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Control Number ED-OIG/A05-D0021

NOV 21 2003

Mr. Thomas D. Watkins, Jr.
Superintendent of Public Instruction
Michigan Department of Education
P.O. Box 30008
Lansing, Michigan 48909

Dear Mr. Watkins:

This **Final Audit Report** presents the results of our audit of the Detroit City School District's (District) administration of Title I, Part A (Title I) of the Elementary and Secondary Education Act of 1965, as amended[1] (the Act), Set-Aside programs[2] for the period July 1, 2002, through May 31, 2003. Our objectives were to determine whether the District (1) consulted with private school officials prior to making decisions concerning Set-Aside services provided from Title I funding, and (2) provided equitable Set-Aside services and other benefits to private school participants with Title I funds.

We found that the District (1) did not provide meaningful consultation to private school officials during the design and development of Set-Aside programs; (2) used Title I funds totaling $8,442,270 to provide Set-Aside services for public school participants, but did not provide equitable services to private school participants; (3) used Title I funds totaling $278,414 to pay for services that did not benefit Title I participants; and (4) did not submit complete Office of Management and Budget (OMB) Circular A-133 audit reporting packages for fiscal years 1999 through 2002.

We recommend the Assistant Secretary for Elementary and Secondary Education direct the Michigan Department of Education (MDE) to require that the District (1) immediately develop and implement a comprehensive consulting plan to ensure it consults with private school officials; (2) obtain and submit to MDE signed affirmations from private school officials that consultation occurred; (3) provide an equitable share of Set-Aside services to private school participants in future school years; (4) provide services in the upcoming school year, in consultation with private school officials, to

[1] The Elementary and Secondary Education Act of 1965 was amended by the No Child Left Behind Act of 2001, enacted January 8, 2002.
[2] Before calculating the per-pupil amount for public and private school children from low income families, the local education agency may set aside Title I funds for district-wide programs.

compensate for the inequitable Set-Aside services to private school participants during our audit period; (5) restore $278,414 to its Title I allocation for unallowable costs; (6) submit complete OMB Circular A-133 audit reporting packages; and (7) establish and implement written policies ensuring it provides an equitable share of Set-Aside services to private school participants, only charges allocable costs to the Title I program, and timely submits OMB Circular A-133 audit reporting packages in the future.

We provided a draft of this report to MDE and the District. In its faxed response received on November 6, 2003, MDE stated that its Office of Field Services is working with the District to develop a consultation plan and procedures to ensure signed affirmations are obtained. MDE also stated that it relies on the single audit process to determine compliance with the requirement to provide equitable services to private school participants, and to determine whether Title I funds benefited Title I participants. However, the single audit process for our audit period has not been completed. In addition, MDE agreed that the District must submit complete OMB Circular A-133 reporting packages, and said it will work with the District to ensure it establishes a procedure to comply with the reporting requirement. MDE's response did not cause us to change our findings or recommendations. We have summarized MDE's comments after each finding and included them in their entirety as an attachment.

AUDIT RESULTS

Finding Number 1 The District Did Not Provide Consultation To Private School Officials

The District did not consult with private school officials during the design and development of Set-Aside programs. Although the District met with private school officials before the start of the 2002-2003 school year, both the District's Grants Executive Director and Non-Public Title I Supervisor admitted the District did not consult with private school officials regarding Set-Aside programs. The Superintendent and Associate Superintendent for Curriculum for the Archdiocese of Detroit and the Assistant Superintendent of Lutheran Schools also stated that meetings with the District did not involve consultation on the Set-Aside programs. These private school officials were unaware that some of the Set-Aside programs even existed.

Section 1120 (b)(1) of the Act and 34 C.F.R. § 200.10 (a) and 11 (a) (2002) require that a local education agency consult with appropriate private school officials. To ensure timely and meaningful consultation, the Act requires that local education agencies consult with appropriate private school officials during the design and development of agency programs on issues such as what services will be offered and the size and scope of the equitable services to be provided to eligible private school children. Section 1120 (b)(4) of the Act requires that each local education agency maintain and provide to the State education agency a written affirmation signed by participating private school officials that consultation has occurred.

The District did not have procedures in place to ensure it would conduct meaningful Set-Aside consultation with private school officials, including discussions of services to be provided, the size and scope of services to be provided, or the service delivery mechanisms. The District also did not have procedures in place to obtain written assurances from private school officials that this consultation occurred. The lack of meaningful consultation and a written assurance increased the risk that services and other benefits of Set-Aside programs would not address the needs of private school participants, and would not be equitable to those provided to public school participants.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education direct MDE to

1.1 ensure the District immediately develops and implements a comprehensive Title I consulting plan that lays out how the District will consult with private school officials, including the use of Title I funds. This plan should be developed in conjunction with private school representatives, and agreed to and signed by private school and District officials to ensure meaningful consultation occurs and is documented.

1.2 ensure the District obtains, in future years, signed affirmations from participating private school officials that consultation occurred and submits the affirmations to MDE.

1.3 conduct a monitoring visit to ensure the District implemented the consulting plan.

Auditee Comments

MDE agreed that the intended level of consultation did not take place, but asserted that some annual consultation did occur. MDE stated that its Office of Field Services is working with the District to develop a consultation plan and procedures to ensure signed affirmations are obtained. MDE also plans to expand materials to assist all Districts with consultation and delivery of service to participating private schools.

OIG Response

MDE did not provide any documentation such as agendas or meeting minutes to indicate Set-Aside consultation took place during referenced annual consultation meetings. The response did not cause us to change our finding or recommendations.

Finding Number 2 The District Did Not Provide Equitable Set-Aside Services to Private School Participants

The District used Title I funds totaling $8,442,270[3] to provide Set-Aside programs to public school children, parents, and teachers, but did not provide equitable services to private school participants. The District used Title I funds for the following Set-Aside programs:

Professional Development	$ 2,076,333
Instructional Specialists	$ 1,851,291
Attendance Centers	$ 1,231,527[4]
Compact Technicians	$ 957,315
Research, Evaluation and Testing	$ 526,299
Compensatory Education Support	$ 512,244
Educational Technology	$ 386,591
Curriculum Labs	$ 348,114
Extended Day Kindergarten	$ 241,255
Summer Camp	$ 217,552
Reading Recovery Buy-in	$ 86,405
Children's Museum Buy-in	$ 7,344
	$ 8,442,270

The District did not notify the private school officials of these Set-Aside programs or allow private school children, parents, and teachers to participate in them. The District's Grants Executive Director admitted that these Set-Aside programs were only for the benefit of public school participants. Officials from the Archdiocese of Detroit and the Assistant Superintendent of Lutheran Schools stated they were unaware that most of these Set-Aside programs existed, and private school children, parents, and teachers did not participate in any of them.

Section 1120 (a)(3) of the Act requires that educational services and other benefits for private school children be equitable in comparison to services and other benefits for public school children. Also, 34 C.F.R. § 200.11 (b)(2) states that

> Services are equitable if the LEA — (i) Addresses and assesses the specific needs and educational progress of eligible private school children on a comparable basis as public school children; (ii) Meets the equal expenditure requirements. . . ; and (iii) Provides private school children with an opportunity to participate that — (A) Is equitable to the opportunity provided to public school children. . . .

[3] Amount consists of Title I funds expended through April 24, 2003, except for the Professional Development and Compensatory Education Support programs. These programs are based on expenditures through May 21, 2003.

[4] Total for the Drew, Puritan, and E. McNichols Attendance Centers. The total does not include unallowable charges to the closed Woodward Attendance Center.

The District did not have a consulting plan in place with procedures to ensure that it provided equitable Set-Aside services to private school participants. As a result, private school participants did not benefit from $8,442,270 of Title I funds. By providing funds for the Set-Aside programs restricted to public school participants, the District did not (1) address the specific needs and educational progress of eligible private school participants, or (2) provide private school participants with an opportunity to participate that was equitable to the opportunity provided to public school participants.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education direct MDE to ensure the District

2.1 includes, in its consultation plan developed in response to Recommendation 1.1, procedures to ensure it will provide equitable Set-Aside services to private school participants. The procedures should include meeting with private school officials to discuss their needs regarding Set-Aside services. Based on the needs and potential activities discussed, the District should use Title I funds to provide Set-Aside services for private school participants.

2.2 provides an equitable share of Set-Aside services to private school participants in future school years.

2.3 provides services in the upcoming school year, in consultation with private school officials, to compensate for the inequitable Set-Aside services during the audit period.

Auditee Comments

MDE stated that it uses the single audit process to determine whether the District is in compliance with the requirement to provide equitable Set-Aside services to private school participants. The single audit has not been completed for the audit period.

OIG Response

MDE did not respond to the recommendations. Therefore, we did not change the finding or recommendations.

Finding Number 3 Title I Funds Paid Did Not Benefit Title I Participants

The District used Title I funds to pay salaries and fringe benefits for which Title I participants received no benefits. Before fiscal year 2003 began, the District closed the Woodward Attendance Center and reassigned its staff. However, the District budgeted fiscal year 2003 Title I funds for the Woodward Attendance Center and, during the year, charged Title I for salary and fringe benefits of $278,414.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, Paragraph C. 3 (1997)* states that a cost is allocable to a particular cost objective in accordance with relative benefits received.

The District did not have written policies in place to ensure it only charged allocable costs to the Title I program. Title I funds paid for $278,414 of salary and fringe benefit charges for which Title I participants received no benefit. Therefore, the costs are unallowable.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education direct MDE to ensure the District

3.1 restores $278,414 to its Title I allocation in the upcoming school year to provide Title I services to Title I participants.

3.2 establishes and implements written policies to ensure it only charges allocable costs to the Title I program.

Auditee Comments

MDE stated that it uses the single audit process to determine whether the District is in compliance with the requirement to use Title I funds for the benefit of Title I participants. The single audit has not been completed for the audit period.

OIG Response

MDE did not respond to the recommendations. Therefore, we did not change the finding or recommendations.

Finding Number 4 The District Did Not Submit Complete OMB Circular A-133 Audit Reporting Packages To The Federal Audit Clearinghouse

The District did not submit correct OMB Circular A-133 data collection forms or complete reporting packages to the Federal Audit Clearinghouse (FAC) for fiscal years 1999, 2000, 2001, and 2002. According to the FAC, the District did not submit a correct data collection form for fiscal years 1999 and 2000, and did not submit a complete reporting package for fiscal years 2000, 2001, and 2002.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Subpart C, Paragraph 320(d) (1997)*, requires that all auditees submit to the FAC the data collection form, one copy of the reporting package for the FAC to retain

as an archival copy, and a copy for each direct federal awarding agency for which audit findings are reported in the schedule of findings and questioned costs, or the summary schedule of prior audit findings.

The District has not submitted both a correct data collection form and complete reporting package for any OMB Circular A-133 audit completed since fiscal year 1998. The District did not have procedures in place to ensure it would submit to the FAC a correct data collection form and reporting package for each OMB Circular A-133 audit.

Without correct data collection forms and complete reporting packages, the FAC is unable to make timely and proper distribution of OMB Circular A-133 audits to federal agencies. The U.S. Department of Education's (ED) Office of the Chief Financial Officer, Post Audit Group, relies on these distributions from the FAC to receive reports and to ensure that they are resolved. Therefore, by not submitting the required information, the District is delaying the audit resolution process.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education direct MDE to ensure the District

4.1 submits, to the FAC, a correct data collection form and complete reporting package for OMB Circular A-133 audits completed in fiscal years 1999, 2000, 2001, and 2002.

4.2 establishes written policies and procedures to ensure it timely submits a correct data collection form and complete reporting package for each OMB Circular A-133 audit in the future.

Auditee Comments

MDE agreed that the District must submit complete OMB Circular A-133 reporting packages to the FAC. MDE said it would work with the District to ensure it establishes a procedure to comply with the reporting requirement.

BACKGROUND

The No Child Left Behind Act of 2001 (Public Law 107-110) authorized the Title I program during our audit period. The program provides funds for supplemental educational services for eligible public and private school students living in high-poverty areas. The program provides, through state educational agencies, formula grants to local educational agencies to help low-achieving children meet challenging state curriculum and student performance standards in core academic subjects. Title I program services target children who are failing, or at most risk of failing, to meet state academic standards. Before calculating the per-pupil amount for public and private school children from low income families, the local education agency may set aside Title I funds for

district-wide programs. Allowable Set-Aside programs are contained in 34 C.F.R. § 200.27.

MDE allocated $121,902,716 in Title I funds to the District for fiscal year 2003. Of this amount, the District budgeted a total of $61,301,019 for Set-Aside programs, as outlined below:

Transportation and Supplemental Educational Services	$24,231,774[5]
Central Programs (public school participants)	$34,279,677
Private Schools Allocation	$ 2,789,568[6]
	$61,301,019

The District budgeted the $34,279,677 for Central Programs for the following uses:

Instructional Specialists	$ 6,093,622
Professional Development	$ 5,835,703
Indirect Cost (4.25%)	$ 4,165,076
Preschool	$ 3,805,638
Headstart Supplement	$ 3,308,203
Attendance Centers	$ 1,846,454
Compact Technicians	$ 1,573,274
Parental Involvement	$ 1,188,667
Office of Compliance	$ 1,116,074
Research, Evaluation, Testing	$ 1,004,183
Curriculum Labs	$ 844,949
Educational Technology	$ 746,154
Extended Day Kindergarten	$ 616,646
Compensatory Education Support	$ 596,574
Enrichment Program Institutionalized Children - Neglected	$ 528,072
Summer Camp	$ 492,328
Social Work	$ 175,577
Reading Recovery Buy-In	$ 145,000
Children's Museum Buy-In	$ 102,642
Homeless	$ 94,841
	$34,279,677

The consultation and equitability requirements of the Act do not apply to Transportation and Supplemental Educational Services, Indirect Cost, Preschool, Headstart Supplement, Enrichment Program Institutionalized Children-Neglected, Social Work, and Homeless.

[5] Represents funds set-aside for students attending public schools identified for school improvement, as required by Sections 1116 (b) (1) (e), and 1116 (b) (10) of the Act.
[6] This amount includes per-pupil allocation, Central Support, and Parental Involvement.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether the District (1) consulted with private school officials prior to making decisions concerning Set-Aside services provided from Title I funding, and (2) provided equitable Set-Aside services and other benefits to private school participants with Title I funds. Our initial audit period was from January 8, 2002[7], through March 31, 2003. However, after beginning our field work, we modified the audit period to July 1, 2002[8], through April 24, 2003, based on the expenditure reports the District provided. Based on additional expenditure data the District provided, we further extended the audit period for Professional Development, Parental Involvement, and Compensatory Education Support through May 21, 2003, and for the Woodward Attendance Center through May 31, 2003.

To accomplish our objectives, we

1. reviewed the financial statement and OMB Circular A-133 audit report for the year ended June 30, 2002, prepared by an independent accountant;
2. reviewed the District's 2003 Consolidated Application;
3. reviewed the District's organization chart, expenditure reports, documentation of the uses of Title I funds for Set-Aside services, and other documents provided by District and private school officials;
4. reviewed MDE's District Study Guide, dated December 3, 2002, and its policies and procedures for monitoring the District's compliance with consultation and equitability requirements; and
5. interviewed various District employees, Archdiocese of Detroit officials, a Lutheran Schools official, MDE personnel, and ED personnel.

The Superintendent of the Archdiocese of Detroit contacted the Office of Elementary and Secondary Education (OESE) with a concern about the District's lack of consultation and poor quality services. OESE also received a complaint from a citizen stating that the District had no parental involvement programs for public school children. OESE visited the District to discuss parental involvement and talked to parents, the citizen who raised the complaint, and the District. It did not look at parental involvement activities for private school participants. OESE found that the District and MDE were not in compliance with parental involvement because the District did not provide parental involvement activities. We selected the District based on these concerns.

We conducted our field work at the District's administrative offices in Detroit, Michigan, during the period April 21, 2003, to May 9, 2003, and at MDE's administrative offices in Lansing, Michigan, during the period April 30, 2003, to May 1, 2003. We discussed the results of our audit with District and MDE officials on July 9, 2003.

[7] Date the No Child Left Behind Act was enacted.
[8] We modified the audit period from January 8, 2002 to July 1, 2002, because the District did not separate transactions prior to No Child Left Behind Act and after the law went into effect and because this was the first full year the District had to follow the No Child Left Behind Act.

Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of audit described above. To achieve our audit objectives, we did not rely on computer-processed data.

STATEMENT ON MANAGEMENT CONTROLS

We did not assess the District's management control structure applicable to Title I funds because it was not necessary to achieve our objectives. However, our audit disclosed instances of non-compliance with federal law, regulations, and cost principles. These instances led us to believe weaknesses existed in the District's controls over Title I funds. These weaknesses and their effects are discussed in the **AUDIT RESULTS** section of this report.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate ED officials.

If you have additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following ED official, who will consider them before taking final Departmental action on this audit.

Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Avenue, SW, Room 3W315
Washington, DC 20202

It is ED's policy to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

Richard J. Dowd
Regional Inspector General
for Audit

Attachment

cc: Dr. Kenneth Stephen Burnley, CEO, Detroit City School District

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

MICHIGAN Department of Education

THOMAS D. WATKINS, JR.
SUPERINTENDENT OF
PUBLIC INSTRUCTION

October 17, 2003

Mr. Richard J. Dowd
United States Department of Education
Office of Inspector General
111 North Canal Street, Suite 940
Chicago, IL 60606

Dear Mr. Dowd:

The Michigan Department of Education received the draft audit report of the results of the audit of the Detroit City School District's administration of Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended, Set-Aside programs for the period July 1, 2002, through May 31, 2003. The audit required a draft response from the Detroit City School district and the preliminary version of the district's response was received by the Michigan Department of Education on Friday, October 10, 2003.

The Office of Field Services, which manages the Title I program in the department, is reviewing the response from Detroit City School District, and working with the district throughout this review to provide technical assistance. The assistance will focus on the development of a consultation plan and procedures to ensure that signed affirmations are obtained. The office plans to expand materials to assist all districts with consultation and delivery of service to participating private schools.

If you have additional questions, please do not hesitate to contact the Office of Field Services at 517-373-4588.

Sincerely,

Tom Watkins

Tom Watkins

Attachment

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Draft Audit Findings Response
October 17, 2003

Finding No. 1 **The District Did Not Provide Consultation To Private School Officials**

The department agrees that the intended level of consultation did not take place, however, the department asserts that some consultation did occur annually.

Finding No. 2 **The District Did Not Provide Equitable Set-Aside Services To Private School Participants**

The department uses a single audit process to determine the district's compliance with this requirement. The single audit has not been completed for the period of this review. The state does have a Michigan Audit Manual, which is updated annually to ensure accurate and timely audits.

Finding No. 3 **Title I Funds Paid Did Not Benefit Title I Participants**

This finding would also require data from the single audit.

Finding No. 4 **The District Did Not Submit Complete OMB Circular A-133 Audit Reporting Packages To The Federal Audit Clearinghouse**

The OMB Circular A-133 to the Federal Audit Clearinghouse is a standard part of the department's process. The department does agree that the district must submit complete documents. The department does not agree with the recommendation that the Michigan Department of Education add additional written policies and procedures. The requirement to report is in place. The department receives audits in a timely manner and reviews them in a timely manner. The department will work with Detroit City School District to ensure that a procedure is established to comply with this reporting requirement.