee.
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 (including 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 (Entitlement and Bonus individually, on separate lines). 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. It is important that the name of the federal program, as included on the SEFA, agrees to the name of the same program as included on the Data Collection Form. SAM.GOV should be the authoritative source if there is any question as to the correct name of a specific grant.

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 Assistance Listing 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 of the following:

a. Subrecipients' program(s) title and project numbers.
b. Assistance Listing number of federal program.
c. Subrecipient award or contract amount. To the extent practical, identify the total amount provided from each program included in the SEFA.
d. Current year cash, etc., transferred to subrecipient.
e. 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. Assistance Listing number with alpha (if applicable). If an Assistance Listing 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. Current year cash or payments in-kind received from federal sources.
6. Current year actual expenditures of all federal awards
7. Ending inventory and accrued or deferred revenue as of June 30, of current year.
8. Amounts of awards passed through to subrecipients as required by §200.510(b).
9. 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 they are 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 Assistance Listing 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) to allow the SEFA to roll forward. 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. If adjustments are included on the schedule, a note must be included in the Notes to the SEFA explaining the adjustment (see item 4 in section M below).

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 used the MDE NexSys 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, an 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 Reported on the Statement 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.

O. Federal expenditures per the Schedule of Expenditures of Federal Awards must match the federal expenditures entered on the Data Collection Form that is submitted to the Federal Audit Clearinghouse.

VIII. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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, no longer valid, or not warranting further action.

1. When audit findings were fully corrected, the summary schedule needed 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 recurrence of the founding 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 findings.
    c. A management decision was not issued.

IX. CORRECTIVE ACTION PLAN

A. The school district's response to the findings must be included with the audit report. It should be specific and action oriented. The response is required to be on the school district's letterhead, separate from the finding, and generally titled as a corrective action plan. 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 comments 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 targeted completion 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 NexSys Grants System, or the school district may be asked to send a check payable to the Michigan Department of Education, with program name, project and source codes reported on the stub. Checks should be mailed to the following address:

Chief Cashier
Office of Financial Management
Michigan Department of Education
P.O. Box 30106
Lansing, Michigan 48933

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.

[redacted]

Schedule of Expenditures of Federal Awards
Year Ended June 30, [redacted]

Example of commodities breakout

Federal Grantor/Pass-Through Grantor/Program Title	Federal AL Number	Pass-Through Grantor's Number	Approved Award Amount	Accrued (Unearned) Revenue July 1, 2020	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 202
U.S. Department of Agriculture								
Passed through Michigan Department of Education								
Child Nutrition Cluster								
Non-cash assistance (commodities)								
National School Lunch Program - Entitlement Commodities	10.555		$ 40,344	$ -	$ -	$ 40,344	$ 40,344	$ -
National School Lunch Program - Entitlement Bonus	10.555		121	-	-	121	121	-
Total non-cash assistance			40,465	-	-	40,465	40,465	-
Summer Food Service Program for Children	10.559	200900	166,572	-	-	166,572	166,572	-
Summer Food Service Program for Children	10.559	210904	826,824	-	-	786,775	826,824	40,049
			993,396	-	-	953,347	993,396	40,049
Total Child Nutrition Cluster			1,033,861	-	-	993,812	1,033,861	40,049
Total U.S. Department of Agriculture			1,033,861	-	-	993,812	1,033,861	40,049
U.S. Department of the Treasury								
Passed through Michigan Department of Education								
Coronavirus Relief Fund								
COVID-19 MAISA - Device Purchasing program / Distance Learning	21.019	2020-21	46,542	-	-	46,542	46,542	-
COVID-19 103(2) District COVID Costs	21.019	2020-21	25,043	-	-	25,043	25,043	-
COVID-19 11p Coronavirus Relief Funds	21.019	2020-21	711,449	-	-	711,449	711,449	-
Total U.S. Department of Treasury			783,034	-	-	783,034	783,034	-
U.S. Department of Education								
Passed through Michigan Department of Education								
Title I Grants to Local Educational Agencies	84.010	2015301920	513,844	146,069	504,912	155,001	8,932	-
Title I Grants to Local Educational Agencies	84.010	2115302021	528,754	-	-	388,490	519,822	131,33
			1,042,598	146,069	504,912	543,491	528,754	131,33
Passed through Michigan Department of Education								
Rural Education	84.358	2006601920	45,955	1,403	45,928	1,403	-	-
Rural Education	84.358	2106602021	39,141	-	-	17,713	35,484	17,77
			85,096	1,403	45,928	19,116	35,484	17,77
Passed through Michigan Department of Education								
English Language Acquisition State Grants	84.365	2105702021	197	-	-	189	189	-
Passed through Michigan Department of Education								
Supporting Effective Instruction State Grants	84.367	2005201920	163,527	57,913	148,173	57,913	-	-
Supporting Effective Instruction State Grants	84.367	2105202021	108,836	-	-	66,457	94,421	27,96
			272,363	57,913	148,173	124,370	94,421	27,96

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

[redacted]

Schedule of Expenditures of Federal Awards
Year Ended June 30 [redacted]

Federal Grantor/Pass-Through Grantor/Program Title	Federal AL Number	Pass-Through Grantor's Number	Approved Award Amount	Accrued (Unearned) Revenue July 1, 2020	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2021
U.S. Department of Education (continued)								
Passed through Michigan Department of Education								
Student Support and Academic Enrichment Program	84.424	2007501920	$ 46,850	$ 4,110	$ 17,944	$ 4,110	$ -	$ -
Student Support and Academic Enrichment Program	84.424	2107502021	65,910	-	-	31,193	38,682	7,489
			112,760	4,110	17,944	35,303	38,682	7,489
Passed through Michigan Department of Education								
Education Stabilization Fund								
COVID-19 Governor's Emergency Education Relief (GEER)	84.425C	2012002021	134,863	-	-	99,132	134,863	35,731
COVID-19 Elementary and Secondary School Emergency Relief (ESSER) Formula	84.425D	2037101920	417,967	-	-	314,121	417,967	103,846
			552,830	-	-	413,253	552,830	139,577
Total U.S. Department of Education			2,065,844	209,495	716,957	1,135,722	1,250,360	324,133
U.S. Department of Health and Human Servi								
Passed through Gratiot-Isabella Regional Edu[redacted]								
Medicaid Cluster								
Medical Assistance Program	93.778		3,227	-	-	3,227	3,227	-
Total Federal Awards			$ 3,885,966	$ 209,495	$ 716,957	$ 2,915,795	$ 3,070,482	$ 364,182

AL alpha inclusion example

PAL REPORT

USDA Food Distribution
Recipient Entitlement Balance Report
School Year 2020-2021

Print Date: 10/04/2021

Distributor: GLC-BR

[redacted]

FINAL

Sponsor Agreement Number: [redacted]

	Processed	Brown Box	(Proc + BB) Total	DoD	20-21 UFV Pilot	Total	Balance	(Bonus)	
July	490.20	458.32	948.52	0.00	0.00	948.52	65,185.28	0.00	0.00
August	614.51	3,051.68	3,666.19	0.00	0.00	3,666.19	61,519.09	0.00	0.00
September	2,579.68	2,751.14	5,330.82	1,273.05	220.68	6,824.55	54,694.54	121.34	0.00
QTD (1)	3,684.39	6,261.14	9,945.53	1,273.05	220.68	11,439.26		121.34	0.00
October	2,523.67	2,383.94	4,907.61	3,715.50	637.44	9,260.55	45,433.99	0.00	0.00
November	2,339.37	962.96	3,302.33	0.00	1,449.20	4,751.53	40,682.46	0.00	0.00
December	1,291.99	89.78	1,381.77	0.00	419.26	1,801.03	38,881.43	0.00	0.00
QTD (2)	6,155.03	3,436.68	9,591.71	3,715.50	2,505.90	15,813.11		0.00	0.00
January	2,045.20	651.30	2,696.50	0.00	26.24	2,722.74	36,158.69	0.00	0.00
February	1,712.49	295.74	2,008.23	0.00	0.00	2,008.23	34,150.46	0.00	0.00
March	2,858.80	0.00	2,858.80	0.00	0.00	2,858.80	31,291.66	0.00	0.00
QTD (3)	6,616.49	947.04	7,563.53	0.00	26.24	7,589.77		0.00	0.00
April	2,731.00	74.62	2,805.62	0.00	0.00	2,805.62	28,486.04	0.00	0.00
May	2,419.66	0.00	2,419.66	0.00	0.00	2,419.66	26,066.38	0.00	0.00
June	276.16	0.00	276.16	0.00	0.00	276.16	25,790.22	0.00	0.00
QTD (4)	5,426.82	74.62	5,501.44	0.00	0.00	5,501.44		0.00	0.00
Total Distribution	21,882.73	10,719.48	32,602.21	4,988.55	2,752.82	40,343.58	25,790.22	121.34	0.00

32,602.21

40,343.58

Entitlement Dollars: $66,133.80 (178,740 Meals @ 0.3702 Meal Rate)

Do not put this item on the SEFA

Put this amount on the entitlement commodities line of the SEFA

Put this amount on the bonus commodities line of the SEFA

		Brown Box	DoD		
Entitlement	[illegible]	10,719.48	5,000.00		66
Distributions	21,882.73	10,719.48	4,988.55	2,752.82	40,343.58
Balance	25,531.59	0.00	11.45	247.18	25,790.22
% Usage	46.15%	100.00%	99.77%	91.76%	61.00%
Carryover/Giveaway	0.00	0.00	0.00	0.00	0.00
Reallocated Balances	13,226.76	0.00	0.00	0.00	13,226.76
Adjusted Balance	38,758.35	0.00	11.45	247.18	39,016.98

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED [redacted]

Federal grantor/pass-through grantor/program title	Federal CFDA number	Subrecipient award/ contract amount	Subrecipient current year expenditures	Current year cash transferred to subrecipient
PL-94-142 Preschool Incentive:	84.173			
Passed through to:				
Allegan Public Schools		$ 17,618	$ 17,618	$ 17,618
Fennville Public Schools		9,664	9,664	9,664
Hopkins Public Schools		9,674	9,674	9,674
Martin Public Schools		3,836	3,836	3,836
Otsego Public Schools		11,910	11,910	11,910
Plainwell Public Schools		14,124	14,124	14,124
Wayland Public Schools		18,363	18,363	18,363
Total PL-94-142 Preschool Incentive passed through to subrecipients		$ 85,189	$ 85,189	$ 85,189
MSA school base services:	93.778			
Passed through to:				
Allegan Public Schools		$ 2,908	$ 2,908	$ 2,908
Fennville Public Schools		777	777	777
Hopkins Public Schools		321	321	321
Martin Public Schools		364	364	364
Otsego Public Schools		1,294	1,294	1,294
Plainwell Public Schools		1,054	1,054	1,054
Wayland Public Schools		1,853	1,853	1,853
Total MSA school base services passed through to subrecipients		$ 8,571	$ 8,571	$ 8,571

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. Intermediate School District (ISD)
Each public school district is required to file one copy of the audit reporting package, including the management letter with the ISD, on or before **November 1.**

B. MDE

1. Per MCL 388.1618, each public school district, ISD and public school academy must file one copy of their audit reporting package (financial audit, single audit if required, corrective action plan, and summary schedule of prior audit findings, if findings were reported in the prior year) and management letter with MDE by **November 1**.
2. Public school districts, ISDs and public school academies are required to submit their audit packages to MDE electronically via e-mail.
3. The e-mail address is MDE-FinAudit@Michigan.gov. Specific instructions may be found on the MDE Office of Financial Management – Audits website.
4. 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** 48909 (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 (single audit) must electronically submit the audit reporting package and Form SF-SAC to the FAC. The website address for the FAC is: Federal Audit Clearinghouse Website link.

D. Michigan Department of Treasury

MDE, the Michigan Department of Treasury, and the Michigan Department of Health and Human Services (MDHHS) 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 the three 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."

Beginning with the 2023-2024 school year, Bond Audits will need to be submitted to the Michigan Department of Education with the district audited financial statements. For directions, see Treasury Numbered Letter 2023-1. Numbered Letter 2023-1 (Michigan.gov).

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. Michigan Department of Health and Human Services (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 the MDE-FinAudit email 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:

5. Audit 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.
6. Requests for copies of reports: When requested by any federal or pass-through entity, school districts should provide copies of the audit 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 Audit Reporting Package – An audit reporting package to MDE should include the following documents:

1. DCF (Form SF-SAC)- 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 (https://www.fac.gov/) and must be filed on-line.
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 included with the audit reporting package and filed with MDE. In addition, 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.*

III. Public school districts expending less than $1,000,000 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).

IV. WHEN TO FILE

As discussed in Part I of this section; to avoid penalties, school districts must file all required reports with MDE by **November 1**. Also, the audit 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).

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 should determine if the funds passed down are for a subrecipient or are contractor payments. This determination must be made by the pass-through entity and communicated to the subrecipient or vendor receiving the funds. 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 (school district code).
   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. Assistance Listing number and name. The pass-through entity must identify the dollar amount made available under each federal award and the Assistance Listing number at time of disbursement.
l. Identification of whether the award is R&D.
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 permits 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 §200.5 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 $1,000,000.
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 $1,000,000 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 $1,000,000 of federal financial assistance to procure an audit performed 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 **$1,000,000 or more** a year of federal financial assistance to procure an audit performed 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 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.
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
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 questions related 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

Indirect costs are those incurred for common or joint purposes that benefit more than one program or activity and that are not readily assignable to a specific cost objective without disproportionate effort. Michigan Local Education Agencies (LEAs), public school academies (PSAs), and intermediate school districts (ISDs), may charge indirect costs to federal awards only when an approved indirect cost rate is available and the award permits indirect costs. The Michigan Department of Education (MDE) calculates and issues indirect cost rates annually.

II. AUTHORIZATION

Indirect cost rates and their required application are governed by:

- 2 CFR 200.400–200.414
- Appendix VII to Part 200, Title 2
- 34 CFR 75.560–75.564
- 34 CFR 76.560–76.569
- 34 CFR 75.563 and 76.563 (restricted indirect cost rates)

III. GUIDANCE

MDE's Indirect Cost Rate Plan outlines the approved methodology for developing restricted and unrestricted indirect cost rates and describes the required components of the modified direct cost base. Current and prior year indirect cost rate summaries and related documents are available on the MDE Indirect Cost Rates webpage. Auditors should use these resources to identify the applicable approved rate for the fiscal year under audit.

IV. USE OF DE MINIMIS INDIRECT COST RATES

Under 2 CFR 200.414(f), certain entities that have never had a federally negotiated indirect cost rate may elect a *de minimis* indirect cost rate. This provision does not apply to Michigan LEAs, PSAs, or ISDs. MDE calculates and issues indirect cost rates for all LEAs, PSAs, and ISDs that request one. Use of the federal de minimis rate would not satisfy the requirements for programs that require a restricted indirect cost rate under 34 CFR 75.563 and 76.563.

V. INDIRECT COST RATE CALCULATIONS

MDE calculates indirect cost rates annually using the methodology described in the Indirect Cost Rate Plan. Each year, MDE publishes an R0418 Rate Summary Report listing the restricted and unrestricted indirect cost rates assigned to each LEA, PSA and ISD.

MDE also calculates a Medicaid administrative rate and a Special Education Operations and Maintenance rate. These rates support Medicaid and state special education cost allocation requirements and are not federal indirect cost rates.

Auditors are not required to reperform the indirect cost rate calculation. Auditors should verify:

1. The LEA, PSA or ISD had an approved MDE indirect cost rate for the fiscal year under audit.
2. The rate used agrees with the LEA's, PSA's or ISD's rate in the applicable R0418 Rate Summary Report.

VI. AUDIT CONSIDERATIONS

When auditing indirect costs, the auditor should:

1. Confirm that the correct rate category (restricted or unrestricted) was applied in accordance with program requirements.

2. Verify that the indirect cost rate was applied to the correct modified direct cost base for the award and that excluded cost categories were not included in the base.

3. Verify that indirect costs were not charged to excluded items such as equipment or flow-through funds.

4. Confirm that indirect cost charges reconcile to the accounting records.

5. Verify that costs treated as indirect were not also charged as direct administrative or program costs on other awards[1]. All indirect costs must be treated consistently across all programs.

6. Review whether the LEA's, PSA's or ISD's decision not to charge indirect costs on an eligible award is consistent with LEA, PSA's or ISD's policies and practices.

[1] Indirect costs must be treated consistently across all programs. Costs classified as indirect for purposes of the indirect cost rate may not be charged as direct administrative or program costs on another award. This requirement is established under 2 CFR 200.412 and 2 CFR 200.414.

VII. REFERENCE MATERIALS

1. 2 CFR Part 200
2. U.S. Department of Education, Indirect Cost Determination Guidance for State and Local Government Agencies
3. MDE Indirect Cost Rate Plan
4. MDE Indirect Cost Rates webpage

VIII. CONTACTS

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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. See also: Michigan Department of Education Memo.

I. 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.

II. Costs of compensation are allowable to the extent they satisfy the specific requirements of federal program guidelines, and the total compensation for individual employees. See link for details.

III. The Uniform Guidance allows flexibility for documentation, and places great reliance on internal controls and the corresponding policies and procedures. See link for details.

IV. 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, if certain items are true. See link for details.

V. 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.

VI. 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.

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.

a. Contracts must include requirements for comprehensive invoices.
b. 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.
c. Payments to contractors and vendors must be according to the contract or purchase order.
d. 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.
e. 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 their 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 §200.214 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.
   a. Micro-purchases.
   b. Small purchase procedures (simplified acquisition threshold).
   c. Sealed bids.
   d. Competitive proposals.
   e. 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 $31,321 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.

III. The fiscal year 2025-2026 base amount for Section 1267 (pertaining to construction, renovation, repair, or remodeling) and for Sections 623a and 1274 (pertaining to procurement of supplies, materials, and equipment) is $31,321.

USDA DONATED FOODS

ASSISTANCE LISTING–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) as per Assistance Listings 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 programs that may include:

1. National School Lunch Program (NSLP) for the regular school year and extended/balanced school year (June-August). Under the USDA Foods processing system, see USDA Foods Regulations 7 CFR, Part 250, the value of the USDA Foods reduces the price of the end-product. For NSLP the per meal rate (.50 cents) PLUS the 12% provision dollars and the 20M breakfast dollars for NSLP make the effective school year 26 NSLP rate .45 cents.

2. CLOC Sponsors' reimbursement received is based on prior year reimbursement lunch claims multiplied by the current NSLP commodity rate. Woodhaven-Brownstown 82365 and Troy Public Schools 63150 are the only two Michigan districts who were grandfathered into the CLOC program by the USDA.

3. Child and Adult Care Food Program (CACFP) - 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 $.50. The total CLOC amount is identified as a separate line-item within the Michigan Nutrition Data System (MiND) claim status report and reported within NexSys.

4. Summer Food Service Program (SFSP), Assistance Listing #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 USDA Foods for the 2025-2026 school year is available on the internet at the Office Nutrition Services (ONS) Food Distribution Programs website: USDA Foods Available / Average Price Files

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, total reimbursable lunches by the current NSLP entitlement rate. 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 consortium has additional foods to distribute.

2. Fair market values for Entitlement and Bonus USDA Foods: SFAs must use 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 are used in developing the USDA Food Fair Market Value Reports and the PAL Report.

1. Bonus Values – The USDA sometimes purchases other foods referred to as "bonus" 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 federal Child Nutrition 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 use USDA Foods within their summer programs. Summer camps participating in the Summer Food Service Program 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 2025-2026, 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 or for a copy of DPSCD PAL report, contact Jaime Malnar at MalnarJ1@Michigan.gov.

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, or 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, USDA Food commodities, and other financial assistance (except loans, loan guarantees, interest subsidies, and insurance). The NSLP

should be reported under Assistance Listing #10.555. The Schedule of Expenditures of Federal Awards (SEFA) should report commodities under Assistance Listing #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. Districts involved in purchasing of USDA and commercial foods may purchase these through one of the three consortia (GLC, SPARC, and MOR) that have a memorandum of understanding with the Michigan Department of Education School Nutrition Services. This memorandum indicates that each consortium procures the distribution, warehousing, and processing of USDA Foods and Department of Defense (DoD) Fresh Fruit and Vegetables for all School Districts in its consortium. This exempts Districts from the requirement that would otherwise apply to purchases through a group purchasing organization (GPO) to obtain additional bids for the same goods/services as those bids obtained by the GPO. However, this exemption relates only to purchases of USDA and commercial foods through these specifically listed GPOs, and does not apply to purchases of supplies, equipment, etc. through the same or other GPOs. All other goods/services procured through GPOs must also have been bid out separately by the district. In addition, Districts should make sure to update their policies and procedures to properly reflect the activities surrounding procurement of USDA and commercial foods, non-food items, and their relation to GPOs.
4. 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). The geographic preference option, which now permits child nutrition program (CNP) operators to use "locally grown", "locally raised", or "locally caught" as a specification when procuring unprocessed agricultural products.

B. Suspension and Debarment – Mandatory awards bypass-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

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If you have questions regarding the PAL Report for GLC, contact:
Lead School District/Fiduciary: Northwest Education Services
Karen Watson
Great Lakes Consortium
800-632-4572
glc_administrator@hpsnet.com
GLC/PAL Report – GLC Website Link

If you have questions regarding the PAL Report for SPARC, contact:
Lead School District/Fiduciary: Manistee ISD
Jean Mosley
jeanmosley@proteamadvisors.com
SPARC/PAL Report – www.michigansparc.com
844-662-3767, Extension 106

If you have questions regarding the PAL Report for MOR, contact:
Lead School District/Fiduciary: Wayne RESA
Chuck Wolford Charles@pcg-pro.com
734-334-1511
MOR/PAL Report VanEerden Website Link

CHILD NUTRITION CLUSTER

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

I. FEDERAL OVERVIEW

II. STATE OVERVIEW

III. DISTRICT CONSIDERATIONS

IV. AUDIT CONSIDERATIONS

V. REFERENCE MATERIALS AND CONTACTS

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

ATTACHMENTS

Attachment 1: School Nutrition Programs' Meal Patterns and Nutrition Standards
Attachment 2: Final Rule - Implementation Timeline
Attachment 3: Child and Adult Care Food Program Meal Pattern

Attachment 4: Child Nutrition Program Waivers for school year 2025-2026

Attachment 5: Summer Food Service Meal Pattern

Attachment 6: Frequently Asked Questions When Reviewing CEP

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 aged 18 and younger, or up to age 26 with a disability, 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. Open-Restricted. *Restricted open site* means a site which is initially open to broad community participation, but at which the sponsor restricts or limits attendance for reasons of security, safety or control. Site eligibility for a restricted open site shall be documented in accordance with paragraph (a) of the definition of Areas in which poor economic conditions exist.

3. Closed Enrolled. Eligibility can be determined through a collection of income eligibility forms or using census data. The census data option was added to the final rule Federal Register: Streamlining Program Requirements and Improving Integrity in the Summer Food Service Program (SFSP)
4. Camp. Offers a regularly scheduled food service as part of a residential or day camp program.
5. Migrant. Primarily serves children of migrant workers.
6. 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.
7. Rural Non-Congregate (RNC). The Consolidated Appropriations Act, 2023 (P.L. 117-328), established a permanent non-congregate meal service option for rural areas with no congregate meal service available. To be eligible to provide RNC meal service for SFSP 2025, a participating site may occur in any area identified in green as rural by using the FNS Rural Designation Map. Additional MDE requirements for all sponsors planning to participate in RNC for SFSP 2025 included a statement of intent.

II. STATE OVERVIEW – COMPLIANCE REVIEWS

A. School Nutrition Program Administrative Review

The MDE Office of Nutrition Services (ONS), 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 (S)
ii. Temporary Assistance for Needy Families (T)
iii. Foster children data (F)
iv. Medicaid data for free eligibility (M)
v. Medicaid data for reduced-price eligibility (R)

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 Master Calendar Website Link. 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.

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 SNP: Guidance for Point of Service (POS) Counting online training.

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 National School Lunch 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, if a ½ cup serving of a fruit and/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 Preschool Meal Pattern. 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 and/or meat/meat alternates. 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, four food items must be offered, 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 Preschool Meal Pattern. Refer to Attachment 3 for appropriate portion sizes.

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

a. General Program Compliance
b. 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.
c. Civil Rights.
d. Health Inspections, Sanitation Food Safety Program based on Hazard Analysis and Critical Control Point (HACCP) Principles.
e. Water.
f. Local Wellness Policy.
g. Reporting and Record Keeping.
h. SBP and SFSP Outreach.
i. Professional Standards.
j. Smart Snacks.
k. Buy American.

B. Performance-Based Certification and Reimbursement
Beginning school year 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 school year 2019-2020, the performance-based reimbursement increased to seven cents per lunch. An additional eight cents per lunch is available beginning July 1, 2022, and adjusted annually thereafter. The current performance-based reimbursement rate is 9 cents per reimbursable 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.

C. 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 Program Requirements Calendar for Public and Non-public Public School Districts, Public Academies, and Non-Public Schools Districts and Program Requirements Calendar for Community Eligibility Provision Schools and Residential Child Care Institutions.

D. SFSP Administrative Review

The SFSP Administrative Review is conducted as following: on every new sponsor during their first year of operation, annually review every sponsor which experienced significant operational problems in the prior year and review each sponsor at least once every three years. In SFSP 2024, MDE imposed an additional review requirement for any sponsor new to participating in the newly authorized Rural Non-Congregate (RNC) meal service. Sponsors new to RNC who had successful Administrative Reviews in the previous year were only subject to site reviews of RNC operations, not a full Administrative Review. Also, in SFSP 2024, USDA eliminated the previous requirement in place to review: annually sponsors whose program reimbursements, in the aggregate, accounted for at least one-half of the total program meal reimbursements in the State in the prior year and each sponsor to receive a review 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 Education and Nutrition Benefits 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, or the site could be eligible based on census data 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 the 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. Offer vs Serve (OVS) is only allowed for SFA sponsors and they must use the SFSP meal pattern. This was changed in the final rule. Offer vs. Serve (OVS)

v. 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 are conducted

on all new sites and problem-prone sites. Initial Site visits are completed within the first two weeks of operation on all SFSP sites. Documentation of the reviews/visits must be maintained by the sponsor. For SFSP 2025, MDE required all sponsors to complete the initial site visit (formally known as the First Week Site Visit) and the Monitor Site Review. These visits can be completed by sponsors at the same time.

e. Civil rights training for staff and volunteers.
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.

E. School Nutrition Program Resource Management Review

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 Review" within the Administrative Review.

As part of the Administrative Review, the ONS' Fiscal and Administrative Services (FAST) team 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 review cycle for each SFA participating in the Federal School Meals Program.

F. School Nutrition Program Procurement Review

A Procurement Review will be conducted of each School Nutrition Program Sponsor within an Administrative Review cycle.

The following items are reviewed during the Procurement Review:

1. Sponsor Written Code of Conduct.
2. Sponsors' Procurement Policy.
3. Documented Procurement Procedure.
4. Vendor Paid List/Summary of Total Expenditures by Vendor Report.
5. A sample of vendors are selected for review from the Vendor Paid List for each type of procurement conducted including:
   a. Micro-purchase, small/informal, and formal/sealed bids.
6. Supporting Documentation for each selected vendor:
   a. Solicitation documentation (copies of small purchase price/rate quotes and/or sealed bids/competitive proposals issued, and advertisements published, as applicable).
   b. Responses (quotes for informal procurement procedures and bids/offers for formal procurement procedures).
   c. Evaluation and scoring results used to award contracts (for competitive proposals – RFPs).
   d. Final contract awarded and contract notification documentation.
   e. Supporting documentation, such as purchase orders and/or receipts/invoices for vendors selected for review (2 CFR 200.318(i)).

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

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 online in the CNP: Coordinated Application in NexSys.

B. Program Renewal (NexSys). 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 NexSys. All CNP: Coordinated Application information must be reviewed, updated, and submitted electronically. This web-based program is available through the MILogin for Workers or MILogin for Business page. Effective school year 2022-2023, the National School Lunch, School Breakfast, Afterschool Snack, and Special Milk applications relocated to the NexSys CNP: Coordinated Application. The Summer Food Service Program was added to the application in fiscal year 2024.

C. Application for Free and Reduced-Price School Meals

1. Prototype materials, including Education and Nutrition Benefits application and a letter to households, 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) card 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 the 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 Education and Nutrition Benefits applications from households. All students are offered 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. See attachment 6 for more information on CEP.

5. Beginning in school year 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 on the MDE Verification website.

6. SFSP Application for Free Meals. Education and Nutrition Benefits 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 Education and Nutrition Benefits 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 the MIND 2.0 using the MILogin for Business. 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 SNPs Personnel as required by the Healthy, Hunger-Free Kids Act of 2010" (80 FR 11077) on March 2, 2015. This final rule established hiring standards for SNP directors and training requirements for all school nutrition employees. USDA memo SP 05-2020 provides guidance on specific aspects of the regulation.

As summarized in the Professional Standards for SNP Professionals, minimum hiring standards are required for SNP directors. New SNP directors – those hired on or after July 1, 2015, – are subject to the new education requirements. Existing SNP directors are 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 of SNP directors either not more than five years prior to their starting date or completed within 30 days of the employee's start date.

Sponsor personnel overseeing Food Service Management Company (FSMC) contracts are held to the same hiring standards and training requirements as SNP directors. These requirements are summarized in the FSMC Contract Overseer Professional Standards Requirements.

Since the publication of the original final rule, the USDA now allows additional hiring flexibility for small LEAs with student enrollments of 2,499 students or less (effective April 30,2019, USDA final rule), and permits state agency discretion to approve medium and large LEAs of more than 2,500 students to hire an individual without a bachelor's or associate's degree as a SNP director, if the applicant has at least 10 years of SNP experience (effective July 1, 2024, USDA final rule).

Per USDA SP 05-2020, state agencies have the flexibility to establish their own procedures for discretionary action for acting SNP directors. MDE established these procedures during the 2024-2025 school year with the release of Administrative Memo No. 5: Professional Standards for Acting Food Service Directors (effective January 21, 2025).

As summarized in the Training Requirements for SNP Professionals, there is 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. Supporting documentation (e.g., training agendas, sign-in attendance sheets, certification of completion) should be kept on file for each employee and respective training.

SNP directors and FSMC contract overseers must also complete an additional 8 hours of food safety training every five years.

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, at a minimum, items such as time, location, and meal prices.

H. Daily/Monthly Meal 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 2.0 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 2.0. Final claim submission deadlines are disclosed annually in an administrative policy memo.

I. Meal Reimbursement Rates and USDA Foods Commodity Entitlement Values

J. 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 planned assistance level (PAL) award for USDA Foods commodities for single audit purposes.

K. Number of Claimed Reimbursable Meals

This information is used in conjunction with the USDA Foods commodity entitlement value to calculate the district's entitlement commodity award. The number of eligible claimed reimbursable lunches will be displayed on the district's Planned Assistance Level (PAL) Report and will change each August based on prior year lunch claims.

L. 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. Effective July 1, 2024, "bean dip" was added to the list of foods exempt from the fat standards in the Smart Snacks in School regulations (USDA final rule).

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 mealtimes. "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. 4 for school year 2022-2023, 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.

M. 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 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 CFR210.16(c)).

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

N. Equipment is defined as tangible, nonexpendable personable property having a useful life of more than one year and an acquisition cost of $10,000 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 $10,000 (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 MDE Pre-approved Food Service Equipment List to submit a request to MDE for prior approval. In addition, if an SFA chooses to select equipment that is not included on the MDE Pre-approved Food Service Equipment List, the SFA must submit an equipment request to MDE for prior written 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 programs, (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 written approval results in an unallowable cost, which requires the SFA to reimburse the NSFSA with
general funds.

The MDE Pre-approved Food Service Equipment List works in conjunction with the MDE Food Service Administrative Memo for school year 2020-2021 When Do You Need Pre-Approval for Food Service Equipment Purchases? The Pre-approved Food Service Equipment List and Equipment Memo are found on the Equipment and Excess Fund Balance page of the Fiscal and Administrative Services Team (FAST) website.

Items purchased with funds from the NSFSA which cost less than $10,000 (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.

O. Fund Equity

The USDA requires that the ending fund balance of the NSFSA does not exceed three months' average 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, ONS, 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. USDA may require MDE to pursue the reduction of reimbursements for SFAs with repeated excess fund balance findings going forward.

P. Loans to and from the NSFSA

SFAs participating in the NSLP may loan funds from its NSFSA to the general fund, if 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.

Q. 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 School Year 2017-2018.

For additional clarification on bad debt refer to MDE Administrative Memo #4 School Year 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.

R. 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.

Note: SFAs that opt into Michigan School Meals (30d state funding) or are operating in the Community Eligibility Provision (CEP) in every building of the district are considered non-pricing and are exempt from PLE pricing requirements.

The USDA guidance related to the PLE tool for the school year 2025-2026 is available at USDA Paid Lunch Equity Guidance for school year 2025-2026 (SP12-2025).

Special guidance is found in MDE Paid Lunch Equity Communication for school year 2025-2026. The United States Department of Agriculture (USDA) has released a PLE Exemption for qualifying School Food Authorities (SFAs) for school year 2025-2026. There are different PLE requirements depending on an SFA's fund balance level as of June 30, 2024.

Although this flexibility has been offered, paid meal prices may still be raised if an SFA sees fit for their situation. SFAs with a negative fund balance must complete the school year 2025-2026 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 their fund balance as of June 30, 2024, 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 June 30, 2024, 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 school year2025-2026 PLE Tool.

Documentation of the school year 2025-2026 PLE Tool and fund balance, and/or price increase will be required and collected in future Resource Management Reviews.

Guidance is found within the "Guidance" Tab of the PLE Tool for school year 2025-2026. 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, $4.01 or more for a paid lunch would not be required to adjust prices in school year 2025-2026. SFAs currently charging, on average, less than $4.01 for a paid lunch may be required to either gradually increase prices or

provide additional non-federal support for its lunches.

For school year 2025-2026, SFAs that charged on average less than $4.01 for paid lunches in school year 2024-2025, 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 4.03 percent, totaling 6.03 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.

S. 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, the MDE Ala Carte and Catering Pricing Worksheet and the MDE Adult Pricing Guide. The MDE Adult Pricing Guide school year 2025-2026 includes a guidance tab, an instructional tab and an Adult Meal Pricing tab.

SFAs should complete the MDE Ala Carte and Catering Pricing Worksheet and reference the Adult Pricing Guide 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 MDE Ala Carte and Catering Pricing Worksheet and the MDE Adult Pricing Guide are found on the Resource Management Reviews page of the Fiscal and Administrative Services Team (FAST) website.

T. 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 used 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 Public School Accounting Manual. Districts are responsible for reviewing the information provided in 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 exclusively 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 for use and 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 used 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 used 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 (Food Service Fund 25) 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 Review Report for duplicate documented findings.

2. Reporting in the Schedule of Expenditures of Federal Awards (SEFA)

    a. Verify the National School Lunch Program funding and Summer Food Service Program funding were reported with correct Assistance Listing 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 NexSys "Grant Auditor Report".

A. Activities Allowed or Unallowed

    1. See section B Allowable costs for testing procedures applicable to types of services allowed.

B. Allowable Costs/Cost Principles

    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 from the School Meals Program NSFSA which may have been used to fund

unallowable activities.

i. Determine if the SFA charged the MDE approved unrestricted indirect cost rate (ICR) to recover indirect costs.
ii. 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 and the actual amount charged if the maximum amount was not taken. The optional MDE Food Service Indirect Cost Calculations Template is available for use and upon request by contacting the Fiscal and Administrative Services unit at MDE-Fiscal@Michigan.gov.
iii. Determine the SFA has proper supporting calculation documentation.
iv. Verify the MDE unrestricted ICR was applied for the current year and used according to grant guidelines.
v. Determine if 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.
vi. Determine if the SFA billed directly for costs that benefit multiple programs and recovered additional indirect costs. This unallowable practice would require the costs be restored to the Food Service Fund.
vii. Verify that no indirect charges were applied to exclusions, such as the cost of food, supplies and materials intended for resale which begin with Object Code 56, capital outlay starting with object code 6, and purchased services greater than $50,000 per vendor.

3. Review Detailed General Ledger to determine that the transactions were for allowable costs.

4. 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.

5. 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.

    i. Ensure accurate and sufficient documentation is maintained to substantiate all direct expenditures.
    ii. 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.

iii. 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.

1. 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 exclusively to Food Service.
2. 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 are not acceptable. Or for example: waste removal with invoices charged based on an estimation for food service is not allowed.

6. Determine if the SFA classified expenditures uniformly and consistently per the Michigan Public School Accounting Manual.

7. Test transfers out of the NSFSA. (Indirect Costs) Districts may only transfer funds out of the SMP for the purpose of recovering indirect costs.

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

E. Verification of Free and Reduced-Price Applications

1. Obtain the current family size and income guidelines published by FNS.
2. 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.

F. Eligibility

a. Review the eligibility requirements in the Eligibility Guidance for School

Meals Manual.

b. Review selected applications to determine applicants are properly accounted for and applications are properly completed.

c. 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 departed the building before the beginning of the month.

d. 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.

e. 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.

f. Review the collection procedures to ensure eligible participants, such as homeless, migrant, runaway, and Head Start students; are not overlooked.

g. Verify that the Direct Certification Report is pulled from the MSDS at least the minimum three times per school year.

h. 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 or determined through census data.

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.

G. 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 written approval and/or verify that the item was on the MDE Preapproved Food Service Equipment List. For additional clarification, refer to the Pre-approved Food Service Equipment List and Equipment Administrative Memo that are found on the Equipment and Excess Fund Balance page of the Fiscal and Administrative Services Team (FAST) website.

    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 $10,000 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.

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

I. 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.

J. 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 comply i n g 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 those procurements by small purchase procedures were properly documented. For purchases more than the School District's documented small purchase threshold 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. 4
7. 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))
8. 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.).
9. 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).**
10. Determine that bid protest procedures are in place in accordance with 2 CFR Part 200.318.
11. 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.

12. Determine that payments to contractors and vendors were according to the contract or purchase order.
13. 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.
14. 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.
15. 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

K. Program Income Test:

1. The NSFSA is a restricted account. 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 (Food Service Fund 25) and transfers out of the School Meals Program's NSFSA which are only allowed for the recovery of indirect costs.
2. MDE only requests a management comment in a management letter if the auditor has determined net cash resources exceed the three month's average expenditures for the SFA's NSFSA. Additional information on calculating excess fund balance can be found at on the Equipment and Excess Fund Balance Website and is critical to ensure excess funds are not used to profit the General Fund, but rather to be used to benefit the School Meals Program (CFR Part 210.10 (a)(2).

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 exists. 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)(1). 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.

L. Reserved - N/A

M. Reporting

1. 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.
2. Verification results are reported via the SFA-VCR in MiND. Verify the results were reported accurately and by a date to be determined by USDA.

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 (MDE is currently operating under a 5-year review cycle waiver); 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. The NSFSA is a restricted account.

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. 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.

2. Non-profit School Food Service Accounts (NSFSA)

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. The NSFSA is a restricted account.

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 determine if a separate accounting/tracking is made for the school food service as required.
c. Verify that the School Meals Program funds are not commingled by determining that each funding source is identified separately in the accounting records by grant code.
d. Test federal reimbursement payments received monthly from the administering agency to determine if promptly credited to the non-profit school food service account (NSFSA).
e. Test transfers out of the NSFSA and determine if the transfers were for the benefit of the school food service.
f. Test expenditures to verify that the School Meals Programs NSFSA funds (Food Service Fund 25) were only expended on Child Nutrition Programs.

3. Review the PLE Calculations for previous and current school years. This is a suggested procedure when applicable to a sponsor, due to compliance issues being common for that area. This will not pertain to public school sponsors due to Michigan School Meals but does apply to most non-public schools.

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 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.

III. REFERENCE MATERIALS AND CONTACTS

A. Reference Materials

1. Catalog of Federal Domestic Assistance/Assistance Listing, 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. Verification.
5. Meal Requirements under the National School Lunch Program and School Breakfast Program: Q & A's (USDA memo SP 05-2022).
6. School Breakfast Program Meal Pattern: Q & A's (USDA Memo SP 43-2014).
7. MDE website School Breakfast Program.

8. Offer vs. Serve Manual.
9. Paid Lunch Equity Tool.
10. MDE Indirect Costs Webpage.
11. Food Buying Guide for Child Nutrition Programs.
12. Direct Certification Center for Educational Performance and Information (CEPI).
13. Direct Certification Help and Official Communications.
14. USDA Child Nutrition Program Resources (legislation, memos, regulations).
15. Afterschool Snack Program.
16. Whole Grain Resource for the NSLP and SBP.
17. USDA Memo SP 41-2014 Clarification of the Policy on Food Consumption.
18. Updates to the School Nutrition Standards | Food and Nutrition Service.
19. Final Rule – Child Nutrition Programs: Meal Patterns Consistent With the 2020-2025 Dietary Guidelines for Americans.
20. Summer Food Service Program for Children Administrative Guidance for Sponsors.
21. Final Rule: Nutrition Standards for All Foods Sold in School (Smart Snacks).
22. USDA Child and Adult Care Food Program (CACFP) meal patterns and updated materials.
23. Federal Register: Streamlining Program Requirements and Improving Integrity in the Summer Food Service Program (SFSP).
24. Rural Non-Congregate Eligibility – FNS Rural Designation Map
25. School Nutrition Program Accounting Coding.
26. MDE Website for Child Nutrition Program Procurement.

B. Contacts

1. For information regarding school meal regulations and program policies, contact:

Melanie Brummeler, Supervisor
Office of Nutrition Services
Michigan Department of Education
PO Box 30008
Lansing, Michigan 48909
BrummelerM@Michigan.gov

2. For information regarding findings of School Food Authority Administrative Reviews, school meal regulations, and program policies, contact:

Michelle Groothuis
Consultant Manager
Office of Nutrition Services
Michigan Department of Education
PO Box 30008
Lansing, Michigan 48909
GroothuisM@Michigan.gov

3. For information on payment of claims for reimbursement for school meals, please contact:

JL Purves
Financial Specialist
Office of Nutrition Services
Michigan Department of Education
PO Box 30008
Lansing, Michigan 48909
PurvesJ@Michigan.gov

4. For information regarding processing contracts and calculating commodity entitlement values, contact:

Tom Priest
Consultant Manager
Office of Nutrition Services
Michigan Department of Education
PO Box 30008
Lansing, Michigan 48909
517-241-2597
PriestT1@Michigan.gov

5. For information regarding the Summer Food Service Program, contact:

Sara Harmon
Summer Feeding Manager
Office of Nutrition Services
Michigan Department of Education
PO Box 30008
Lansing, Michigan 48909
517-335-0375
HarmonS7@Michigan.gov

6. For information regarding Child Nutrition Program Procurement Compliance and food service management and vended school meal contracts, contact:

Emily Ross
Department Manager
Office of Nutrition Services
Michigan Department of Education
PO Box 30008
Lansing, Michigan 48909
517-241-5357
RossE@Michigan.gov

7. For information regarding Fiscal and Administrative Services, including the Resource Management Review section of the Administrative Review, contact:

Aimee Haapala
Financial Manager
Office of Nutrition Services
Michigan Department of Education
PO Box 30008
Lansing, Michigan 48909
517-241-5369
HaapalaA1@Michigan.gov

Attachment 1

School Nutrition Programs' Meal Patterns and Nutrient Standards
National School Lunch Program (NSLP) Meal Pattern

Amount of Food[1] per Week (minimum per day)

Meal Components	Grades K-5	Grades 6-8	Grades 9-12
Fruits (cups)[2]	2 1/2 (1/2)	2 1/2 (1/2)	5 (1)
Vegetables (cups)[2]	3 3/4 (3/4)	3 3/4 (3/4)	5 (1)
Dark green subgroup[3]	1/2	1/2	1/2
Red/orange subgroup[3]	3/4	3/4	1 1/4
Beans, peas, and lentils subgroup[3]	1/2	1/2	1/2
Starchy subgroup[3]	1/2	1/2	1/2
Other vegetables subgroup[3,4]	1/2	1/2	3/4
Additional vegetables from any subgroup to reach total	1	1	1 1/2
Grains (oz. eq.)[5]	8-9 (1)	8-10 (1)	10-12 (2)
Meats/meat alternates (oz. eq.)[6]	8-10 (1)	9-10 (1)	10-12 (2)
Fluid milk (cups)[7]	5 (1)	5 (1)	5 (1)

Daily Amount Based on the Average for a 5-Day Week[8]

Dietary Specifications	Grades K-5	Grades 6-8	Grades 9-12
Minimum-maximum calories (kcal)	550-650	600-700	750-850
Saturated fat (% of total calories)	<10	<10	<10
Added sugars (% of total calories) - must be implemented by July 1, 2027	<10	<10	<10
Sodium limit – in place through June 30, 2027	<1,110 mg	<1,225 mg	<1,280 mg
Sodium limit - must be implemented by July 1, 2027	≤935 mg	≤1,035 mg	≤1,080 mg

NSLP Endnotes

[1] Food items included in each group and subgroup and amount equivalents.

[2] Minimum creditable serving is 1/8 cup. One-quarter cup of dried fruit counts as 1/2 cup of fruit; 1 cup of leafy greens counts as 1/2 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 percent full-strength.

[3] Larger amounts of these vegetables may be served.

[4] This subgroup consists of "Other vegetables" as defined in paragraph (c)(2)(ii)(E) of this section. For the purposes of the NSLP, the "Other vegetables" requirement may be met with any additional amounts from the dark green, red/orange, and bean, peas, and lentils vegetable subgroups as defined in paragraph (c)(2)(ii) of this section.

[5] Minimum creditable serving is 0.25 oz. eq. At least 80 percent of grains offered weekly (by ounce equivalents) must be whole grain rich as defined in § 210.2 of this chapter, and the remaining grains items offered must be enriched.

[6] Minimum creditable serving is 0.25 oz. eq.

[7] Minimum creditable serving is 8 fluid ounces. All fluid milk must be fat-free (skim) or low-fat (1 percent fat or less) and must meet the requirements in paragraph (d) of this section.

[8] By July 1, 2027, schools must meet the dietary specification for added sugars. Schools must meet the sodium limits by the dates specified in this chart. Discretionary sources of calories may be added to the meal pattern if within the dietary specifications.

School Breakfast Program (SBP) Meal Pattern

Amount of Food[1] per Week (minimum per day)

Meal Components	Grades K-5	Grades 6-8	Grades 9-12
Fruits (cups)[2]	5 (1)	5 (1)	5 (1)
Vegetables (cups)[2]	0	0	0
Dark green subgroup	0	0	0
Red/orange subgroup	0	0	0
Beans, peas, and lentils subgroup	0	0	0
Starchy subgroup	0	0	0
Other vegetables subgroup	0	0	0
Grains or meats/meat alternates (oz. eq.)[3]	7-10 (1)	8-10 (1)	9-10 (1)
Fluid milk (cups)[4]	5 (1)	5 (1)	5 (1)

Daily Amount Based on the Average for a 5-Day Week[5]

Dietary Specifications	Grades K-5	Grades 6-8	Grades 9-12
Minimum-maximum calories (kcal)	350-500	400-550	450-600
Saturated fat (% of total calories)	<10	<10	<10
Added sugars (% of total calories) - must be implemented by July 1, 2027	<10	<10	<10
Sodium limit - in place through June 30, 2027	≤540 mg	≤600 mg	≤640 mg
Sodium limit - must be implemented by July 1, 2027	≤485 mg	≤535 mg	≤570 mg

SBP Endnotes

[1] Food items included in each group and subgroup and amount equivalents.

[2] Minimum creditable serving is 1/8 cup. Schools must offer 1 cup of fruit daily and 5 cups of fruit weekly. Schools may substitute vegetables for fruit at breakfast as described in paragraphs (c)(2)(i) and (ii) of this section.

[3] Minimum creditable serving is 0.25 oz. eq. School may offer grains, meats/meat alternates, or a combination of both to meet the daily and weekly ounce equivalents for this combined component. At least 80 percent of grains offered weekly at breakfast must be whole grain rich as defined in § 210.2 of this chapter, and the remaining grain items offered must be enriched.

[4] Minimum creditable serving is 8 fluid ounces. All fluid milk must be fat-free (skim) or low-fat (1 percent fat or less) and must meet the requirements in paragraph (d) of this section.

[5] By July 1, 2027, schools must meet the dietary specification for added sugars. Schools must meet the sodium limits by the dates specified in this chart.

Discretionary sources of calories may be added to the meal pattern if within the dietary specifications.

ATTACHMENT 2

Implementation Timeline for Final Rule - 2024

Child Nutrition Program Meal Patterns Consistent with the 2020-2025 Dietary Guidelines for Americans

Added Sugars

Requirements	School Year 2024-2025	School Year 2025-2026	School Year 2026-2027	School Year 2027-2028
Product-based limits for breakfast cereals, yogurt, and flavored milk		X		
Weekly limit (<10% weekly calories from added sugars for both lunch and breakfast programs)				X

Milk

Requirements	School Year 2024-2025	School Year 2025-2026	School Year 2026-2027	School Year 2027-2028
All schools may offer flavored milk varieties (low-fat and fat-free) to K-12 students.	Schools will continue with current requirement.			

Whole Grains

Requirements	School Year 2024-2025	School Year 2025-2026	School Year 2026-2027	School Year 2027-2028
At least 80% of the grains offered for both lunch and breakfast programs per week must be whole grain-rich. Adds in regulation the current definition of whole grain-rich: "*the grain content of a product is between 50% and 100% whole grain with any remaining grains being enriched*."	Schools will continue with current requirement.			

Sodium

Requirements	School Year 2024-2025	School Year 2025-2026	School Year 2026-2027	School Year 2027-2028
Lunch - 15% reduction from current sodium limits: • Grades K-5: < 935 mg • Grades 6-8: < 1,035 mg	Continue sodium target 1A from transitional final rule while working toward meeting future requirement.			X
• Grades 9-12: < 1,080 mg				

Breakfast - 10% reduction from current sodium limits: • Grades K-5: < 485 mg • Grades 6-8: < 535 mg • Grades 9-12: < 570 mg	Continue sodium target 1A from transitional final rule while working toward meeting future requirement.	X

Afterschool Snacks

Requirements	School Year 2024-2025	School Year 2025-2026	School Year 2026-2027	School Year 2027-2028
Revises the definition of "child" to clarify that children aged 18 and under at the start of the school year may receive reimbursable NSLP afterschool snacks throughout that school year.[1]	X			
Aligns NSLP afterschool snack meal pattern requirements for K-12 children with the CACFP snack meal pattern requirements.		X		

Meal Modifications

Requirements	School Year 2024-2025	School Year 2025-2026	School Year 2026-2027	School Year 2027-2028
Clarifies existing policy guidance by including in regulation that state licensed healthcare professionals may write medical statements to request meal modifications on behalf of students with disabilities in the school meal programs.[1]	X			
Defines a state licensed healthcare professional as an individual authorized to write medical prescriptions under state law, consistent with current policy guidance.[1]	X			
In addition to state licensed healthcare professionals, also permits registered dietitians to write medical statements to request meal modifications on behalf of students with disabilities in the school meal programs.		X		

Regarding non-disability requests, makes clear in regulation that USDA encourages schools to meet participants' non-disability dietary preferences when planning and preparing school meals.	X			

Buy American

Requirements	School Year 2024-2025	School Year 2025-2026	School Year 2026-2027	School Year 2027-2028
Maintains the two current limited exceptions for the Buy American provision, which is consistent with current policy guidance, and includes them in regulation. Also provides the use of an exceptions list when items are determined to not be available in the U.S.	Schools will continue to be able to use the limited exceptions to the Buy American requirement and can use the provided exceptions list beginning July 1, 2024.			
Institutes a phased-in cap on total non-domestic food purchases. For school food authorities unable to meet the phased-in cap, a temporary accommodation will be available.	• In school year 2025-2026, non-domestic food purchases are capped at 10 percent. • In school year 2028-2029, non-domestic food purchases are capped at 8 percent. • In school year 2031-2032, non-domestic food purchases are capped at 5 percent.			
Requires school food authorities to maintain documentation to demonstrate use of one of the two limited exceptions, except when items are listed on the exceptions list.[1]	X			
Requires school food authorities to include the Buy American requirements in documented procurement procedures, solicitations, and contracts for foods and food products procured for NSLP and SBP using informal and formal procurement methods, and in awarded contracts. This is consistent with current policy guidance.[1]	X			

Adds in regulation the following definition of "substantially" for the Buy American provision, which is consistent with current policy guidance: "Substantially using agriculture commodities that are produced in the United States means over 51 percent of a food product must consist of agricultural commodities that were grown domestically."[1]	X			
Adds in regulation language explaining how the Buy American requirements apply to fish and fish products offered in NSLP and SBP, consistent with current policy guidance.[1]	X			

Meal Planning and Operational Flexibilities

	Flexibilities (Implementation Date: July 1, 2024)
Meat/Meat Alternates at Breakfast	Establishes a combined grains and meats/meat alternates meal component in the SBP and removes the requirement for schools to offer 1.0 ounce equivalent of grains each day at breakfast. Schools may offer grains, meats/meat alternates, or a combination of both, to meet the minimum ounce equivalent requirements in this combined meal component.
Substituting Vegetables for Grains in Tribal Communities	Allows school food authorities and schools that are tribally operated, operated by the Bureau of Indian Education, and that serve primarily American Indian or Alaska Native children to serve vegetables to meet the grains requirement in NSLP and SBP.
Substituting Vegetables for Grains in Guam and Hawaii	Allows all schools in Guam and Hawaii to serve vegetables to meet the grains requirement.
Traditional Indigenous Foods	• Continues to allow and clarifies in the regulation that traditional indigenous foods may be served in reimbursable school meals. • Regulations will include the definition of traditional foods from the Agriculture Improvement Act of 2014, which defines traditional food as "food that has traditionally been prepared and consumed by an [American] Indian tribe," including wild game meat, fish, seafood, marine mammals, plants, and berries.

Substituting Vegetables for Fruits at Breakfast	• Continues to allow schools to substitute vegetables for fruits in the SBP and simplifies the vegetable variety requirement:
	  ○ Schools choosing to offer vegetables for breakfast one day per school week have the option to offer any vegetable, including a starchy vegetable.
	  ○ Schools choosing to substitute vegetables for fruits at breakfast on two or more days per school week are required to offer vegetables from at least two different vegetable subgroups.[2]

Nuts and Seeds	• Allows nuts and seeds to credit for the full meats/meat alternates component, removing the 50 percent crediting limit for nuts and seeds at breakfast, lunch, and supper. • This provision also streamlines CNP requirements by aligning nut and seed crediting across all programs and meals.
Beans, Peas, and Lentils at Lunch	• Changes the name of the "legumes (beans and peas)" vegetable subgroup and all references to "legumes (beans and peas)" and "dry beans and peas (legumes)" to "beans, peas, and lentils," consistent with the terminology used in the *Dietary Guidelines* and to implement consistent terminology across CNPs. • Allows schools the option to count beans, peas, and lentils offered as a meat alternate at school lunch toward the weekly beans, peas, and lentils vegetable subgroup requirement. • Under this option, menu planners would determine which overall meal component beans, peas, and lentils would count toward, either vegetables or meats/meat alternates. Beans, peas, and lentils offered to students as either vegetables or meat alternates can count toward the weekly requirement to offer ½ cup of beans, peas, and lentils vegetable subgroup in the NSLP.

Competitive Foods/Smart Snacks in Schools	• Adds bean dip to the list of foods exempt from the total fat standard in the Smart Snacks regulations:
	  ○ This exemption applies to products marketed as hummus, as well as bean dips made from any variety of beans, peas, or lentils.
	  ○ Bean dip will continue to be subject to the saturated fat standard for Smart Snacks, as well as all other Smart Snacks requirements.

Whole Grains (Entrée Definition)	Updates the definition of "entrée item" in competitive food standards regulations to clarify that entrées containing either whole grain-rich and/or enriched grains offered as part of a reimbursable school meal may qualify as an entrée item when sold à la carte as a Smart Snack.
Professional Standards	Allows state agency discretion to approve the hiring of an individual to serve as a SNP director in a medium or large local educational agency, for individuals who have 10 years or more of SNP experience but do not hold a bachelor's or an associate's degree. SNP directors hired under this exception must have a high school diploma or GED.
Geographic Preference	• Expands the geographic preference option to allow "locally grown," "locally raised," or "locally caught" as procurement specifications (e.g., a written description of the product or service that the vendor must meet to be considered responsive and responsible) for unprocessed or minimally processed food items. • Continues to allow state agencies and program operators to adopt their own definition of "local" and does not prescribe a federal definition of "local" for the purpose of procuring local foods.
Synthetic Trans Fat	Removes the dietary specification prohibiting synthetic trans-fat in the school lunch and breakfast programs. Schools will no longer need to include the synthetic trans-fat prohibition in their procurement documentation, and state agencies will no longer need to review product labels or manufacturers specifications with the synthetic trans-fat dietary specification. The U.S. Food and Drug Administration (FDA)'s actions to eliminate synthetic *trans* fat from the U.S. food supply effectively banned *trans* fats from being added to foods made or sold in the U.S. USDA used this opportunity to reduce burden on program operators by eliminating a requirement that USDA determined is no longer necessary.

Implementation Timeline Endnotes

[1] *Note*: These provisions, which must begin to be implemented in school year 2024-2025, do not make changes to the meal patterns. Several of these changes included in regulation requirements that are already in place through policy guidance.

Attachment 3

Serving School Meals to Preschoolers

Preschool meals served through the U.S. Department of Agriculture's National School Lunch Program and School Breakfast Program (NSLP and SBP) are designed to meet the nutritional needs of young children. Children receive meals that follow the preschool meal pattern if they are a student in the preschool age/grade group. There are two age groups under the preschool meal pattern: children 1 through 2 years old (1–2 years), and children 3 through 5 years old (3–5 years). Types of milk and minimum serving sizes for some meal components are different for the two age groups. By following the preschool meal pattern, your school can help young children eat the types and amounts of foods that best support their growth and development.

Preschool Meal Pattern

	Breakfast		Lunch	
	1–2 years	3–5 years	1–2 years	3–5 years
Milk	½ cup (4 fl oz)	¾ cup (6 fl oz)	½ cup (4 fl oz)	¾ cup (6 fl oz)
Fruits	¼ cup	½ cup	⅛ cup	¼ cup
Vegetables	¼ cup	½ cup	⅛ cup	¼ cup
			Optional: A second, different vegetable may be served in place of fruit at lunch.	
Grains	½ oz eq	½ oz eq	½ oz eq	½ oz eq
Meats/Meat Alternates	**Optional:** Meats/meat alternates may be served in place of the entire grains component up to three times per week at breakfast. Minimum serving size for both age groups is ½ oz eq.		1 oz eq	1½ oz eq

Serving sizes are minimums.
Operators may offer larger portions.
fluid ounces = fl oz; oz = ounces; oz eq = ounce equivalents

Additional Information

Milk

- Minimum Serving Size:
  - For 1-2 year olds: ½ cup (4 fl oz) required daily at both breakfast and lunch.
  - For 3-5 year olds: ¾ cup (6 fl oz) required daily at both breakfast and lunch.
- Types:
  - For 1 year olds: Unflavored whole milk only.
  - For 2-5 year olds: Unflavored low-fat (1%) or fat-free (skim) milk only
- Not required to offer different options of fluid milk.

Fruits

- Minimum Serving Size:
  - For 1-2 year olds: ¼ cup fruits, vegetables, or a combination of both required daily at breakfast.
  - For 1-2 year olds: ⅛ cup fruit required daily at lunch.
  - For 3-5 year olds: ½ cup of fruits, vegetables, or a combination of both required daily at breakfast.
  - For 3-5 year olds: ¼ cup of fruit required daily at lunch.
- May serve fruits, vegetables, or combination of both to meet the combined vegetables/fruits component at breakfast.
- A second, and different vegetable may be served in place of fruit at lunch.
- No vegetable subgroup requirements.
- May serve 100% juice once per day. If juice is served at breakfast, it cannot be served at lunch.

Vegetables

- Minimum Serving Size:
  - For 1-2 year olds: ⅛ cup vegetable required daily at lunch.
  - For 3-5 year olds: ¼ cup vegetable required daily at lunch.
- No vegetable subgroup requirements.
- A second, and different vegetable may be served in place of fruit at lunch.
- May serve 100% juice once per day. If juice is served at breakfast, it cannot be served at lunch.

Grains

- Minimum Serving Size: For 1-2 and 3-5 year olds: ½ oz eq required daily for both breakfast and lunch.
- Daily: At least one of the grains offered per day must be whole grain-rich.
- Enriched grains may be served at breakfast, if whole grain-rich items are served at lunch.

Meat/Meat Alternate

- Minimum Serving Size:
  - Optional at Breakfast – for 1-2 and 3-5 year olds: can serve ½ oz eq in place of grains up to three times per week.
  - For 1-2 year olds: 1 oz eq required daily at lunch.
  - For 3-5 year olds: 1 ½ oz eq required daily at lunch.
- When substituting the meat/meat alternate at breakfast, it must be substituted for the entire grains component. May not count a combination of grains and meat/meat alternate toward the grains component.

Grain Based Desserts

- May not be credited towards the grains component.
- Sweet crackers (e.g. graham crackers and animal crackers) are allowable and count towards the grain's component (with no weekly limit).

Preschool meals do not have a limit on sodium.

Offer Versus Serve is only allowed when preschool students are co-mingled with older children.

Added sugar limits for breakfast cereal and yogurt are the same as in NSLP and SBP.

Attachment 4

CHILD NUTRITION WAIVERS

12(l) Waivers approved in Michigan
Unanticipated School Closure Waiver:

1. Summer Food Service Program (Schools are closed with no virtual learning)
    a. Non-Congregate Meal Service - This waiver would allow children to eat meals away from the serving location. (August 27, 2025 - June 30, 2026)
    b. Parent/Guardian Meal Pick-Up - This waiver allows a parent or guardian to get meals or snacks for a child when the child is not with them. (August 27, 2025 - June 30, 2026)
    c. Meal Service Times - This waiver allows multiple meals to be served at once. Breakfast and lunch may be served at the same time. (August 27, 2025 - June 30, 2026)
    d. Service of Meals at School Sits during Unanticipated School Closures – this allows non-school sites to serve meals during USC. (August 27, 2025 - June 30, 2026)

2. National School Lunch and School Breakfast Programs (Unanticipated School Closure for School buildings are closed with virtual learning)
    a. Non-Congregate Meal Service - This waiver would allow children to eat meals away from the serving location. (August 27, 2025 - June 30, 2026)
    b. Parent/Guardian Meal Pick-Up - This waiver allows a parent or guardian to get meals or snacks for a child when the child is not with them. (August 27, 2025 - June 30, 2026)
    c. Meal Service Times - This waiver allows multiple meals to be served at once. Breakfast and lunch may be served at the same time. (August 27, 2025 - June 30, 2026)
    d. Offer vs Serve – This waiver makes it so offer vs serve is not required for senior high school students at lunch.

3. Child and Adult Care Food Program – Unanticipated School Closure for childcare centers, adult day care centers, emergency shelters, day care homes, outside-school-hours care centers, and/or At-Risk After School sites.
    a. Non-Congregate Meal Service - This waiver would allow children to eat meals away from the serving location. (August 27, 2025 - June 30, 2026)
    b. Parent/Guardian Meal Pick-Up - This waiver allows a parent or guardian to get meals or snacks for a child when the child is not with them. (August 27, 2025 - June 30, 2026)
    c. Meal Service Times - This waiver allows multiple meals to be served at once. Breakfast and lunch may be served at the same time. (August 27, 2025 - June 30, 2026)

Enrichment Activity – This waiver makes it so an enrichment activity or educational component is not required with the service of At-Risk Program meals - Excessive Heat Waiver (May 1, 2025 – September 30, 2025):

Summer Food Service Program

a. Non-Congregate Meal Service – This waiver allows children to eat meals away from the serving location.
b. Parent and Guardian Meal Pick-Up - This waiver allows a parent or guardian to get meals or snacks for a child when the child is not with them.
c. Meal Service Times – This waiver allows sponsors to change the time of a sites meal service while providing adequate notice to the community to ensure there is no loss in program access.
    i. Sponsors must do the following to use the waiver:
        a. Not change meal service times less than 24 hours in advance of the previously scheduled meal service time.
        b. Put a printed notice or poster at the site indicating the change in meal service times.
        c. Alert the community through appropriate channels.

Air Quality Advisory Waiver (May 1, 2025 – September 30, 2025):

Summer Food Service Program

a. Non-Congregate Meal Service – This waiver allows children to eat meals away from the serving location.
b. Parent and Guardian Meal Pick-Up - This waiver allows a parent or guardian to get meals or snacks for a child when the child is not with them.
c. Meal Service Times - This waiver allows sponsors to change the time of a sites meal service while providing adequate notice to the community to ensure there is no loss in program access.
    i. Sponsors must do the following to use the waiver:
        a. Not change meal service times less than 24 hours in advance of the previously scheduled meal service time.
        b. Put a printed notice or poster at the site indicating the change in meal service times.
        c. Alert the community through appropriate channels.

Offer Versus Serve (OVS) for Non-School Food Authority (SFA) Sponsors Waiver (May 1, 2025 - September 30, 2025):

Summer Food Service Program

a. This waiver allows non-school sponsors to request the flexibility of using OVS so children are able to make the choice of which foods they want with their meal during congregate meal service.
b. MDE can approve on a case-by-case basis.

Attachment 5

SUMMER FOOD SERVICE MEAL PATTERN

SUMMER FOOD SERVICE PROGRAM MEAL PATTERNS

FOOD COMPONENTS AND FOOD ITEMS	BREAKFAST Serve all three	LUNCH OR SUPPER Serve all four	SNACK Serve two of the four
Milk	REQUIRED	REQUIRED	
Fluid milk (whole, low-fat, or fat-free)	1 cup[1] (½ pint, 8 fluid ounces)[2]	1 cup (½ pint, 8 fluid ounces)[3]	1 cup (½ pint, 8 fluid ounces)[2]
Vegetables and Fruits – Equivalent quantity of any combination of…	REQUIRED	REQUIRED	
Vegetable or fruit or	½ cup	¾ cup total[4]	¾ cup
Full-strength vegetable or fruit juice	½ cup (4 fluid ounces)		¾ cup (6 fluid ounces)[5]
Grains/Breads[6] – Equivalent quantity of any combination of…	REQUIRED	REQUIRED	
Bread or	1 slice	1 slice	1 slice
Cornbread, biscuits, rolls, muffins, etc. or	1 serving[7]	1 serving[7]	1 serving[7]
Cold dry cereal or	¾ cup or 1 ounce[8]		¾ cup or 1 ounce[8]
Cooked cereal or cereal grains or	½ cup	½ cup	½ cup
Cooked pasta or noodle products	½ cup	½ cup	½ cup
Meat/Meat Alternates Equivalent quantity of any combination of…	OPTIONAL	REQUIRED	
Lean meat or poultry or fish or	1 ounce	2 ounces	1 ounce
Alternate protein products[9] or	1 ounce	2 ounces	1 ounce
Cheese or	1 ounce	2 ounces	1 ounce
Egg (large) or	½	1	½
Cooked dry beans or peas or	¼ cup	½ cup[1]	¼ cup[1]
Peanut or other nut or seed butters or	2 tablespoons	4 tablespoons	2 tablespoons
Nuts or seeds[10] or		1 ounce=50%[11]	1 ounce
Yogurt[12]	4 ounces or ½ cup	8 ounces or 1 cup	4 ounces or ½ cup

1 For the purposes of the requirement outlined in this table, a cup means a standard measuring cup
2 Served as a beverage or on cereal or used in part for each purpose
3 Served as a beverage
4 Serve two or more kinds of vegetable or fruits or a combination of both. Full strength vegetable or fruit juice may be counted to meet not more than one-half of this requirement
5 Juice may not be served when milk is served as the only other component
6 Bread, pasta or noodle products, and cereal grains (such as rice, bulgur, or corn grits) shall be whole-grain or enriched. Cornbread, biscuits, rolls, muffins, etc, shall be made with whole-grain or enriched meal or flour. Cereal shall be whole-grain, enriched, or fortified
7 Serving sizes and equivalents will be in guidance materials to be distributed by FNS to State agencies
8 Either volume (cup) or weight (ounces), whichever is less
9 Must meet the requirements of 7 CFR 225 Appendix A
10 Tree nuts and seeds that may be used as meat alternate are listed in program guidance
11 No more than 50 percent of the requirement shall be met with nuts or seeds. Nuts or seeds shall be combined with another meat/meat alternate to fulfill the requirement. For purposes of determining combinations, one ounce of nuts or seeds is equal to one ounce of cooked lean meat, poultry or fish
12 Plain or flavored, unsweetened or sweetened

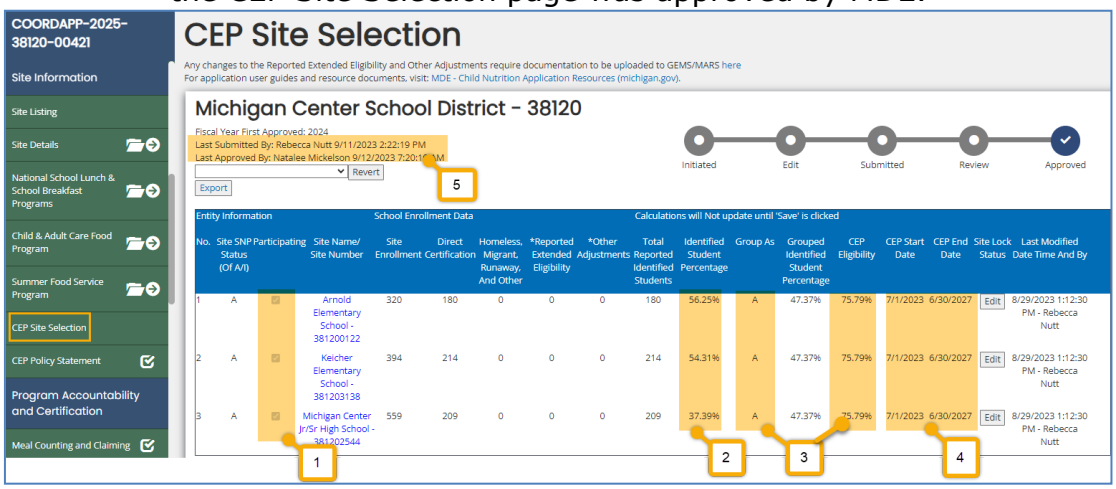
Attachment 6

Frequently Asked Questions When Reviewing CEP

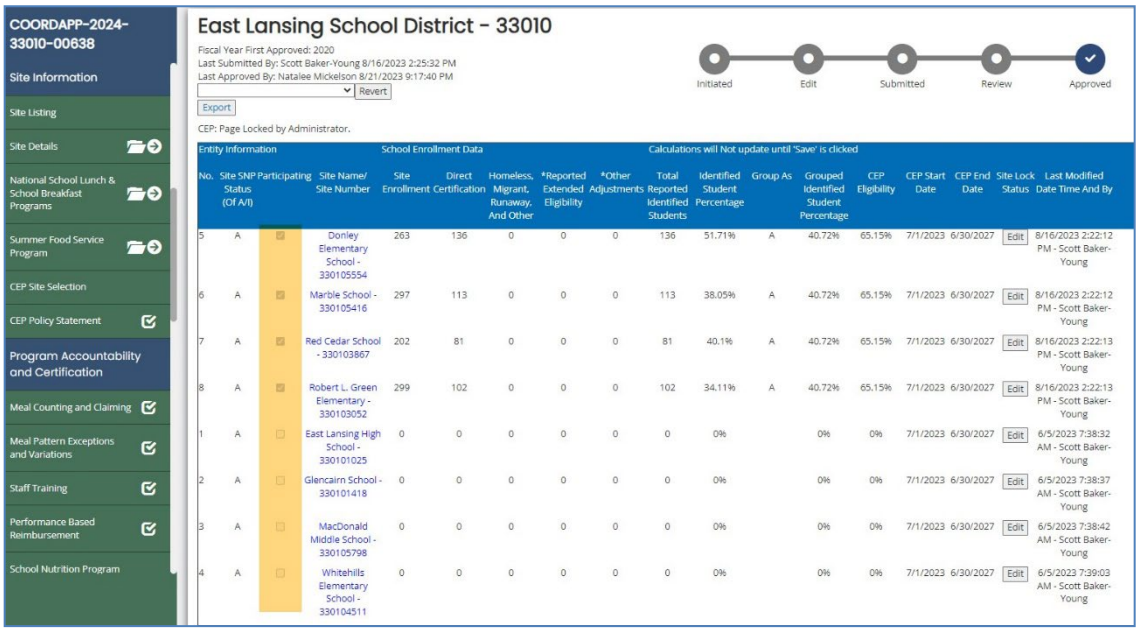
How to Identify Community Eligibility Provision (CEP) Participation

The CEP Site Selection page is in the CNP: Coordinated Application in NexSys. On this page, you can see what sites are participating, the CEP start and end dates for each site, and the claiming percentage of the site or group.

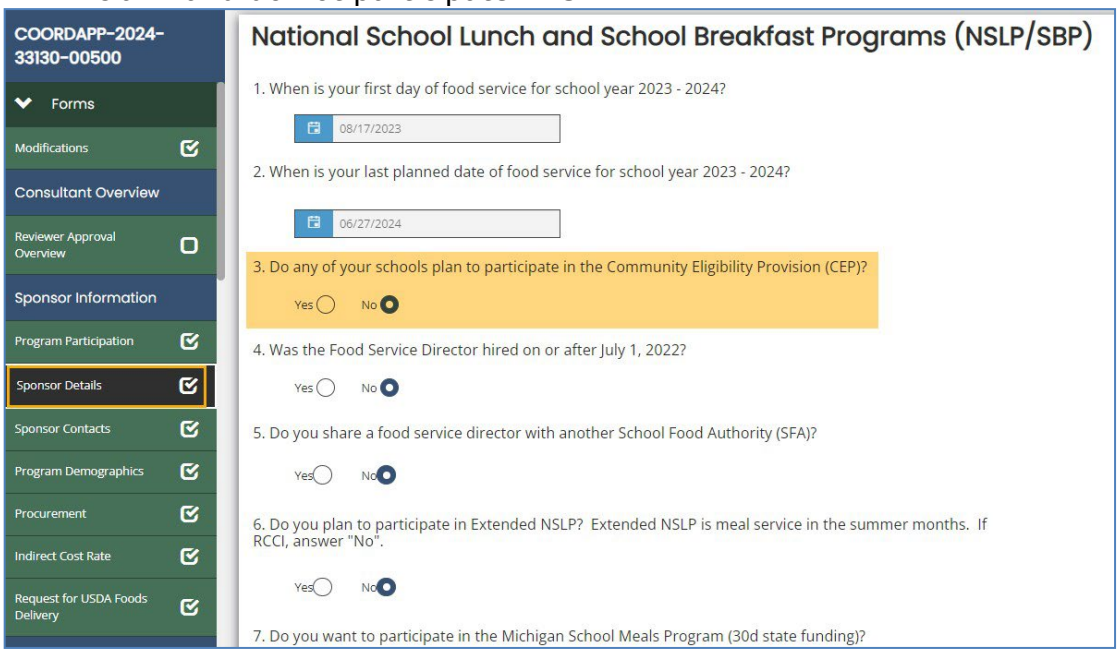
- District Wide CEP – all sites that participate in the NSLP/SBP are CEP
  1. All active sites are checked as participating.
  2. The site Identified Student Percentage (ISP) shows the ISP for each site. This may be used to qualify for other programs such as afterschool snack or SFSP. A site ISP of 31.25 x 1.6 = 50% F/R eligibility. 1.6 is the CEP federal multiplier.
  3. Grouped sites average the enrollment and eligibility for a grouped ISP and CEP eligibility. The CEP eligibility will display in the school meals claim.
  4. The CEP start and end date show the current cycle for each site. CEP eligibility can last up to four years.
  5. The last submitted date at the top of the page shows when the district submitted the CEP page for review. The last approved date shows when the CEP Site Selection page was approved by MDE.



- Partial CEP – some sites are CEP, and some are traditional claim.
  The sites participating in CEP are checked in the participating column. Sites without a checkmark are traditional Free/Reduced/Paid claiming.



- Not Participating in CEP
  On the Sponsor Details page, question #3 will be answered "Yes" if a district wants to participate in CEP. If it is answered "No," all sites are traditional claim and do not participate in CEP.



How does Michigan School Meals (MSM) 30d reimbursement work in relation to CEP?

- 100% free federal reimbursement – sites that are at 100% free claiming have all meals reimbursed at the federal free rate. MSM 30d state funds are not needed because meals are fully reimbursed.

Site Name: BENDLE HIGH SCHOOL (250600270) Last Edit On: Nov 14 2023 2:57PM
Site Status: CEP Severe Need Breakfast

Meal Type	Total Servings	Total Paid	Total Free	Total Reduced	Days Served	Percentage of Meals Claimed as Free	Student Enrollment
Breakfast	3814	0	3814	n/a	22	100	322
Lunch	5401	0	5401	n/a	22		

Enter/Edit Site Data

- Paid portion of federal reimbursement - for the sites that are less than 100% free claiming in CEP, MSM state funds will make up the difference on the paid percentage of federal reimbursement to bring those meals up to the full free reimbursement rate. School Year 2025-2026 Food Service Admin Memo No. 12 - Reimbursement Rates.
  Resources Available:
  How the Michigan School Meals Program Payments Work
  Claims and Payments (Michigan.gov)

How does MSM reimbursement work in relation to non-CEP?

The calculations and payments for the new Michigan School Meals 30d state funding are complex. Here is a document to help explain how they work: How Michigan School Meals Program Payments Work

Who has free and reduced-price meal applications to test?

- District-wide CEP – all sites are CEP, so there are no applications to test.
- Partial CEP – some sites are CEP, so the non-CEP schools should have applications to determine F/R/P claiming.
- Not CEP - Schools use applications to determine F/R/P claiming.

Do we test the Education Benefits Form?

Used to collect the free or reduced eligibility determination traditionally collected from a F/R School Meals application. These are not used for child nutrition eligibility determinations; they are for educational state funding outside of food service. Therefore, there is nothing to test for the Child Nutrition Cluster audit purposes. Here are the MDE prototypes for the Education Benefits form.

TITLE I

ASSISTANCE LISTING #84.010A - TITLE I - PART A – BASIC GRANTS TO LEAs

ASSISTANCE LISITING # 84.013A - TITLE I –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 CONTACTS

I. FEDERAL OVERVIEW

A. Federal Agency

Office of Elementary and Secondary Education (OESE), U.S. Department of Education (ED).

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 Assistance Listing.

II. STATE OVERVIEW

The MDE, Office of Educational Supports (OES), is responsible for state administration of the Title I, Part A program. State activities required by the Title I law include application approval, technical assistance to school districts, on-site reviews, and program improvement assistance to low-achieving schools. School districts apply for Title I funds as part of a Consolidated Application. 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 the NexSys System)	Prior to the beginning of 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 Michigan Integrated Continuous Improvement Process (MICIP). 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.

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

A consolidated application 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 code 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 be reconciled 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, except for 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 on the Schedule of Expenditures of Federal Awards (SEFA) in the approved awards amount column in program of origination for which the funds were allocated. The transferred funds should then be included in the adjustments and transfers column as a negative amount in the program of origination and a positive amount in the program of transfer. This allows the funding to be tested in the program of transfer if major. Budget details in the Consolidated Application

display transferred amounts separately from amounts budgeted for the original program. For clarification, a footnote to the SEFA may be included to indicate by program, the amount of funds transferred between ESEA programs. Below are examples of the SEFA and note to the SEFA.

AL Number	Grant	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2021	Adjustments and Transfers	Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2022
84.367	180520-1718	2,595,783	1,750,585	142,704	-	279,152	136,448	-
84.367	190520-1819	2,529,268	-	-	963,093	1,620,551	1,896,495	275,944
		5,125,051	1,750,585	142,704	963,093	1,899,703	2,032,943	275,944
84.424	190750-1819	963,093	-	-	(963,093)	-	-	-
		963,093	-	-	(963,093)	-	-	-

Note 5- Adjustments and Transfers

During the year ended June 30, 2022, the School District transferred $963,093 of awarded Title IV funds to Title II, Part A. The Title II, Part A payments received and expenditures presented on the Schedule of Federal Awards include $830,914 and 840,916, respectively, of amounts related to the transfer of Title IV funds awarded. The Transfer was approved by the Michigan Department of Education.

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 NexSys.

C. U.S. Department of Education Waiver #1

1. Applicable only to school year 2019-2020 carryover into 2020-2021.
2. Carryover limitation in section 1127(b) of the Elementary and Secondary Education Act of 1965 (ESEA) for federal fiscal year (FY) 2019, Title I, Part A funds (i.e., the Title I, Part A funds that will become carryover funds on October 1, 2020): the requirement limits an SEA's ability to grant to its LEAs a waiver of the 15 percent Title I, Part A carryover limitation in section 1127(a) more than once every three years.
3. Link to the letter from USED approving the waiver can be accessed at: USED Waiver Link.

D. U.S. Department of Education Waiver #2

1. Applicable again only to school years 2020-2021 carryover into 2021-2022.
2. Carryover limitation in section 1127(b) of the Elementary and Secondary Education Act of 1965 (ESEA) for federal fiscal year (FY) 2020, Title I, Part A funds (i.e., the Title I, Part A funds that will become carryover funds on October 1, 2021): the requirement limits an SEA's ability to grant to its LEAs a waiver of the 15 percent Title I, Part A carryover limitation in section 1127(a) more than once every three years.
3. Link to the waiver request from MDE to USED can be accessed at: USED Waiver Request Link.

E. U.S. Department of Education Waiver #3

1. Applicable only to school year 2021-2022 carryover into 2022-2023.
2. Carryover limitation in section 1127(b) of the Elementary and Secondary Education Act of 1965 (ESEA) for federal fiscal year (FY) 2019, Title I, Part A funds (i.e., the Title I, Part A funds that will become carryover funds on October 1, 2020): the requirement limits an SEA's ability to grant to its LEAs a waiver of the 15 percent Title I, Part A carryover limitation in section 1127(a) more than once every three years.
3. Link to the waiver request from MDE to USED can be accessed at: USED Waiver Request Link.

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 NexSys. 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 does not allow for the subsequent school year's expenditures. 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 - submitted on the Title I School Selection worksheet in NexSys.

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 Lunch counts, 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 NexSys.

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.

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 and submitted in NexSys.

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) – Submitted on the Title I School Selection application in NexSys.

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 NexSys.

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 use 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. 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 https://mischooldata.org/.

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 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. 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 517-241-6971 to be forwarded to a regional consultant. Reference: P.L. 114-95, Section 1120A(c).

- Information about Schoolwide Consolidation (including templates) are located under: MDE Schoolwide Consolidation Website Link

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 ensuring 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. Appropriately Placed Teachers

1. 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

Paraprofessionals hired after January 2, 2002, must meet No Child Left Behind (NCLB) requirements as a condition of their employment. Individuals who work in food services, cafeteria or playground supervisors, personal care services, non-instructional computer assistance, and similar positions are not impacted by the legislation. These individuals **do not** need to the meet the requirements of NCLB but must meet requirements set forth by MDE or the employer.

For the purposes of Title I, Part A, a paraprofessional is defined as an employee who provides instructional support in a program supported with Title I, Part A funds, either in a school-wide program or directly under a target-assisted program. This includes paraprofessionals who do the following:

1. Provide one-on-one tutoring if such tutoring is scheduled at a time when a student would not otherwise receive instruction from a teacher.
2. Assist with classroom management, such as organizing instructional and other materials.
3. Conduct parental involvement activities.
4. Provide instructional assistance in a computer laboratory.
5. Provide instructional support in a library or media center.
6. Act as a translator.
7. Provide instructional support services under the direct supervision of a teacher.

As partners in the instructional process, paraprofessionals who work in programs supported with Title I funds must meet **one** of the following requirements:

a. Complete at least two years of study at an accredited institution of higher education (equal to 60 semester hours)*; or
b. Obtain an associate's degree (or higher); or
c. Meet a rigorous standard of quality and demonstrate, through passage of an approved formal state academic assessment in the following areas:

    i. Knowledge of, and the ability to assist in, instructing reading, writing, and mathematics; or
    ii. Knowledge of, and the ability to assist in, instructing reading readiness, writing readiness, and mathematics readiness, as appropriate.

The State Board of Education approved the following formal assessments by which a paraprofessional may choose to demonstrate this knowledge:

- College Board's SAT – Must score at least a 480 on evidence-based reading and writing and a 530 on Math.
- ETS Parapro Assessment – A passing score of 460 is required.

Prior Approved Assessments (**no longer accepted** unless within the time frame specified next to each item, if any):

- Michigan Test for Teacher Certification (MTTC) Basic Skills Test.
- MTTC Professional Readiness Examination.
- WorkKeys – Minimum Scores: Reading for Information – 4, Applied Math – 4, Writing – 3.
- ACT (taken between 1/1/1989 – 10/1/2017) Minimum scores: Reading – 22, Combined English and Writing – 22, Math – 22.
- Michigan Merit Examination (MME) (taken between 1/1/2007 and 1/31/2015) Minimum scores: Reading – 1108, Writing – 1129, Math – 1116.

*Paraprofessionals with at least 60 college credit hours are not required to test.

**The ETS Parapro test at home is now available! Test takers can now test remotely from their own computer. Learn more HERE!

- 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.

C. The MDE Office of Educator Excellence (OEE) 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 2 includes specific compliance requirements and Part 6 includes specific internal control requirements.

These audit considerations should be used 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 used 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. Activities Allowed or Unallowed

1. See section B Allowable costs for testing procedures applicable to types of services allowed.

B. Allowable Costs/Cost Principles

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 NexSys 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 MICIP.

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. Request for reimbursement may be made when expenditures are incurred.

D. N/A – Reserved

E. Eligibility and Allocation of Funds

1. Review the Title I School Selection application in NexSys. 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 ($10,000 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 identified 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 and inventory tracking requirements.

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 NexSys 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. Districts must submit comparability reports every year. The reports are subject to Single Audit every year although the State of Michigan will only review a select number of reports every other year. Determine if the district's computation of comparability is accurate biennially. 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

   a. 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.

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. Reserved – N/A

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 CONTACTS

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/Assistance Listing – Section 84.010 – Educationally Deprived Children – local education agencies.
4. Identifying Eligible Title I Schools Non-Regulatory Guidance, USED.
5. 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.
6. Federal Grants Management Handbook – Grants Management Advisory Service, Thompson Publishing Group.

B. Contacts:

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SPECIAL EDUCATION CLUSTER

ASSISTANCE LISTING #84.027A – SPECIAL EDUCATION – GRANTS TO STATES IDEA
ASSISTANCE LISTING #84.173A – SPECIAL EDUCATION - PRESCHOOL

I. FEDERAL OVERVIEW

II. STATE OVERVIEW

III. DISTRICT CONSIDERATIONS

IV. AUDIT CONSIDERATIONS

V. REFERENCE MATERIALS AND CONTACTS

NOTE: The above programs are included in the "Special Education Cluster" according to the OMB Compliance Supplement and must be audited together (Assistance Listing numbers 84.027 and 84.173). 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.

ATTACHMENT

Attachment 1: 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 (FAPE) 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 the subrecipient distributes funds to member districts, it is the subrecipient's responsibility to ensure member districts comply with program requirements.

B. Accounting Criteria

The general accounting procedures are found in the Michigan School Accounting Manual (Bulletin 1022). A specific list of allowable expenditures for the special education cluster is found in the State Aid & IDEA Part B, Section 611 Allowable Costs document 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 annual prior written approval of MDE 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 subrecipient 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).

IDEA, PART B, SECTION 611, AGES 3 THROUGH 21 (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).

IDEA, PART B, SECTION 619, AGES 3 THROUGH 5 (PRESCHOOL)

A subrecipient 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)).

III. DISTRICT CONSIDERATIONS

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

A. Activities Allowed or Unallowed – See Section B Allowable Costs/Cost Principles for testing procedures applicable to types of services allowed.

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

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

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.)

C. Cash Management

1. Subrecipients are expected to use good business practices when disbursing federal funds to member districts. 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 subrecipient must refund the excess federal funds.
3. Payments to the subrecipients and member districts are on a reimbursement basis only.

D. Matching, Level of Effort, Earmarking - 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 subrecipient 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 subrecipient met MOE using the same method by which it is establishing compliance. (See Appendix E to Part 300.)

E. Period of Performance of Federal Funds – Costs charged to each grant must be within the grant period in the grant award notification.

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

G. Reporting - Review of the most recently submitted Final Expenditure Report (FER) submitted to MDE during the current fiscal year. Verify the figures on the report are an accurate representation of expenditures for each project.

H. Member District Monitoring - Subrecipients that distribute federal funds to member districts 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.

Audit considerations below should be used when a specific compliance area indicates 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 used when auditor judgment has determined an area should be tested,

or as part of an unpredictable audit procedure. Additionally, for those areas 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.

A. Allowable Activities

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

B. Allowable Costs

1. Obtain the grant application to determine allowable costs. Also refer to the MDE OSE State Aid & IDEA Part B, Section 611 Allowable Costs document, found on the MDE OSE website. Sample the expenditures to determine they are for allowable costs.
2. 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.
3. Determine cash was requested as a reimbursement of funds expended.
4. Determine the district did not distribute cash at a faster rate, or in a manner different from with which they handle their own cash.
5. Determine if the district was advanced more cash than was needed, the district refunded the excess federal funds.

C. N/A – Reserved

D. Eligibility

1. Subrecipient eligibility of IDEA Part B funds tested and determined annually by MDE OSE.

E. Equipment

1. If ($10,000 or greater) is charged to the grant:
   a. Determine purchased 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 $10,000 (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.

F. Matching, Level of Effort, Earmarking

1. Maintenance of Effort (MOE)

MOE eligibility and compliance testing are completed at the subrecipient level. The ISD is the subrecipient. MOE is evaluated in the aggregate across the subrecipient and all member districts within the subrecipient's jurisdiction. MDE conducts MOE eligibility and compliance testing for each subrecipient for each Flowthrough and Preschool award.

a. Test: Verify the subrecipient and member districts have procedures in place to complete the MOE eligibility and compliance activities for consistent implementation following direction from MDE.

2. Excess Cost:

Excess Cost threshold setting and compliance testing are completed at the subrecipient level. Excess Cost is evaluated in the aggregate across the subrecipient and all member districts within the subrecipient's jurisdiction. MDE conducts threshold setting and performs the compliance testing for Excess Cost.

a. Test: Verify the subrecipient and member districts have procedures in place to complete the Excess Cost activities for consistent implementation following direction from MDE.

G. Proportionate Share

The Proportionate Share requirement is demonstrated as being met by the ISD as the subrecipient in the aggregate including all member districts in their jurisdiction. The required Proportionate Share set-aside calculations are performed by the subrecipient for the Flowthrough, ages 3-21 and Preschool, ages 3-5, grants separately, using prior year countywide student head counts. The subrecipient must budget and expend the required amount during the period of availability of the grant, under function code 371. Subrecipients may retain the total amount and provide required services or distribute the required proportionate share amount to their member districts where member districts record the amounts under function code 371 totaling the required subrecipient aggregate amount. The subrecipient and/or member districts must expend the required amount of IDEA Part B funds based upon the aggregate calculations out of Flowthrough and Preschool grants separately in the current year or have any remaining funds set-aside for this purpose in the carryover year.

Examples of allowable and unallowable expenditures related the IDEA proportionate share requirement can be found in the IDEA Proportionate Share Allowable and Unallowable Costs document.

1. Report when the subrecipient/member district has charged the proportionate share requirement using budget estimates and not actual time spent providing equitable services to parentally placed private school children with disabilities.
2. Report when the subrecipient/member district has charged the Preschool share requirement for equitable services provided to parentally placed private school children with disabilities who are not between the ages of 3 and 5 years of age.

H. Period of Performance of Federal Funds

1. Check starting and ending transactions against the grant award letter.
2. Report when transactions have occurred prior to the award date of 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

Revenue and expenditures must be accounted for by project, funding source, and grant fiscal year.

1. Verify that grants are not commingled by determining that each funding source is identified separately in the accounting records.

M. Monitoring

1. Review the subrecipient's system for obtaining, reviewing, and acting on member district audit reports when the subrecipient distributes funds to member districts. Determine those funds distributed are reported on the member district Schedule of Expenditures of Federal Awards (SEFA) and these amounts agree to subrecipient's records.

V. REFERENCE MATERIALS AND CONTACTS

A. Reference Materials

1. Catalog of Federal Domestic Assistance/Assistance Listing, Special Education, State Grants (Individuals with Disabilities Education Act, Part B) Section 84.027 Flowthrough & Section 84.173 Preschool.

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. MDE OSE State Aid & IDEA Part B, Section 611 Allowable Costs document.

B. Contacts

1. Questions regarding Special Education Flowthrough (Part B, Section 611), approvals, or specific grant requirements should be directed to:

Sean McLaughlin
Financial Manager
MDE Office of Special Education Program Finance
708 W. Allegan St.
Lansing, MI 48909
517-897-2261
MDE-OSEProgramFinance@Michigan.gov

2. Questions regarding Special Education Preschool (Part B, Section 619) should be directed to:

Mark Kuipers
Early Childhood Special Education/619 Coordinator
MiLEAP Early Learning and Family Services
105 W. Allegan Street
Lansing, Michigan 48933
517-855-8658
KuipersM2@Michigan.gov

Or

Janet Timbs
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MiLEAP Early Learning and Family Services
105 W. Allegan Street
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Or

Dr. Sophia Lafayette-Laus
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Attachment 1

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 $10,000 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 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 $10,000 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 $10,000 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)].

5. Where the federal government has a right to part or all of the proceeds of the sale of equipment, selling procedures shall provide for competition to the extent practicable and result in the highest possible return [34 CFR 200.313(5)].

TITLE II, PART A

ASSISTANCE LISTING #84.367A - SUPPORTING EFFECTIVE INSTRUCTION

I. FEDERAL OVERVIEW

II. STATE OVERVIEW

III. DISTRICT CONSIDERATIONS

IV. AUDIT CONSIDERATIONS

V. REFERENCE MATERIALS AND CONTACTS

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.

C. Beneficiary Eligibility

Local school districts implementing programs to improve teacher and principal quality and to reduce class size with the goal of improving student achievement.

II. STATE OVERVIEW

The Michigan Department of Education (MDE), Office of Educational Supports (OES), 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 fiscal on-site or desk reviews. MDE relies on the Federal Office of Management and Budget (OMB) Compliance Supplement from the Single Audit Act of 1984, the Education Department General Administrative Guidelines (EDGAR), General Education Provisions Act (GEPA), and Uniform Grant Guidance (UGG), 2 CFR, Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards to determine that Title II, Part A, funds are used only for approved activities within the correct project period and to verify reported expenditures.

The objective of the Supporting Effective Instruction state grant program (formerly Improving Teacher Quality state grants program) in Title II, Part A of the Elementary and Secondary Education Act (ESEA) of 1965, as amended by the Every Student Succeeds Act (ESSA) (Pub. L. No. 114-95), is to provide funds to state educational agencies (SEAs), and local educational agencies (LEAs) to:

1. Increase student achievement consistent with the challenging state academic standards,
2. Improve the quality and effectiveness of teachers, principals, and other school leaders,
3. Increase the number of teachers, principals, and other school leaders who are effective in improving student academic achievement in schools, and
4. Provide low-income and minority students greater access to effective teachers, principals, and other school leaders.

After conducting meaningful consultation, as required by ESEA Section 2102(b)(3), LEAs may use funds for a broad range of activities designed to improve educator effectiveness that are identified in ESEA Section 2103(b).

While not an exhaustive list, examples of allowable activities include:

1. Providing "professional development" (as the term is defined in ESEA Section 8101(42) (20 USC 7801(42)) to teachers, instructional leadership teams, principals, or other school leaders that is focused on improving teaching and student learning and achievement,

2. Developing and implementing initiatives to recruit, hire, and retain teachers, principals, and other school leaders,

3. Providing training, technical assistance, and capacity-building in local educational agencies to assist teachers, principals, or other school leaders with selecting and implementing formative assessments, designing classroom-based assessments, and using data from such assessments to improve instruction and student academic achievement carrying out initiatives that provide teacher, paraprofessional, principal, or other school leader advancement and professional growth, and an emphasis on leadership opportunities, multiple career paths, and pay differentiation. LEAs also may use funds to hire teachers to reduce class size (ESEA sections 2103(b) (20 USC 6613(b))).

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

A. Costs associated with recruiting and retaining appropriately placed teachers, principals, and pupil services personnel (not to include salary and benefits of recruited staff).

B. Costs associated with retaining appropriately placed teachers and principals in schools with low achievement through (not including salary and benefit of recruited staff):
   1. Teacher mentoring from exemplary teachers, principals, or superintendents (not to meet the State requirement for non-tenure teachers).
   2. Induction and support for teachers and principals in their first three years (not to meet the State requirement for non-tenure teachers).
   3. Incentives to teachers and principals with record of success in improving achievement of low-achieving students.

C. Costs associated with (not including salary and benefits of recruited staff) recruiting and hiring appropriately placed teachers in academic subjects where there is a shortage.

D. Recruit, hire and pay salaries for appropriately placed 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".

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

F. 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.

G. Costs associated with (not to include recruited teacher's salary and benefits) recruiting professionals from other fields and appropriately placed paraprofessionals and provide alternative routes to certification.

H. 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.

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

1. Core academic subjects, effective instructional strategies, and use of State standards and assessments.
2. Instructional practices involving collaborative groups of teachers and administrators.
3. Addressing needs of students with different learning styles and providing early and appropriate interventions.
4. Improving student behavior in the classroom.
5. Involving parents in their child's education.
6. Using data and assessments to improve teaching and learning.

J. Improve quality of teacher force through:

1. Training to integrate technology into curriculum and instruction.
2. Cost-effective professional development, such as use of technology and distance learning.
3. Tenure reform.
4. Merit pay.
5. Testing teachers in academic subjects.

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

L. 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 1st through September 30th, provided that an application has been submitted to MDE in substantially approvable form. Funds that are not expended by September 30th are available for use in a carryover period extending from October 1st through June 30th of the following year.
4. This program year overlaps the fiscal year, which runs from July 1 through June 30. A summer term is treated as a *trailer* to the scheduled academic year (Fall, Spring, Summer). Budgeted and approved amounts in the Consolidated Application for the summer term must be funded with the previous academic program/grant year funds (e.g., summer term of July 2025 through September 2025 should be funded with the school year 2024-2025 funds).
5. To receive a July 1 obligation date, Local Educational Agencies (LEAs) must submit the Title I School Selections (TISS) Application in NexSys and the Consolidated Application in substantially approvable form on or before July 1. For LEAs that submit their TISS Application and Consolidated Application after July 1, the obligation date for available funding sources will be the **date of submission** in NexSys.

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. 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

1. 3 years after the FER for the project is filed (EDGAR 2 CFR 200.335).
2. 5 years after the FER for the project is filed (GEPA 81.31(c)).
3. 7 years after the FER for the project is filed (SEC 17 CFR 210).

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 fund 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 used 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 used 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 NexSys (Next Generation Grant Application and Cash Management) 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 Consolidated 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 – contains Supplement not Supplant (SNS) language) was used according to grant guidelines.
            - Unrestricted contains no SNS language
        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.

B. 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.

C. N/A - Reserved

D. Eligibility

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

E. Equipment/Real Property

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

F. 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.

G. Period of Performance

1. Review starting and ending transactions against the Grant Award Notification.

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

H. Procurement and Suspension and Debarment

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

I. Program Income

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

J. N/A – Reserved

K. Reporting

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

L. Subrecipient Monitoring

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

M. 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 CONTACTS

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/Assistance Listing, 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. Contacts

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TITLE IV, PART A

ASSISTANCE LISTING #84.424A - STUDENT SUPPORT AND ACADEMIC ENRICHMENT GRANTS

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I. FEDERAL OVERVIEW

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

B. Authorization
Title IV, Part A – Student Support and Academic Enrichment grant program of the Elementary and Secondary Education Act (ESEA) of 1965, as amended by the Every Student Succeeds Act (ESSA), Public Law 114-95.

C. Beneficiary Eligibility
States, local educational agencies, schools and local communities implementing programs to improve students' academic achievement by providing a well-rounded education, improving school conditions for student learning and improving the use of technology.

II. STATE OVERVIEW

The Michigan Department of Education (MDE) Office of Education Supports (OES) serves as the pass-through entity for the Title IV, Part A – Student Support and Academic Enrichment (SSAE) grant program. OES grant responsibilities include grant application approval, technical assistance, and fiscal reviews of Local Education Agencies (LEAs). OES may rely on the Federal Office of Management and Budget (OMB) Compliance Supplement from the Single Audit Act of 1984, the Education Department General Administrative Guidelines (EDGAR), General Education Provisions Act (GEPA), and Uniform Grant Guidance (UGG), 2 CFR, Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards to determine usage of Title funds is in compliance with current laws and regulations.

Pursuant to Section 4101 of Elementary and Secondary Education Act (ESEA) the purpose of the Title IV, Part A – SSAE grant is to improve students' academic achievement by increasing the capacity of States, local educational agencies, schools, and local communities to:

A. Provide all students with access to a well-rounded education.

B. Improve school conditions for student learning; and

C. Improve the use of technology to improve the academic achievement and digital literacy of all students.

Each State that receives an allotment for a grant such as, Title IV – Part A, in accordance with Section 4104 of the ESEA, shall use the funds for activities and programs designed to meet the purposes set forth in Section 4101 of the ESEA, which may include:

A. Providing monitoring of, and training, technical assistance, and capacity building to local education agencies that receives an allotment.

B. Identifying and eliminating State barriers to the coordination and integration of programs, initiatives, and funding streams that meet the purpose of Title IV, Part A (SSAE), so that local educational agencies can better coordinate with other agencies, schools, and community-based services and programs; or

C. Supporting local educational agencies in providing programs and activities that:

1. Offer well-rounded education experiences to ALL students, particularly those who are often under-represented in critical and enriching subjects, which may include:

    a. Increasing student access to and improving engagement and achievement in:

        i. High-quality courses in science, technology, engineering and mathematics, including computer science.
        ii. Activities and programs in music and the arts.
        iii. Foreign languages.
        iv. Accelerated learning programs.
        v. American history, civics, economics, geography, social studies, or government education.
        vi. Environmental education.
        vii. Other courses, activities and programs or other experiences that contribute to a well-rounded education.

    b. Covering a portion or all total costs related to accelerated learning examination fees for low-income students.

D. Foster safe, healthy, supportive, and drug-free environments that support student academic achievement, which may include:

1. Coordinating with LEAs or consortia of such agencies implementing a youth PROMISE plan to reduce exclusionary discipline.
2. Supporting LEAs to implement mental health awareness training programs to educate school personnel regarding resources available for students with mental illnesses and other relevant resources relating to mental health or safe de-escalation of crisis situations.
3. Supporting LEAs to expand access to or coordinate resources for school-based counseling and mental health programs.
4. Providing LEAs with resources for addressing ways to integrate health and safety practices into school programs.
5. Disseminating best practices and evaluating program outcomes relating to any LEA activities to promote student safety and violence prevention through effective communication.

E. Increase access to personalized, rigorous learning experiences supported by technology by:

1. Providing technical assistance to LEAs to improve their ability to identify and address technology readiness needs, use technology consistent with the principles of universal design for learning and build capacity for principals, other school leaders and administrators to support teachers in using data and technology to improve instruction.
2. Supporting schools in rural and remote areas to expand access to high quality digital learning opportunities.
3. Developing or using strategies for the delivery of academic courses through use to technology.
4. Disseminating promising practices related to technology instruction, data security and the acquisition and implementation of technology tools and applications.
5. Providing teachers, paraprofessionals, school librarians and media personnel, specialized instructional support personnel and administrators with knowledge and skills to use technology effectively.
6. Making instructional content widely available through open educational resources.

Pursuant to Section 4105 of the ESEA, an LEA may receive Title IV funds from the funds reserved by a State under Section 4104(a)(1). Section 4105 states from the funds reserved by a State under Section 4104(a)(1), the State shall allocate an amount of funds to each LEA, as a subrecipient, that has an application approved by the SEA under Section 4106 of the ESEA.

III. FLEXIBILITY PROVISIONS

A. LEAs receiving Title IV, Part A funds have the option to transfer funds to Title I, Part A; Title I, Part C; Title I, Part D; Title II, Part A; Title III, Part A (English Learners); Title III, Part A (Immigrant Students); Title V, Part B (Rural Education Initiative).

B. Fund Transfers
   1. The transferred funds should be included and reported (and audited, if major) in the program for which the funds were originally 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.
      a. e.g., transfer of TIVA funds to TIIA requires a final expenditure report in TIVA.

For an LEA to become eligible for Title IV funds it must, pursuant to Section 4106(a) of the ESEA, apply, which shall contain, at a minimum, the information described in Subsection (e), to the SEA at such time, in such

manner, and containing such information as the SEA may reasonably require. The LEA must complete a needs assessment in accordance with Subsection (d).

If the LEA desires to carry out its activities in consortium with one or more surrounding LEAs, such LEAs shall submit a single application as required under Subsection (a).

With the grant funds allowable uses under each of the three focus areas of providing access to a well-rounded education, improving school conditions for student learning and improving the use of technology in order to improve the academic achievement and digital literacy of all students may include, but are not limited to: direct services for students, professional learning for teachers and administrators, salaries of personnel to implement programs and services, and supplemental education resources and equipment.

For LEAs or consortia receiving more than $30,000, at least 20 percent of funds must be spent for activities to support well-rounded educational opportunities. At least 20 percent of the funds must be spent for activities to support safe and healthy students. Up to 60 percent can be spent on the effective use of technology.

Examples of allowable program activities related to providing well-rounded educational opportunities include improving access to foreign language instruction, arts and music education, supporting college and career counseling, providing programming to improve instruction and student engagement in science, technology, engineering and math; promoting access to accelerated learning opportunities, strengthening instruction in American history, civics, economics, geography; government education and environmental education.

Examples of allowable program activities related to promoting safe and healthy students include promoting community and parent involvement in schools, providing school-based mental health services and counseling, promoting supportive school climates to reduce the use of exclusionary discipline, establishing or improving dropout prevention, supporting re-entry programs and transition services for justice-involved youth, implementing programs that support healthy, active lifestyles, implementing systems and practices to prevent bullying and harassment.

Examples of allowable program activities relating to effective use of technology include building technological capacity and infrastructure, carrying out innovative blended learning projects, providing students in rural, remote and underserved areas with the resources to benefit from high-quality digital learning opportunities, delivering specialized or rigorous academic courses and curricula using technology, including digital learning technologies and assistive technology.

LEAs are not required to distribute Title IV, Part A funds to each of its schools. LEAs that provide district-wide services with the program funds must focus those services on schools with the greatest need identified in Section 4106(e)(2)(A). Private Schools located within a district's geographical boundaries may have access to Title IV, Part A programs or services.

In considering how to use Title IV, Part A funds, LEAs should be mindful that program funds may be used only to supplement, and not supplant, non-federal funds that would otherwise be available for activities authorized in the program. Therefore, a restricted indirect cost rate must be used for Title IV, Part A programs.

In the application submitted to the SEA by the LEAs to receive their Title IV, Part A program allocation it must describe the Title IV, Part A programs and activities the LEA proposes to implement. There must also be a description of how funds will be used for activities in the three content areas. Amounts for proposed activities must also be budgeted and in alignment with the correct function and object codes associated with the activity.

Title IV, Part A expenditures are obligated over a 15-month program period beginning July 1st to September 30th of the following year, provided that the application is approved prior to the start of program year. An additional 12 months may be available for obligation of carryover funds from the previous program year. Therefore, it is possible to have a 27-month period in which to obligate funds.

A consideration for LEAs is that they need to be prepared for a Fiscal Review engagement with the SEA. Some of the following information is included to help LEAs be prepared for such an engagement. For reimbursement of costs related to staff or contractors implementing programs, proper documentation would include evidence of a background check and evidence that the individual is appropriately placed. The individual's time and effort must be documented. It must be certified semiannually and signed by the employee and supervisory official. The individual must be identified on the application and the amount to be reimbursed for their service must be identifiable. The amount to be reimbursed must be recorded in the general ledger in the function and object codes as they are in the application.

For reimbursement of general expenditures, if there are purchased services, for professional development (PD), a contract should be readily available. The contract should be signed by the district and the vendor. If the professional development or employee training is conducted at the district, sign-in sheets and agendas should be made available. The employees receiving the PD or training should be identified on the application. The vendor and name of the training should be included on the application. In addition, the amount approved for the service should be on the application and recorded in the same function and object codes in the general ledger. The purchase of tangible items should be supported by a purchase order and invoice. The item, its amount and description should be incorporated into the application.

For purchases of equipment, federal regulations require LEAs to maintain a continuous inventory of the items acquired with federal funds. An inventory of equipment should be completed every two years. However, it is recommended that it is done annually. Each piece of equipment must be tagged. The equipment items on the inventory should include the tag number and serial number to identify.

Annually by November 29th the LEA is required to file a Federal Expenditure Report (FER). The actual amounts reported on the FER should match what is recorded in the general ledger. The amounts approved in the application should match what is budgeted in the general ledger. A 10 percent cost overrun for each function code line item is allowable.

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 IV, 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 IV, Part A funds will be used.
3. Title IV, Part A, expenditures may be incurred during a 15-month program period covering July 1st through September 30th, provided that an application has been submitted to MDE in substantially approvable form. Funds that are not expended by September 30th are available for use in a carryover period extending from October 1st through June 30th of the following year.
4. This program year overlaps the fiscal year, which runs from July 1 through June 30. A summer term is treated as a *trailer* to the scheduled academic year (Fall, Spring, Summer). Budgeted and approved amounts in the Consolidated Application for the summer term must be funded with the previous academic program/grant year funds (e.g., summer term of July 2025 through September 2025 should be funded with the school year 2024-2025 funds).
5. To receive a July 1 obligation date, Local Educational Agencies (LEAs) must submit the Title I School Selections (TISS) Application in NexSys and the Consolidated Application in substantially approvable form on or before July 1. For LEAs that submit their TISS Application and Consolidated Application after July 1, the obligation date for available funding sources will be the **date of submission** in NexSys.

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 IV, Part A, program on an equitable basis.

E. Financial Reports

Districts that receive Title IV, Part A funds are required to file the "Final Expenditure Report" (Form DS-4044 or FER). Title IV, 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 IV, Part A for

1. 3 years after the FER for the project is filed (EDGAR 2 CFR 200.335).
2. 5 years after the FER for the project is filed (GEPA 81.31(c)).
3. 7 years after the FER for the project is filed (SEC 17 CFR 210).

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 IV, Part A fund by its subrecipients.

J. Supplement, Not Supplant

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

V. AUDIT CONSIDERATIONS

2 CFR part 200, subpart F, describes the non-federal entity's responsibilities for managing federal assistance programs. For LEAs receiving more than $750,000 in Federal Grant Awards it will be subject to a Federal Single Audit. Section 200.508 of Uniform Guidance states the auditee (LEA) responsibilities (for Single Audits) is that it must:

A. Procure or otherwise arrange for the audit by this part in accordance with Section 200.509 Auditor selection, and ensure it is properly performed and submitted when due in accordance with Section 200.512 Report submission.

B. Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (SEFA) in accordance with Section 200.510 Financial Statements.

C. Promptly follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with Section 200.511 Audit finding follow-up, paragraph (b) and Section 200.511 paragraph (c), respectively.

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

Auditors must consider the Compliance Supplement and the referenced laws, regulations, and OMB Circulars/Uniform Guidance in determining the compliance requirements subject to the audit that could have both a direct and material effect on the program. The use of the Compliance Supplement is mandatory. Accordingly, adherence to the Compliance Supplement satisfies the requirements of 2 CFR part 200, subpart F.

Because the suggested audit procedures (of the Compliance Supplement) were written to be able to apply to many different programs by many different entities, they are necessarily general in nature. Auditor judgment is necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objectives or whether alternative procedures are needed. Therefore, the auditor cannot consider the Compliance Supplement to be a "safe harbor" for identifying the audit procedures to apply to a particular engagement.

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the "Matrix of Compliance Requirements," in Part 2 of the Compliance Supplement, which of the 12 types of compliance requirements have been identified as subject to the audit.

Part 3 of the Compliance Supplement lists and describes the 12 types of compliance requirements and, except for Special Tests and Provisions, the related audit objective that the auditor must consider, as applicable, in every audit conducted under 2 CFR part 200, subpart F, except for program-specific audits performed in

accordance with a federal agency's program-specific audit guide. The auditor is responsible for achieving the stated audit objectives for the applicable compliance requirements.

For each compliance requirement subject to the audit, the auditor must use Part 3 (Section 3.2), which includes details about each compliance requirement based on the uniform guidance in 2 CFR part 200. Suggested audit procedures are provided to assist the auditor in planning and performing tests of non-federal entity compliance with the requirements of the federal program. They are merely suggestions. Auditor judgment is necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objectives and whether alternative audit procedures are needed. Determining the nature, timing and extent of the audit procedures necessary to meet the audit objectives is the auditor's responsibility.

Consistent with the requirements of 2 CFR part 200, subpart F, Part 3 includes audit objectives and suggested audit procedures to test internal control. However, the auditor must determine the specific procedures to test internal control on a case-by-case basis, considering factors such as the non-federal entity's internal control, the compliance requirements, the audit objectives for compliance, the auditor's assessment of control risk, and the audit requirement to test internal control.

Part 4 of the Compliance Supplement presents program objectives, procedures and compliance requirements that are specific to the program. The auditor must obtain an understanding of the applicable compliance requirements and program procedures in operation at the non-federal entity to properly plan and perform the audit.

There are also program compliance requirements that apply to more than one U.S. Department of Education (USED) program in the Compliance Supplement as a result of the program being subject to the General Education Provisions Act (GEPA). The compliance requirements in the USED Cross-Cutting Section reference the applicable programs of Part 4.

As a condition of receiving federal awards, non-federal entities agree to comply with laws, regulations, and the provision of grant agreements and contracts, and to also maintain internal control to provide reasonable assurance of compliance within these requirements. Uniform Guidance requires auditors to obtain an understanding of the non-federal entity's internal control over federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program, an unless internal control is likely to be ineffective, perform testing of internal control as planned. Part 6 addresses the objectives, principles, and components of internal control based on the "Standards for Internal Control in the Federal Government," ("Green Book"), issued by the Government Accountability Office, and the "Internal Control Integrated Framework" (revised 2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A. Activities Allowed or Unallowed

Subgrants to LEAs (Section 4104(a)(1) of the ESEA (20 USC 7114(a)(1))). SEAs must reserve not less than 95 percent of their Title IV, Part A allocation for subgrants to LEAs.

LEAs may use funds for a broad span of activities designed to improve student academic achievement by improving conditions for learning in three areas: well-rounded education (at least 20% for those receiving $30,000 or more), safe and healthy students (at least 20% for those receiving $30,000 or more) and effective use of technology (up to 60% for those receiving $30,000 or more). For LEAs receiving less than $30,000, Title IV, Part A funds must be used in at least one of the three content areas.

An LEA may, with the approval of its SEA, consolidate and use for the administration of one or more ESEA programs (including Title IV) not more than the percentage, established in each program, of the total available under those programs. An LEA may use consolidated funds for the administration of the consolidated programs (including Title IV) and for uses at the school district and school levels comparable to those authorized for the SEA. An LEA that consolidates admin funds may not use any other funds under the programs included in the consolidation for administration.

An eligible school (for schoolwide programs) participating under Title I, Part A may, in consultation with its LEA, use its Title I, Part A funds, along with funds provided by Title IV, Part A, to upgrade the school's entire educational program in a schoolwide program.

LEAS may transfer up to 100 percent of their allotments from Title IV to Title I, Part A; Title I, Part C; Title I, Part D; Title II, Part A; Title III, Part A; and Title V, Part B.

LEAs that (a) have a total average daily attendance of fewer than 600 students, or serve only schools that are located in counties with a population density of fewer than 10 persons per square mile; and (b) serve only schools that are coded by the NCES as rural, or are located in an area defined as rural by a governmental agency of the State may, after notifying the SEA, spend all or part of the funds received und the Title IV program for local activities authorized under one or more of the following five programs: CFDA 84.010 Title I Grants to LEAs (Title I, Part A); CFDA 84.287 21st Century Community Learning Centers; CFDA 84.365 English Language Acquisition Grants (Title III, Part A); CFDA 84.367 Supporting Effective Instruction State Grant (Title II, Part A).

Audit Objectives are to obtain and understanding of internal control, assess risk, and test internal control as required by Section 200.514(c). Also, determine whether Federal Awards were expended only for allowable activities.

Suggested audit procedures for compliance are to identify the types of activities which are either specifically allowed or prohibited by Federal statute (Sections 4107-4109 of the ESEA, as amended by the ESSA), regulations, and the terms and conditions of the Federal award pertaining to the program.

When allowability is determined based upon summary level data, perform audit procedures to verify that activities were allowable and individual transactions were properly classified and accumulated into the activity total.

When allowability is determined based upon individual transactions, select a sample of transactions and perform audit procedures to verify that the transaction was for an allowable activity.

The auditor should be alert for large transfers of funds from program accounts which may have been used to fund unallowable activities.

B. Allowable Costs/Cost Principles

The requirements for allowable costs/cost principles are contained in 2 CFR part 200, subpart E, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

Except for requirements under Basic Guidelines, which are applicable to all types of non-federal entities, this compliance requirement is divided into sections based on the type of non-federal entity.

Except where otherwise authorized by statute, cost must meet the following basic guidelines in order to be allowable under Federal awards:

1. Be necessary and reasonable for the performance of the award and be allocable thereto under the principles in 2 CFR part 200, subpart E.
2. Conform to any limitations or exclusions set forth in 2 CFR part 200, subpart E or in the Federal award as to types or amount of cost items.
3. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-federal entity.
4. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
5. Be determined in accordance with GAAP, except, for state and local governments and Indian tribes only, as otherwise provided for in 2 CFR part 200.
6. Not be included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program.
7. Be adequately documented.

2 CFR sections 200.421 through 200.475 provide the principles to be applied in establishing the allowability of certain items of cost, in addition to the basic guidelines identified above.

Audit objectives would be to obtain an understanding of internal control over compliance requirements, assess risk and test internal control as required by Section 200.514(c). Determine whether the LEA complied with the provisions of OMB Circular A-87.

Suggested audit compliance procedures would be to consider the results of the testing of internal control in assessing the risk of noncompliance and use it as a basis for determining the nature, timing and extent of substantive testing. Test a sample of transactions for conformance with "Basic Guidelines" of OMB Circular A-87.

The USED has noted that some entities have charged costs in the following areas which were determined to be unallowable as specified in the indicated references. Auditors should be alert that if any such costs are charged, charges must be consistent with provisions of 2 CFR part 200, subpart E or as applicable.

a. Separation leave costs (Section 200.431(b)).
b. Severance costs (Section 200.431(i)).
c. Post-retirement health benefit (PRHB) costs (Section 200.431(h)).

If the auditor identifies unallowable direct costs, the auditor should be aware that "directly associated costs" might have been charged. For example, fringe benefits are "directly associated" with payroll costs. When an unallowable cost is incurred, directly associated costs are also unallowable.

While direct costs are those that can be identified specifically with a particular final cost objective, the indirect costs are those that have been incurred for common or joint purposes, and 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 uses of an indirect cost rate.

A restricted indirect cost rate (RICR) must be used for programs administered by LEAs that have a statutory requirement prohibiting the use of Federal funds to supplant non-federal funds.

USED has noted that, in cases where grantees rent or lease buildings or equipment from an affiliate organization, the costs associated with the lease or rental agreement can be excessive. The auditor should be alert to the fact that the measure of allowability in such "less-than-arms-length-relationships" is not fair market value, but rather the "costs of ownership" standard as referenced in Section 200.456(c).

C. Cash Management

Non-federal entities must establish written procedures to implement the requirements of 2 CFR section 200.305 (2 CFR section 200.302(b)(6)).

Non-federal entities must minimize the time elapsing between the transfer of funds from the pass-through entity and disbursement by the LEA for direct program costs and the proportionate share of allowable indirect costs (2 CFR section 200.305(b)).

The reimbursement payment method is the preferred payment method if (a) the non-federal entity cannot meet the requirements of Section 305(b)(1) for advance payment, (b) the Federal awarding agency sets a specific condition for use of the reimbursement or (c) if payment is requested by the non-federal entity (2 CFR sections 200.305(b)(3) and 200.207). Program costs must be paid by the non-Federal entity funds before submitting a payment request.

To the extent available, the non-federal entity must disburse funds available from program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash draws.

For cost-reimbursement contracts under the Federal Acquisition Regulation (FAR), reimbursement payment is the predominant method of funding. The FAR clause at 48 CFR section 52.216-7 applies to reimbursement payment. Paragraph (B)(1) of that clause requires that the non-federal entity request reimbursement for (a) only allocable, allowable, and reasonable contract costs that have already been paid, or (b) if the non-federal entity is not delinquent in paying costs of contract performance in the ordinary course of business, costs incurred but not necessarily paid. As defined in 48 CFR section 52.216-7(b)(1), with relation to supplies and services purchased for use on the contract, "ordinary course of business" would be in accordance with the terms and conditions of a subcontract or invoice, and ordinarily within 30 days of the request for reimbursement.

Pass-through entities must monitor cash draws by their subrecipients to ensure that the time elapsing between the transfer of Federal funds to the subrecipient and their disbursement for program purposes is minimized as required by the applicable cash management requirements in the Federal award to the recipient (2 CFR section 200.305(b)(1)).

Audit objectives would be to obtain an understanding of internal control, assess risk, and test internal control as required by Section 200.514(c). For grants to non-federal entities that are paid on a reimbursement basis, supporting documentation shows that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request. Determine whether pass-through entities implemented procedures to ensure that payment to subrecipients minimized the time elapsing between transfer from the pass-through entity to the subrecipient and the disbursement of such funds for program purposes.

Suggested audit procedure would be to select a sample of transfers of funds from the pass-through entity and trace to supporting documentation and ascertain if the LEA paid for the costs for which reimbursement was requested prior to the date of reimbursement.

D. Eligibility

The specific requirements for eligibility are unique to each Federal program and are found in the statutes, regulations, and the terms and condition of the Federal award.

Pursuant to Section 4106(a)-(b) of the ESEA, LEAs or consortia are the eligible subrecipients. LEAs apply to the SEAs for program funds. The amount of each LEA's allocation is determined by formula in the same proportion as to the LEA's prior year's Title I, Part A allocation (Section 4105(a)(1) of the ESEA.

The audit objectives would be to obtain an understanding of internal control, assess risk and test internal control as required by Section 200.514(c). Determine whether amounts provided to or on behalf of eligible participants or groups of participants were calculated in accordance with program requirements. Some suggested audit procedures for eligibility of subrecipients would be to obtain a copy of the Compliance Supplement to determine if the LEA is eligible for Title IV.

E. Matching, Level of Effort, Earmarking

Matching is not applicable to Title IV. Earmarking is applicable to Title IV only to the extent that LEAs may transfer up to 100 percent of their allotments to Title I, Part A; Title I, Part C; Title I, Part D; Title III, Part A; or Title V, Part B. The allocation base for a program for a fiscal year equals that fiscal year's original funding plus funds transferred into the program for that fiscal year. Funds may be transferred during a fiscal year's carryover period. Funds must be transferred to the receiving program's allocation for the same fiscal year that the funds were allocated to the transferring program (Sections 5103(a) and (b) of the ESEA (20 USC 7305b(a) and (b))).

The Maintenance of Effort (Level of Effort) requirement for Title IV is that an LEA may receive funds only if the SEA finds that the combined fiscal effort per student or the aggregate expenditures of the LEA from State and Local funds for free public education for the preceding year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding year, unless waived by USED.

An LEA's expenditures from State and Local funds for free public education include expenditures for administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities.

If an LEA fails to maintain fiscal effort, an SEA must reduce an LEA's allocation under a covered program if the LEA also failed to maintain effort in one or more of the five immediately preceding fiscal years in the exact proportion by which the LEA fails to maintain effort by falling below 90

percent of both the combined fiscal effort per student and aggregate expenditures using the measure most favorable to the LEA (Section 8521 of the ESEA (20 USC 7901); 34 CFR section 299.5).

The audit objective for Maintenance of Effort is to determine whether the specified expenditure levels were maintained. Suggested audit procedures would be to identify the required level of effort and perform tests to verify that the level of effort requirement was met. Also, perform tests to verify that only allowable categories of expenditures were included in the computation and were consistent from year to year. The procedures should verify that amounts used in the calculation were derived from audited financial statements.

In general, the Level of Effort – Supplement Not Supplant requirement is that an LEA may use Title IV funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the Federal funds, be made available from non-federal sources for the education of participating students. In no case may an LEA used Federal program funds to supplant funds from non-federal sources (Section 4110 (20 USC 7120)).

The following instances suggest that supplanting has occurred:

a. The LEA used Federal funds to provide services that it was required to make available under other Federal, State, or Local laws.
b. The LEA used Federal funds to provide services that it provided with non-federal funds in the prior year.

The presumptions are rebuttable if the LEA can demonstrate that it would not have provided the services in question with non-federal funds had the Federal funds not been available.

Some suggested audit procedures would be to:

a. Ascertain in the LEA used Federal funds to provide services which they were required to make available under Federal, State, or Local law and were also made available by funds subject to a supplement not supplant requirement.
b. Ascertain if the LEA used Federal funds to provide services which were provided with non-federal funds in prior year.

    1. Identify the federally funded services.
    2. Perform procedures to determine whether the Federal program funded services previously funded with non-Federal funds.
    3. Perform procedures to ascertain if the total level of services applicable to the requirement increased in proportion to the level of Federal contribution.

F. Period of Performance

LEAs must obligate funds during the 27 months, extending from July 1, of the fiscal year for which the funds were appropriated through September 30, of the second following fiscal year. This maximum period includes a 15-month period of initial availability plus a 12-month period for carryover.

An obligation is not necessarily a liability in accordance with Generally Accepted Accounting Principles (GAAP). When an obligation occurs depends on the type of property or services that the obligation is for (34 CFR 76.707).

The audit objective is to first obtain and understanding of internal control, assess risk, and test internal control as required by Section 200.514(c). The second objective is to determine whether the Federal award was only charged for (a) allowable costs incurred during the period of performance; or (b) costs incurred prior to the date the Federal award was made that were authorized by the pass-through entity. The third objective is to determine whether obligations were liquidated with the required period.

Suggested audit procedures would include the following:

1. Review the award documents and regulation pertaining to the program and determine any award-specific requirements related to the period of performance.
2. For Federal awards with performance period beginning dates during the audit period, test transactions for costs recorded during the beginning of the period of performance and verify that the costs were not incurred prior to the start of the period of performance and verify that the costs had been incurred within the period of performance.
3. For Federal awards with performance period ending dates during the audit period, test transactions for costs recorded during the latter part of the period of performance and verify that the costs had been incurred within the period of performance.
4. For Federal awards with performance period ending dates during the audit period, test transactions for Federal award costs for which the obligation had not been liquidated (payment made) as of the end of the period of performance and verify that the liquidation occurred within the allowed period.
5. Test adjustments (e.g. manual journal entries) for Federal award costs and verify that these adjustments were for transactions that occurred during the period of performance.

G. Special Tests and Provisions

Regarding the participation of private school children, before an LEA may transfer funds from a Title IV program subject to equitable services requirements, it must engage in timely and meaningful consultation with appropriate private school officials. With respect to the transferred funds, the LEA must provide private school students and teachers equitable services und the program(s) to which, and from which the funds are transferred, as applicable, based on the total amount of funds available to each program after the transfer.

The audit objectives would be to determine whether (1) the LEA receiving Title IV funds has conducted timely consultation with private school officials to determine the kind of education services to provide to eligible private school children, (2) the planned services were provided, and (3) the required amount was used for private school children.

Suggested audit procedures would be as follows:

a. Verify, by reviewing minutes of meetings and other appropriate documents, that the LEA conducted timely consultation with private school officials in making its determination and set aside the required amount for private school children.
b. Review program expenditure and other records to verify that educational services that were planned were provided.
c. If the LEA provides services to eligible private school children under an arrangement with a third-party provider, verify that the LEA retains proper administration and control by having a written contract.

See Part 4, 84.000 ED Cross-Cutting Section for compliance requirements, audit objectives and suggested auditing procedures for instances involving access to Federal funds for new or significantly expanded charter schools and oversight and monitoring responsibilities with respect to charter schools with relationships with Charter Management Organizations.

VI. REFERENCE MATERIALS AND CONTACTS

A. Reference Materials

1. Elementary and Secondary Education Act (ESEA) of 1965, as amended by the Every Student Succeeds Act (ESSA), Public Law 114-95.
2. Student Support and Academic Enrichment Grants Non-Regulatory Guidance (November 2016).
3. OMB Compliance Supplement.
4. 2 CFR 200 Uniform Administrative Requirements.

B. Contacts

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CAREER AND TECHNICAL EDUCATION

ASSISTANCE LISTING #84.048 – BASIC GRANTS TO STATES
NOT A CLUSTER

I. FEDERAL OVERVIEW

II. STATE OVERVIEW

III. DISTRICT CONSIDERATIONS

IV. AUDIT CONSIDERATIONS

V. REFERENCE MATERIALS AND CONTACTS

ATTACHMENT

Attachment 1: Education Department General Administrative Rules – Equipment

I. FEDERAL OVERVIEW

A. Federal Agency

United States Department of Labor (USDOL).

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 (2024-2028). 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:

   a. 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.
   b. Provide professional development for teachers, faculty, school leaders, administrators, specialized instructional support personnel, career guidance and academic counselors, or paraprofessionals.
   c. Provide within Career and Technical Education the skills necessary to pursue careers in high-skill, or in-demand industry sectors or occupations.
   d. Support integration of academic skills into career and technical education programs and programs of study.
   e. 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.
   f. 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

    Procurement requirements are addressed in 2 CFR Part 200 §200.317-326 Grant Recipients are required to follow their own procurement procedures provided 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 with 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 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

BASIC GRANTS TO STATES
Refer to 2 CFR Part 200 Uniform Guidance

These audit considerations below should be used 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 used 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.*

A. Activities Allowed or Unallowed

1. See Section B Allowable Costs/Cost Principles for testing procedures applicable to types of services allowed.

B. Allowable Costs/Cost Principles

1. Obtain the grant application to determine allowable costs. Sample the expenditures to determine that they are for documented and allowable costs.
2. Check starting and ending transactions against the grant award letter.
3. 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.

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

C. Cash Management

1. 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.
2. Determine if the district was advanced more cash than was needed, the district refunded the excess federal funds.

D. Reserve Funds – Up to 15% of the 85% distribution can be used under the Reserve. One of the initiatives is the Career Pathway Grant(s).

The Michigan Apprenticeship Wall Project is a statewide initiative designed to educate students, families, educators, employers, and community members about registered apprenticeship pathways by making them visible and accessible within school buildings. Each wall features 12–18 high-demand occupations connected to registered apprenticeships, with QR codes linking to short career videos and detailed apprenticeship information. Installed in high-traffic areas of high schools, the walls serve as an engaging, easy-to-use tool that expands awareness of earn-and-learn career options, helps students understand real pathways into the workforce, and strengthens connections between schools and local industry.

D. Eligibility - Refer to (E)

E. Equipment/Real Property - 200.313(b) and 200.439

1. If equipment ($10,000 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.

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.

F. Matching, Level of Effort, Earmarking

1. Matching-N/A to LEA.
2. Level of Effort
    a. Sample expenditures to check against previous year to ensure funds are not being used to supplant other funds.

3. Earmarking

    a. 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.

H. Period of Performance

1. 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.
2. Verify that grants are not commingled by determining that each funding source is identified separately in the accounting records. Revenue and expenditures must be accounted for by project, funding source, and grant fiscal year.

I. Procurement

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:

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

J. Program Income-N/A

K. Reserved-N/A

L. Reporting-N/A

M. Monitoring of the consortium fiscal is conducted annually based on a Risk Analysis. The Office of Career and Technical Education developed the "Technical Review Assistance and Compliance" (TRAC) process to meet the federal requirements for monitoring Perkins funds. In addition, the OCTE uses the TRAC process to provide technical assistance to local school administrators, teachers, and other staff for continuous improvement of state-approved career and technical education (CTE) programs.

N. Special Tests and Provisions - N/A

V. REFERENCE MATERIALS AND CONTACTS

A. Reference Materials

- Perkins Statute
- General Education Provisions Act
- Education Department General Administrative Regulations (EDGAR) 34 CFR Part 75, 76, 77, and 81
- Uniform Grant Guidance (UGG)
- OCR Guidelines

B. Contacts

1. Questions regarding career and technical education grant applications, approval, or specific grant requirements direct to:

   The Office of Career and Technical Education
   P.O. Box 30712
   Lansing MI, 48909
   517-855-1560

2. Questions regarding these audit procedures can be directed to the Office of Financial Management, 517-648-2768.

3. Questions regarding the final expenditure report direct to:

   The Office of Career and Technical Education
   P.O. Box 30008
   Lansing MI, 48909
   517-855-1560

Attachment 1

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

Prior written 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 $10,000 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 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 investigated.

7. Adequate maintenance procedures must be developed to keep the property in good condition.
8. If the grantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Disposition

When original or replacement equipment acquired under a grant is no longer needed for the original 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 $10,000 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 more than $10,000 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

ASSISTANCE LISTING # 93.778

I. DEFINITIONS BACKGROUND

II. BACKGROUND

A. Authorization

B. Federal Agency

C. State Pass-Through Agency

D. Eligibility

E. Matching Requirements

F. School Services Program Providers

G. Medical Direct Service

H. Medicaid Administrative Outreach

I. Caring for Students

III. AUDIT CONSIDERATIONS

1. Medical Direct Services

2. Medicaid Administrative Outreach

IV. REFERENCE MATERIALS AND CONTACTS

I. DEFINITIONS

A. AOP – Administrative Outreach Program – A component of the state's Medicaid School Services programs. 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.

B. C4S – (Caring 4 Students) Effective beginning October 1, 2019, component of the state's Medicaid School Services programs. It provides Medicaid coverage and reimbursement for ISD/LEA nursing and behavioral health services for general education students. Coverage is based on medically necessary, Medicaid-covered services that may be provided in the school setting and enables these services to be billed to Medicaid. Policy Bulletin MSA 19-26 (Michigan.gov)

C. 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.

D. 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.

E. 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.

F. 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.

G. 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.

H. 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.

I. 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.

J. 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.

K. 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.

L. 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 using an indirect cost rate. The local educational agency (LEA) 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 SSP program indirect cost rate is referred to as the "Unrestricted ICR" which Medicaid has capped at 25%.

M. 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.

N. 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.

O. 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.

P. 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.

Q. Medicaid Health-Related Eligibility Rate – The percentage of the special education and Early On student population in an ISD/DPSCD/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 SSP Program. *In 2016, the 'count' was conducted on October 5, 2016.*

R. Facility Settlement *(FS)* – 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.

S. Medical Direct Services Program (previously called Fee for Service) (FFS) – A component of the Michigan School Services Programs that provide 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.

T. 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.

U. 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.

V. 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.

W. Support Staff – For purposes of the Medicaid SSP (Administrative Outreach Program), staff who aid 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 Services Program (SSP) reimbursement to school districts that provide Medicaid covered health and health-related services.

There are three components of the Medicaid SSP program:

1. Medical Direct Services (includes specialized transportation, personal care services and targeted case management services).
2. Medicaid Administrative Outreach Program (AOP).
3. Caring 4 Students.

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

1. 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:

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

2. Beneficiaries

   a. Caring 4 Students beneficiaries are Medicaid-eligible general education students who require medical or behavioral health services identified as medically necessary including, but not limited to, those identified in a Section 504 accommodation plan pursuant to 34 CFR s 104.36, or an individualized health care plan. Documented consent for medically necessary services must be obtained from the C4S beneficiary or parent /guardian in accordance with state law,

   b. SSP Beneficiaries are Medicaid-eligible Special Educations Students who require medical or behavioral health services identified as medically necessary including, but not limited to, those identified in an Individualized Education Program (IEP) or an Individualized Family Service Plan (IFSP). Policy Bulletin MSA 19-26 (Michigan.gov)

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 used 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 SSP program are detailed in Subsections G and H.

F. School Services Program Providers

1. Medical Direct Services – The 56 ISDs, DPSCD, and the Michigan Schools for the Deaf.
2. Medicaid Administrative Outreach – The 56 ISDs and DPSCD.
3. Caring for Students – The 56 ISDs and DPSCD.

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 SSP 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; FMAPs as listed with match 100% less FMAP.

Period Begin End	Medicaid	HMP New Eligibles (MAGI I)	HMP Old Eligible 19-20 Yr Old (MAGI D)	HMP Old Eligible-Disabled-Institutional (MAGI R)	HMP Old Eligible-Disabled-Noninstitutional (MAGI Q)	HMP Old Eligible-PCR (MAGI P)
07/01/2022 09/30/2022	71.68	90.00	71.98	73.33	73.25	73.25
10/01/2022 03/31/2022	70.91	90.00	71.21	72.56	72.48	71.27
04/01/2022 06/30/2022	69.71	90.00	70.01	71.36	71.28	70.07
07/01/2023 09/30/2023	67.21	90.00	67.51	68.86	68.78	67.57
10/01/2023 12/31/2023	66.19	90.00	66.49	67.84	67.89	66.68
01/01/2024 09/30/2024	64.94	90.00	65.24	66.59	66.51	65.30
10/01/2024 12/31/2024	64.94	90.00	65.24	66.59	66.51	65.30
01/01/2025 09/30/2025	65.13	90.00	65.43	66.78	66.70	65.49

H. Medicaid Administrative Outreach

The Medicaid Administrative Outreach component of the SSP program provides reimbursement to school districts based on administrative functions performed that support the Medicaid program. The Medicaid Administrative Outreach component of the SSP 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:

1. **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.

2. **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 into 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, 2021, through September 30, 2022. School districts are required to use PCG during this period and share the contract cost with MDHHS.

Each ISD and DPSCD 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.

I. Caring for Students

It is the expectation that an appropriate provider, acting withing their scope of practice, develop an individualized Plan of Care (POC) for students, including those who require ongoing behavioral health or medical services. The POC must indicate areas of risk or concern, specific objectives or goals and specific interventions.

It is the expectation that communication occurs with the student's PCP, health plan and, if applicable, the student's care coordinator as necessary to ensure there is coordination of interventions and services. For services that have time-specific procedure codes, the provider must indicate the actual begin and end times of the service in the school clinical record. The record must indicate the interventions or services provided. The student's school clinical record should include documentation of the coordination of services for the student.

Medicaid services provided by the ISDs are to be provided as outlined in the student's POC and are not expected to replace or substitute for services provided by other health care providers. When an evaluation indicates that Medicaid-covered services are required, the qualified staff must develop and maintain a POC for the student. Only qualified staff may initiate, develop or change the students' POC. The POC must be signed, titled and dated by the qualified staff prior to billing Medicaid for services. The POC must be retained in the student's school clinical record.

When ongoing services are provided in the absence of a POC due to the urgency of the student's medical needs, the expectation is that a POC will be developed within 30 calendar days from the first date that services are provided for a specific condition.

Cost Allocation Factors

1. Federal Medical Assistance Percentage (FMAP) Rate Federal regulations allow for payments to states on the basis of a FMAP for part of their expenditures for services under an approved State Plan. The formula for calculating this annual percentage is described in Section 1905(b) of the Social Security Act.

2. Medicaid Eligibility Rate (MER) Michigan's RMTS activity codes are designed to reflect the actual direct medical and behavioral health services activities that occur in a school on any given day. Since MSA 19-26 Page 14 of 17 these services are provided for students who are both Medicaid and non-Medicaid eligible, it is necessary to develop and apply a formula that properly allocates which students are being supported and what services are being provided. For this reason, it is necessary to calculate two separate Medicaid eligibility rates.

a. C4S MER
The C4S MER percentage is determined by the percentage of the public student population that are Medicaid eligible in each ISD in comparison to the total student population in the ISD. The eligibility rate is determined once each year using the Student Count Report. The calculation for the C4S eligibility rate is as follows:

$$\frac{\text{Medicaid Eligible Student}}{\text{Total Student Population}}$$

b. SSP MER The SSP MER percentage is determined by the percentage of the special education student population with a health-related support service in their IEP that are Medicaid eligible in each ISD in comparison to the total special education student population with a health-related support service in the ISD. The eligibility rate is determined once each year using the Student Count Report. The calculation for the SSP eligibility rate is as follows:

$$\frac{\text{Medicaid eligible Special Education Students with a health-related support service in their IEP}}{\text{Total Special Education Students with a health-related support service in their IEP}}$$

B. Allocation of Salaries and Benefits of Personnel Providing Direct Care Services

Actual expenditures for salaries and benefits of all personnel are to be obtained from each participating ISD's financial accounting system. Expenditures related to the performance of approved Medicaid contracted service providers who also provide direct care services must also be obtained from each participating ISD's financial accounting system Proposed Policy Bulletin (Michigan.gov).

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 $1,000,000 or more of expenditures for the Medicaid Administrative Outreach component of the SSP 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 SSP 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 SSP 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 number 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 SSP 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 claim's 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 Services Program 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 CONTACTS

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.
12. Medical Services Administration Bulletin, MSA 19-26, Issued September 30, 2019.

B. Contacts

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

Kevin Bauer
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School Based Services Program Policy Division
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Auditing questions may be referred to:

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Michigan Department of Health & Human Services
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MICHIGAN DEPARTMENT OF EDUCATION GRANTS SYSTEM

I. OBJECTIVE

II. OVERVIEW

III. DESCRIPTION OF NEXSYS

IV. AUDITOR ACCESS TO NEXSYS

V. NEXSYS SYSTEM COMPONENTS

VI. CONTACTS

I. OBJECTIVE

To provide information to public school districts and independent auditors on the MDE grants process, including information on NexSys.

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. NexSys is the electronic grant management systems used to review grants and then, when appropriate, make award recommendations. NexSys is used by grantees to request their funds. State grant 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 NexSys for certain programs.

III. AUDITOR ACCESS TO NexSys

Auditors may use NexSys to view and/or print applications for federal grants that have been submitted in NexSys. 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 NexSys. A limited number of federal grants may be processed outside of either electronic system.

Auditors seeking access to NexSys will need to create a MILogin for Business account. Instructions on how to create a MILogin for Business account can be found at Michigan.gov/MDE-NexSys. Questions or concerns regarding this process can be directed to the MDE Office of Systems, Evaluation, and Technology email at MDE-NexSys-Applications@Michigan.gov.

IV. DESCRIPTION OF NEXSYS

www.Michigan.gov/MDE-NexSys

NexSys was initiated in February 2021 by MDE to replace the Cash Management System (CMS) and the MEGS+ with a single system. NexSys is a comprehensive web application to support federal cash management and grant processes. For grants using NexSys, the objectives include:

A. Control cash reimbursements and requests.

B. Paying recipients (interface to the Statewide Integrated Government Management Application [SIGMA] to trigger payments to recipients).

C. Final expenditure reporting.

D. Fiscal monitoring.

Payments processed within NexSys are sent to SIGMA for generation of payment warrants.

NexSys can be accessed through a MILogin account as described above in section III. Each person within a school district or accounting firm is required to have their own MiLogin for Business Account.

V. NEXSYS SYSTEM COMPONENTS

A. NexSys 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 Assistance Listing number.
2. Assistance Listing 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 Assistance Listing 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 Assistance Listing numbers, but these are non-federal programs.
3. Agreement Number (formerly recipient code in CMS) - Recipient agencies are identified by an agreement number the agreement number is a code designed to identify the sub-grantee. All Michigan public schools have five-digit agreement number 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 agreement numbers longer than five digits but still start with the appropriate two-digit county code.
4. Program Numbers (formerly grant numbers in CMS)- 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 specific Program Office/Service area.
6. The combination of Program 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 can request funds via the internet using NexSys. 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 NexSys. 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. NexSys produces this report, which lists the Assistance Listing number, project name, project number, amount approved, current payment, cumulative payment, and balance remaining.

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.

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

I. NexSys Functionality - For recipient agencies, primary functionality in NexSys 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. External Entity Report – Fund request, project approvals, payment ledgers, disbursements, Grant Auditor Reports, and overpayments.

VI. CONTACTS

1. NexSys Contact

NexSys Help Line 517-241-5386
NexSys Accounting Help Line 517-335-0534
MDE-NexSys-Applications@Michigan.gov
MDE-NexSys-Accounting@Michigan.gov

Office of Financial Management
Grants Cash Management and Reporting
Michigan Department of Education
P.O. Box 30008
Lansing, Michigan 48909

MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

PREPARED BY THE
DEPARTMENT OF TECHNOLOGY, MANAGEMENT AND BUDGET OFFICE OF RETIREMENT SERVICES

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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 2025. Current rates can be found here.

PSERS 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, 2024 – September 30, 2025) is also required to comply with GASB 68 and GASB 75 in its financial statements for the fiscal year ending June 30, 2026. 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 are 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, 2025) and at the beginning of the measurement period (September 30, 2024). 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, 2024, (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, 2026, is based on contributions from October 1, 2024 - September 30, 2025.

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 4.02 Reportable compensation, 4.03 Nonreportable Compensation and 4.06 Gross earnings for defined contribution (DC) plans. Note also that ORS requires that you use a DTL4 record to report gross earnings for all members (even those without a DC component) and GASB 68 requires you to report gross earnings on all covered employees.

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(1) to revenue for reporting units for months November through August. This payment funds the pension UAAL amortization payment above the UAAL rate cap. An invoice is received from ORS for an equivalent amount that must be paid by the corresponding due date.

D. 147e funds are distributed based on a percentage of the reporting unit's reported wages under DC and hybrid DC, Pension Plus, and Pension Plus II plans. 147e disbursements are not invoiced by ORS.

E. 147a(2) amounts disbursed to K-12, ISD, Charters and Libraries are based on DB plan and DB-hybrid plan wages reported to ORS, for active members. 147a(2) disbursements are not invoiced by ORS.

F. For FY26, 271(4) funds are provided to reporting units to offset a portion of employer normal cost contribution rate for employees with premium subsidy healthcare benefit. 27l(4) disbursements are not invoiced by ORS.

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

ATTACHMENT

Attachment 1: Financial Statements to FID Revenue Crosswalk

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:

MDE Budget Transparency Website Link 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: Michigan Public School Accounting Manual Section IV Website Link.

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 districts 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 $1,000,000 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 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.
    g. A district or public school academy that receives funds under this section and that operates a school breakfast program under section 1272a of the revised school code, MCL 380.1272a, shall use from the funds received under this section an amount, not to exceed $10.00 per pupil for whom the district or public school academy receives funds under this section, necessary to pay for costs associated with the operation of the school breakfast program.
    h. Subject to subsections (6), (7), (8), (23), and (24), for schools in which more than 40% of pupils are identified as at-risk, a district or public school academy may use the funds it receives under this section to implement tier 1, evidence-based practices in schoolwide reforms that are guided by the district's comprehensive needs assessment and are included in the district improvement plan.
    i. Up to 30% to reduce the teacher to pupil ratio in grades K to 3 in schools for which the percentage of pupils in membership who were determined to be economically disadvantaged in the immediately preceding fiscal year is equal to or greater than the minimum percentage for a district or public-school academy to be assigned to opportunity index band 5.

j. Up to 30% to support retention and recruitment efforts that help reduce staff turnover and vacancies of instructional and support staff if the district or public-school academy is assigned to opportunity index band 5 or 6.

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.

   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."
   1. If testing this, the auditor should determine that 90% of Section 61(a)(1) funds were spent in 'program improvement' categories.
   2. Auditors should refer to the '4033 Expenditures Guidance Appendix' for whether an expenditure counts as "program improvement".
   3. In addition to spending the Section 61a(1) funds received, each fiscal agency must expend local funds equal to or greater than the difference between the amount of Section 61a(1) funds received (75% of the added costs), and the added cost funding at the 100% level. The following formula is used to determine the 100% level of added cost required:
      - Added Cost (Section 61a(1)) funds received x 4/3 = 100% added cost required expenditures.
      - Example: If a district received $7,500 in Added Cost (Section 61a(1)) funds, that amount ($7,500) is assumed to be 75% of the total. To determine the district's total (100%) obligation, multiply the Added Cost received by 4/3 ($7,500 x 4/3 = $10,000).

4. If testing this, the auditor should examine the Section 61a(1) Added Cost Guide 2024. 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-CTE Cost of running a program.
5. To calculate the non-CTE costs of a program, 1/8* of the State median foundation allowance (or fiscal agency median, if lower) is multiplied by the unduplicated CTE enrollment of the 61a1 fiscal agency (FA).

   Following is the formula used to determine the non-CTE required expenditures:

   - (foundation allowance x 1/8) x (FA total unduplicated CTE enrollment) = non-CTE required expenditures.
   - * 1/8 of the Foundation Allowance is the equivalent of funds received for about 45 minutes of instruction, or the cost of an hour of instruction, excluding the portion of foundation allowance expended on overhead (40%).

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 1993-1994 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 Revised School Code 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:

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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 Local and State School Systems: 2014 Edition" 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 education finance data will be reported in a uniform, comparable, and comprehensive manner. Auditors should test for appropriate classification of accounts and transactions to correct account code dimensions (fund, major class, suffix, function, object, and program codes). Transactions must be recorded in accordance with Generally Accepted Accounting Principles (GAAP) and the Michigan Public School Accounting Manual. Questions relating to the Michigan Public School Accounting Manual may be directed to:

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Michigan Department of Education
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MDE-SASF@Michigan.gov

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 and intermediate school districts, and public-school academies, 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, and public-school academies 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 local and intermediate school districts, and public-school academies 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; definitions.

MCL 380.1215 – Accounting for moneys; fund designations.

A. Operating taxes shall be accounted for under the title of "General Fund." The state board may establish other fund designations to clarify further the expenditure classifications for which general fund monies may be used.

B. Library money shall be accounted for under the title of "Library Fund."

C. Building and site money shall be accounted for under the title of "Building and Site Fund."
   1. Note: This fund has been renamed the "Capital Projects Fund." Refer to the Michigan School Accounting Manual.

D. Taxes collected for retiring bonded indebtedness shall be accounted for as required by the Revised Municipal Finance Act, 2001 PA 34 of 2001, 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 to 141.2821, as provided in section 15 of the state school aid act of 1979, MCL 388.1615, or for purposes authorized under section 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) became effective June 29, 2012, to address the management of deposit accounts for school district funds. This statutory language is also included in MCL 380.622(2)(j) pertaining to intermediate school district funds.

It is the interpretation of the Michigan Department of Education (MDE) that the purpose of these sections was to allow school districts to invest funds into CK accounts that are part of the Certificate of Deposit Account Registry Service (CDARS) 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 (LEAs and ISDs) 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 is 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 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.

(1) The board of a school district or board of directors of a public-school academy shall adopt written policies governing the procurement of supplies, materials, and equipment.

(2) Except as otherwise provided in subsection (4) or (5), a school district or public-school academy shall not purchase an item or group of items in a single transaction costing $31,321 or more unless competitive bids are obtained for those items and the purchase of those items is approved by the school board or board of directors.

(3) The board of a school district or board of directors of a public-school academy may adopt and implement a local policy that gives a preference to a Michigan-based business in awarding a contract under this section. A policy adopted under this subsection shall be consistent with federal statutes and regulations and shall not be applied to a contract that is to be paid with federal funds.

(4) A school district or public-school academy 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 section 263(3) of the management and budget act, 1984 PA 431, MCL 18.1263.

(5) A school district or public-school academy is not required to obtain competitive bids for purchasing food unless the food is purchased in a single transaction costing $100,000 or more.

(6) The board of a school district or local act school district or board of directors of a public school academy may acquire by purchase, lease, or rental, with or without option to purchase, equipment necessary for the operation of the school program, including, but not limited to, heating, water heating, and cooking equipment for school buildings, and may pay for the equipment from operating funds of the district or public school academy. Heating and cooking equipment may be purchased on a title retaining contract or other form of agreement creating a security interest and pledging in payment money in the general fund or funds received from state school aid. The contracts may extend for not more than 10 years.

(7) As used in this section, "Michigan-based business" means a business that would qualify for a preference in a procurement contract with this state as determined under section 268 of the management and budget act, 1984 PA 431, MCL 18.1268.

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

School Bond Qualification, Approval, and Loan Act, 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)

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-lerm 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 more than 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 <u>when payment is due</u>. 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. Use of Remaining Bond Proceeds (MCL 388.1938, Section 18)

For more on school bonds contact:

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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(5)– 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 priority outlined in the Act.

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. Tax increment financing in Michigan is authorized by the Recodified Tax Increment Financing Act (RTIFA), P.A. 57 of 2018, the Brownfield Redevelopment Financing (BRF) Act, P.A. 381 of 1996, the Smart Zones Act, PA 248 of 2000, and the Tax Reverted Clean Title Act, P.A. 260 of 2003. Each authority has specific powers and limitations. For a detailed analysis of each, the individual statute should be consulted. Only the following four laws allow capture of school taxes:

a. Recodified Tax Increment Financing Act (RTIFA), P.A. 57 of 2018

i. Downtown Development Authority (DDA), originally PA 197 of 1975
ii. Tax Increment Finance Authority (TIFA), originally PA 450 of 1980
iii. Local Development Financing (LDF), originally PA 281 of 1986
iv. Corridor Improvement Authority Act, PA 280 of 2005

b. Brownfield Redevelopment Financing (BRF) Act, PA 381 of 1996
c. Smart Zones Act, PA 248 of 2000
d. Tax Reverted Clean Title Act, PA 260 of 2003

More information on Tax Increment Financing can be found at the Michigan Department of Treasury website.

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. More information can be found on Michigan Department of Treasury's website.

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. Summary of specific tax distributions affecting local school districts:
   i. Except for the Industrial Facilities Exemption, Obsolete Property Rehabilitation Act (OPRA), Eligible Tax Reverted Property Specific Tax, General Property Tax Act 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.

b. Summary of specific tax distributions affecting ISDs:
   i. Except for Industrial Facilities Exemption, Neighborhood Enterprise Zone (NEZ), Obsolete Property Rehabilitation Act (OPRA), Commercial Forest Tax, Commercial Rehabilitation Tax, Commercial Facilities Tax, Eligible Tax Reverted Property Specific Tax, 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.

More information regarding property tax abatements and exemptions can be found on the Department of Treasury website.

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 because 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 Phil Boone, MDE Office of Financial Management at MDE-SASF@Michigan.gov, 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 by County Treasurer's offices to the MDE taxable value system, 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 chargebacks 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 Taxable Value Data Website Link.

   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 (FY 2011), 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 Taxable Value Data Website Link.

For questions regarding the BRF Act, please contact:

Jim Mills
Administrative Manager
Michigan Department of Treasury
517-335-4669
MillsJ@Michigan.gov

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.

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

E. Suggested Audit Procedures for Tax Abatements

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

c. For ISDs receiving funding under section 62, verify that the vocational 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.

CONTACT:

Phil Boone
State Administrative Manager
Office Financial Management
Michigan Department of Education
PO Box 30008
Lansing, Michigan 48909
517-899-0796
MDE-SASF@Michigan.gov

X. BOND CONSTRUCTION AND SINKING FUNDS

Bulletin for School District Audits of Bonded Construction Funds and of sinking funds in Michigan: Department of Treasury - Numbered Letter 2023-1

PUPIL MEMBERSHIP

I. OBJECTIVES

II. OVERVIEW

III. AUDIT CONSIDERATIONS

IV. REFERENCE MATERIALS

V. CONTACT PERSON

ATTACHMENT

Attachment 1: 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 audited 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 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 the ISDs or CPAs, and the districts traditionally have chosen to have their pupil memberships audited by the 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 should 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 for deviation.

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: MDE Pupil Accounting Manual Website Link.

B. Pupil Membership Auditing Manual. This is available at: MDE Pupil Membership Auditing Manual Website Link.

C. The State School Aid Act of 1979 (amended annually). The compiled law is also available online at: Michigan Compiled Law Basic Search Website Link.

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

Questions may be directed to:
Gloria Suggitt
Audit Manager
Office of Financial Management
Michigan Department of Education
PO Box 30008
Lansing, Michigan 48909
517-648-2768
MDE-OFM@Michigan.gov

Attachment 1

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 of Experience	Education	Training (Date, Title)

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: _____ Date:_____
Title:_____

APPENDIX ACRONYMS

Appendix A

The following is a list of abbreviations and acronyms commonly used in this manual:

AICPA	American Institute of Certified Public Accountants
Assistance Listing	Federal Program Assistance Listing Number
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
SSO	Seamless Summer Option
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 (Assistance Listing) 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) 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	https://www.aicpa-cima.com/home
Association of School Business Officials International	https://www.asbointl.org/
Assistance Listings (Previously Catalog of Federal Domestic Assistance)	https://sam.gov/assistance-listingsFederal Audit
Clearinghouse	https://www.fac.gov/
General Accounting Office (GAO)	https://www.gao.gov/
Governmental Accounting Standards Board	https://www.gasb.org/
List of Parties Excluded from Federal Procurement or Non-Procurement Programs	SAM.gov | Search
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)	https://www.ignet.gov/content/audit
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

Member Name and Mailing Address	Member Contact Information
Sean McLaughlin, Finance Manager MDE-Office of Special Education 608 W. Allegan P.O. Box 3008 Lansing, MI 48909	Phone: 517-897-2261 Email: Mclaughlins@Michigan.gov
Allison Allman, CPA Kruggel Lawton 805 Van Brunt Avenue St. Joseph, MI 49085	Email: aallman@klcpas.com
Nathan Baldermann, CPA Rehmann Robson 675 Robinson Rd. Jackson, MI 49203	Phone: 517-841-4235 Email: Nathan.baldermann@rehmann.com
Phil Boone, Assistant Director MDE-State Administrative Manager 608 W. Allegan Street P.O. Box 30008 Lansing, MI 48909	Phone: 517-335-4059 Fax: 517-241-0196 Email: MDE-SASF@Michigan.gov
Chris Frank Executive Director Macomb Intermediate School District 44001 Garfield Road Clinton Township, MI 48038	Phone: 586-228-3350 Email: cfrank@misd.net
Melanie Brummeler MDE-Office of Nutrition Services	Email: BrummelerM@Michigan.gov
Julie Davis, Assistant Superintendent Finance & Operations Forest Hills Public Schools 6590 Cascade Road SE Grand Rapids, MI 49546	Phone: 616-493-8800 Fax: 616-493-8560 Email: jdavis@fhps.net

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Allen Gamble, CPA Lewis & Knopf, CPAs 5206 Gateway Center, Suite 100 Flint, MI 48507	Email: agamble@lewis-knopf.com
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