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JUN 25 2004

**Control Number ED-OIG/A05-D0038**

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

Dear Mr. Watkins:

This **Final Audit Report** presents the results of our audit of Michigan's local educational agencies' (LEA) allocations of Elementary and Secondary Education Act of 1965, as amended (ESEA), Title I, Part A (Title I), funds to schools for the period July 1, 2001, through June 30, 2002 (2001-2002 school year). Our overall objective was to determine whether selected LEAs in the State of Michigan complied with Title I of the ESEA, as amended[1], and regulations governing the allocation of Title I funds to LEAs and schools. Specifically, we wanted to (1) determine whether selected LEAs allocated Title I funds to the schools with the highest percentages of poor children (that is, in rank order), (2) determine whether only eligible schools were receiving Title I funds, (3) determine whether the proper poverty measures were used and that lower poverty schools were not receiving higher per-pupil allocations than higher poverty schools, and (4) verify that the data used to identify and count eligible poverty children was proper.

For the 2001-2002 school year, the Michigan Department of Education (MDE) received $349,305,562 in Title I funds (Basic and Concentration grants) and allocated $326,939,766 to 544 LEAs and $13,995,123 to 157 Public School Academies (charter schools). Our audit of 15 LEAs' allocation of $120,447,182 of Title I funds to 366 public schools disclosed that Michigan LEAs generally allocated Title I funds to the schools with the highest percentages of poor children (that is, in rank order) and generally used data to identify and count eligible poverty children that was proper. However, our audit disclosed that 5 of the 15 LEAs did not always ensure that (1) Title I funds were only allocated to eligible schools, (2) lower poverty schools were not receiving higher per-pupil allocations than higher poverty schools and that proper poverty measures were used, or (3) the data used to identify and count eligible poverty children was accurate.

[1] The ESEA was reauthorized by the No Child Left Behind Act of 2001 on January 8, 2002.

Specifically, we found that

1. Warren Consolidated Schools (Warren) and Cheboygan Area Schools (Cheboygan) allocated $246,117 of Title I funds to 3 ineligible schools.
2. Warren, Dowagiac Union Schools (Dowagiac), and Cheboygan allocated higher per-pupil amounts to schools with lower concentrations of poverty than they allocated to schools with higher concentrations of poverty. As a result, 7 higher poverty schools received $285,376 less in Title I funds than they should have received.
3. Detroit Public Schools (Detroit), Warren, and Oscoda Area Schools (Oscoda) used incorrect and/or inconsistent student count data. As a result, 4 schools were allocated $20,755 less in Title I funds and 10 schools were allocated $1,030,813 more Title I funds than they should have received.

These instances of noncompliance occurred, in part, because MDE's monitoring procedures were not adequate to ensure that the LEAs complied with the requirements governing the allocation of Title I funds to schools. Had the LEAs complied with the requirements, approximately $1.58 million of Title I funds might have been put to better use.

In addition, our audit disclosed a weakness in MDE's Title I allocation calculation process. This weakness caused MDE to use incorrect free lunch count data. The incorrect free lunch count data resulted in the allocation of Title I funds to 59 charter schools to be understated by $48,835 for the 2001-2002 school year. MDE has acknowledged this weakness and indicated that it has changed its programming code to prevent this error in the future.

In its response to our draft audit report, MDE concurred with the findings and generally agreed with the recommendations. However, regarding Finding No. 1, MDE proposes to implement recommendation 1.3. MDE suggests implementing recommendations 1.1 and 1.2 only if it finds that the results of implementing recommendation 1.3, strengthening the Michigan School Auditing Manual, and emphasizing the proper allocation of Title I funds in the training it provides for the independent auditors who perform the Single Audits are not adequate. (We have included MDE's response in its entirety as an attachment.)

We disagree with MDE's alternative corrective action because this method alone has been ineffective in the past. We continue to recommend that the Assistant Secretary for Elementary and Secondary Education direct MDE to require LEAs to submit their Title I allocation calculations as part of their annual consolidated applications and review the LEAs' allocations as part of the application approval process.

# AUDIT RESULTS

## Finding No. 1 Monitoring of LEAs' Allocations of Title I Funds to Schools Needs Improvement

Five of the 15 LEAs we audited did not allocate Title I funds entirely in accordance with the applicable law and regulations. Two LEAs allocated Title I funds to ineligible schools, 3 LEAs allocated higher Title I per-pupil amounts to lower poverty schools than to higher poverty schools, and 3 LEAs used incorrect and/or inconsistent student count data to compute schools' poverty percentages and allocate Title I funds to schools. The incorrect allocations resulted in approximately $1.58 million in Title I funds not being delivered to the appropriate location (that is, to the neediest areas). We concluded that MDE's monitoring procedures were not adequate to provide reasonable assurance that LEAs' allocations of Title I funds to schools complied with the applicable law and regulations.

**Title I Funds Allocated to Ineligible Schools**

For the 2001-2002 school year, 2 of the 15 LEAs allocated Title I funds to 3 ineligible schools. The 3 schools did not qualify as Title I eligible schools because their poverty percentages were below the eligibility requirements set forth in the regulations and the law.

Pursuant to 34 C.F.R. § 200.28 (a)(1),[2] an LEA shall allocate funds under Subpart A to school attendance areas or schools in rank order on the basis of the total number of children from low-income families in each area or school. Pursuant to the ESEA, Title I, Section 1113(a), an LEA shall use funds received under this part only in eligible school attendance areas. The term eligible school attendance area means a school attendance area in which the percentage of children from low-income families is at least as high as the percentage of children from low-income families served by the LEA as a whole. According to Section 1113(b), an LEA may designate as eligible any school attendance area or school in which at least 35 percent of the children are from low-income families; an LEA also may use funds received under this part in a school that is not in an eligible school attendance area, if the percentage of children from low-income families enrolled in the school is equal to or greater than the percentage of such children in a participating school attendance area of such agency.

- Warren allocated $103,226 in Title I funds to one ineligible school. The school was ineligible because Warren used an enrollment count of 370 in computing the school's poverty percentage instead of the correct enrollment count of 390. Using the correct enrollment count, the school's poverty percentage (20.8 percent) was below the poverty percentage (21.3 percent) of an eligible school that elected not to receive Title I funding. MDE advised Warren that it was allowable not to allocate Title I funds to this eligible school provided no schools with lesser poverty percentages were allocated Title I funds.

[2] Unless otherwise noted, all regulatory citations are to the version dated July 1, 2000.

- Cheboygan allocated $142,891 in Title I funds to two ineligible schools. The two schools were ineligible because their poverty percentages of 29 percent and 26 percent, were below the average of the elementary grade span grouping poverty percentage of 39 percent, below the LEA wide poverty percentage of 37 percent, and below the 35 percent threshold set forth in the law.

The $246,117 these two LEAs allocated to ineligible schools should have been allocated to Title I eligible schools and on behalf of eligible students attending non-public schools.

**Higher Per-Pupil Amounts Allocated to Lower Poverty Schools**
For the 2001-2002 school year, 3 of the 15 LEAs allocated higher Title I per-pupil amounts to lower poverty schools. Pursuant to 34 C.F.R. § 200.28 (c) and (d), an LEA is not required to allocate the same per-pupil amount to each participating school attendance area or school provided the LEA allocates higher per-pupil amounts to areas or schools with higher concentrations of poverty than to areas or schools with lower concentrations of poverty. An LEA may reduce the amount of funds allocated under this section to a school attendance area or school if the area or school is spending supplemental State or local funds for programs that meet the requirements in 34 C.F.R. § 200.62 (c).

As a result of the three LEAs allocating higher Title I per-pupil amounts to lower poverty schools, seven higher poverty schools received $285,376 less in Title I funds than they would have received if all eligible schools were allocated the same per-pupil amount.

- Warren used budgeted personnel and supply costs to arrive at the final amount of Title I funds it allocated to seven of its eight eligible schools. As a result, three higher poverty schools were allocated $99,582 less in Title I funds than they would have received and one higher poverty school was allocated $15,565 more in Title I funds than it would have received had all schools been allocated the same per-pupil amount of $727.28.

- Dowagiac allocated Title I funds to its five Title I eligible elementary schools based on personnel and supply costs rather than the per-pupil amount and the schools' free and reduced lunch counts. As a result, two schools with higher concentrations of poverty were allocated $52,115 less in Title I funds and three schools with lower concentrations of poverty were allocated $52,113 more in Title I funds than they would have received had all five elementary schools been allocated the same per-pupil amount of $664.78.

- Cheboygan allocated Title I funds based on the budgeted expenses for Title I teachers and instructional aides at each school building rather than the per-pupil amount and the schools' free and reduced lunch counts. As a result, two higher poverty schools were allocated $133,679 less in Title I funds than they would have received had the three eligible schools been allocated the same per-pupil amount of $802.32.

**Incorrect and/or Inconsistent Student Count Data Used to Allocate Title I Funds**
For the 2001-2002 school year, 3 of 15 LEAs used incorrect and/or inconsistent student count data to compute schools' poverty percentages and to allocate Title I funds to schools. Pursuant to the ESEA, Title I, Section 1113(c)(1), an LEA must allocate funds received under this part to eligible school attendance areas or eligible schools, identified under subsections (a) and (b), in rank order, on the basis of the total number of children from low-income families in each area or school.

- Detroit incorrectly transferred free lunch counts from the data source to its allocation spreadsheet when calculating schools' poverty percentages and allocating Title I funds to 4 of its 249 schools. The use of incorrect free lunch counts resulted in the over allocation of Title I funds to two schools totaling $172,049 and the under allocation of Title I funds to two schools totaling $16,584.

- Detroit did not use the same student counts to compute each school's poverty percentage that it used to allocate Title I funds to schools. Detroit used membership counts from the fall 2000 head count and free and reduced lunch counts from February 12, 2001, to calculate the poverty percentages it used to identify and rank eligible schools. Detroit then used the free and reduced lunch counts from February 12, 2001, to allocate Title I funds to schools. Using consistent count data, our recalculation of the Title I allocation for 17 of Detroit's 249 schools showed that 7 Detroit schools were over allocated $854,593 of Title I funds. In addition, Detroit used membership counts in calculating the poverty percentages for 6 schools that were larger than the counts shown on the fall 2000 head count report. The use of larger membership counts caused the poverty percentages for six schools to be understated, but it did not affect the amount of Title I funds allocated to the schools. A Detroit Title I official concurred that Detroit's use of counts from 2 different time periods results in incongruent data that affects the allocation of Title I funds to schools. The Title I official indicated that Detroit will change its process. In the future, Detroit plans to use the fall count dates for both the enrollment and free and reduced lunch counts and use electronic merging of count data to eliminate human error in the allocation calculation process.

- Warren used incorrect enrollment counts in its allocation of Title I funds for the 2001-2002 school year for two schools. Warren's use of enrollment counts for two schools that were less than counts shown in the data source caused the schools' poverty percentages to be overstated and affected the Title I eligibility of one school.[3] A Warren Title I official indicated that the use of incorrect enrollment counts occurred because of human error in entering count data into its Title I allocation spreadsheet. Warren indicated that it has begun receiving and loading count data electronically to reduce human error and increase efficiency in its Title I allocation process.

- Oscoda used free and reduced lunch counts in calculating the schools' poverty percentages and allocating Title I funds to schools that were different than the counts

[3] See ***Title I Funds Allocated to Ineligible Schools*** section of this report.

shown on the source document (dated February 14, 2001). For four schools, the free and reduced lunch counts Oscoda used were smaller and for one school the count used was larger than the counts shown on the source document. The enrollment counts Oscoda used were smaller than the enrollment counts shown on the source document for all five schools. The use of free and reduced lunch counts that were different resulted in the under allocation of $4,171 of Title I funds to two schools and the over allocation of $4,171 of Title I funds to one school.

As a result of the 3 LEAs using incorrect and/or inconsistent student count data to compute schools' poverty percentages and to allocate Title I funds to schools, 4 schools were allocated $20,755 less in Title I funds and 10 schools allocated $1,030,813 more in Title I funds than they would have received had correct and consistent student count data been used.

**Monitoring LEAs' Allocations of Title I Funds to Schools**

The above instances of noncompliance indicate that MDE's monitoring procedures were not adequate to ensure that LEAs complied with the requirements governing the allocation of Title I funds to schools. MDE does not require its LEAs to include, as part of the consolidated application, their allocations made to schools. Instead, MDE relies on the LEAs' Single Audits to ensure that Title I funds are allocated to schools in accordance with the law and regulations. MDE provides the Michigan School Auditing Manual to assist independent auditors in meeting the federal Office of Management and Budget Circular A-133 audit requirements. The instances of noncompliance identified in our report should have been disclosed as violations of the Title I requirements in the Single Audit reports. However, our review of the Single Audit work papers for the LEAs disclosed that the auditors did not identify these violations of the Title I requirements. In addition, we could not rely on the work of the auditors because there was insufficient evidence that ample testing was completed in the area of eligibility (enrollment counts and free and reduced lunch counts). MDE's reliance on the LEAs' Single Audits to ensure that LEAs properly allocate Title I funds to schools is not sufficient to provide reasonable assurance that funds were allocated appropriately.

**Recommendations**

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

1.1 require LEAs to submit their Title I allocation calculations as part of their annual consolidation applications,

1.2 review the LEAs' allocations as part of approving their applications, and

1.3 provide technical assistance to the Cheboygan, Detroit, Dowagiac, Oscoda, and Warren LEAs to ensure their responsible officials understand the Title I allocation requirements.

**Finding No. 2 System Weakness Affected the Allocation of Title I Funds to Charter Schools**

The free lunch count that MDE used to calculate the allocation of Title I funds to charter schools for the 2001-2002 school year was overstated. MDE used a free lunch count for Detroit of 102,584 rather than the correct adjusted free lunch count of 100,403.

Pursuant to 34 C.F.R. § 200.20 and ED Office of Elementary and Secondary Education guidance dated June 1998 titled "Basic Programs In Local Educational Agencies," MDE is responsible for adjusting the LEAs' Title I allocations received from ED to account for LEA changes and the creation of special LEAs, such as charter schools, that are eligible for Title I funds but not reflected in ED's allocations.

The overstated free lunch count caused the equating ratio that MDE used in calculating the allocation of Title I funds to charter schools to be understated by 0.39367 percent. The understated equating ratio resulted in the allocation of Title I funds to 59 charter schools being $48,835 less than it would have been had the correct free lunch count been used. The use of the incorrect free lunch count was caused by a system weakness that did not allow corrections to the free lunch count after the running of the initial program application. MDE acknowledged this system weakness and informed us that it recently changed the programming code to prevent this error in the future.

**Recommendation**

We recommend that the Assistant Secretary for Elementary and Secondary Education

2.1 verify that MDE's change to the program code is ensuring that correct free lunch counts are captured and used to calculate the Title I allocations for charter schools.

## BACKGROUND

The Title I program is authorized under the ESEA, as amended by the Improving America's Schools Act of 1994, Public Law 103-382. Title I grants are intended to help elementary and secondary schools establish and maintain programs that will improve the educational opportunities of low-income and disadvantaged children. The funds are intended to provide instruction and instructional support for these disadvantaged children so they can master challenging curricula and meet state standards in core academic subjects.

Title I funds are distributed from ED to states based on data that are measured at the LEA and state levels. The state's allocation is the sum of the LEAs' allocations as determined by ED. However, ED's allocations are not the final amounts the LEAs receive because the state must adjust the allocations to

- reserve funds for state administration (up to 1 percent) and for school improvement activities (no more than 0.5 percent but at least $200,000); and

- account for changes in district boundaries, consolidations, and creation of special districts such as charter schools or regional vocational/technical schools that are eligible for Title I funds but not reflected in ED's allocations.

In distributing funds to schools, LEAs are subject to several key restrictions. An LEA must determine which school attendance areas (schools) are eligible to participate in Title I. A school attendance area is generally eligible to participate if the percentage of children from low-income families is at least as high as the percentage of children from low-income families in the LEA as a whole or at least 35 percent poverty. An LEA also may designate and serve a school in an ineligible attendance area if the percentage of children from low-income families enrolled in that school is equal to or greater than the percentage of such children in a participating school area. When determining eligibility, an LEA must select a poverty measure from among those specified in the statutes. The LEA must use the measure consistently across the LEA to rank all school attendance areas according to their percentage of poverty.

LEAs allocate funds to eligible schools or attendance areas in rank order according to their poverty percentages. An LEA must serve those schools or areas above 75 percent poverty, including any middle or high schools, before it serves any schools or areas with a poverty percentage below 75 percent. Once all schools and areas above 75 percent poverty are served, the LEA may serve lower-poverty areas and schools either by continuing with the LEA-wide ranking or by ranking its schools below 75 percent poverty according to grade-span groupings. An LEA with an enrollment of less than 1,000 students or with only one school per grade span is not required to rank its school attendance areas.

LEAs are not required to allocate the same per-pupil amount to each school. If they choose not to allocate the same per-pupil amount to each school, they must allocate higher per-pupil amounts to poorer schools than they allocate to schools with lower concentrations of poverty. LEAs also may apply for and receive waivers of any of these allocation requirements.

## OBJECTIVE, SCOPE, AND METHODOLOGY

The overall objective of our audit was to determine whether selected LEAs in the State of Michigan complied with Title I of the ESEA, as amended, and regulations governing the allocation of Title I funds to LEAs and schools. Specifically, we wanted to (1) determine whether selected LEAs allocated Title I funds to the schools with the highest percentages of poor children (that is, in rank order), (2) determine that only eligible schools were receiving Title I funds, (3) determine that the proper poverty measures were used and that lower poverty schools were not receiving higher per-pupil allocations than higher poverty schools, and (4) verify that the data used to identify and count eligible poverty children was proper. Our audit covered the period July 1, 2001, through June 30, 2002.

To achieve our audit objectives, we

1. reviewed MDE's management control structure, policies, procedures, and practices applicable to its allocation of Title I funds to LEAs and monitoring of LEAs' allocations of Title I funds to schools;[4]
2. obtained the universe of LEAs from MDE;
3. stratified the universe of 544 LEAs[5] based on the amount of Title I funds received into 7 strata, selected the only 2 LEAs (Detroit and Flint Community Schools) that made up the first 2 strata, and randomly selected 13 additional LEAs from the next 4 largest strata;
4. obtained information regarding the 15 LEAs' allocation processes and allocations for the 2001-2002 school year;
5. audited each LEA's allocation process and allocation by
   (a) identifying the key people involved in the allocation process,
   (b) obtaining and reviewing copies of the two most recent Single Audit reports and management letters,
   (c) obtaining a list of the Title I allocations to schools,
   (d) gaining an understanding of the allocation process and related controls,
   (e) determining whether Title I funds were allocated to schools with the highest percentage of poor children (rank order) and only to eligible schools,
   (f) ensuring lower poverty schools were not receiving higher per pupil allocations than higher poverty schools and that the poverty measure used was proper,
   (g) verifying that the student count data used in the allocation was accurate and inclusive in accordance with the ESEA and the applicable regulations, and
   (h) assessing the reliability of computer-processed data applicable to the allocation of Title I funds to schools.

We also relied, in part, on computer-processed data that MDE used to allocate Title I funds to LEAs. The data we used were the LEA grant allocation amounts, the student enrollment counts, and counts of students eligible for free and reduced priced lunches contained in MDE's computerized student database, Michigan Education Information System. To determine whether this data was reliable, we first assessed the adequacy of the related computer system controls. We then compared the student enrollment count data to the LEAs' Intermediate School Districts' pupil membership count report. We also compared the student counts for free and reduced lunches contained in MDE's school meals database to the LEAs' food service count data for selected LEAs. Based on our assessment and tests, we concluded that the computer-processed data MDE provided was sufficiently reliable for the purposes of our audit.

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[4] Our review of MDE's management controls included (1) a review of the MDE single audit report for the two years ended September 30, 2001, (2) the performance audit report issued on MDE's Office of Field Services for the period October 1998 through July 2001, (3) discussions with Michigan Office of the Auditor General staff, and (4) a review of the Michigan Office of the Auditor General's audit working papers related to MDE and Title I allocations to LEAs. In addition, we interviewed MDE's internal auditor and reviewed selected documents and reports related to selected LEAs.

[5] We excluded 157 charter schools from the universe.

We conducted our audit work from June 16, 2003, through February 9, 2004. As part of our audit, we visited (1) MDE's offices in Lansing, Michigan; (2) Flint Community Schools' offices in Flint, Michigan; and (3) Detroit Public Schools' offices in Detroit, Michigan. We did not visit the other 13 LEAs' offices. Instead, we obtained the necessary information from those 13 LEAs and conducted our audit work in Chicago, Illinois, and St. Paul, Minnesota. We held an exit conference with MDE officials on March 4, 2004.

Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the audit described above.

## STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we assessed the adequacy of MDE's management control structure, policies, procedures, and practices applicable to its allocation of Title I funds to LEAs. To make our assessment, we classified MDE's controls into the following categories:

- Allocation of Title I funds to LEAs, including controls over the completeness and accuracy of student enrollment and free and reduced lunch counts;
- Monitoring LEAs' allocations of Title I funds to schools

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in MDE's Title I management controls. Our assessment disclosed two management control weaknesses related to MDE's administration of the Title I program. These weaknesses include (1) monitoring procedures that are not sufficient to ensure that LEAs' allocations of Title I funds to schools comply with the law and regulations and (2) controls over count data that are inadequate to ensure that MDE used accurate counts in calculating the allocation of Title I funds to LEAs and charter schools. These weaknesses and their effects are discussed in the **AUDIT RESULTS** section of this report (Finding No. 1 and Finding No. 2, respectively).

We did not assess the adequacy of the management control structure of the 15 LEAs that we audited because such assessments were not necessary to achieve our audit's objective. Instead, we obtained an understanding of the processes the 15 LEAs used to allocate Title I funds to schools and determined whether the processes were in compliance with the applicable law and regulations. Our review disclosed 8 instances of non-compliance with federal law and regulations that were caused by management control weaknesses at 6 LEAs. Two LEAs allocated Title I funds to ineligible schools, 3 LEAs allocated higher Title I per-pupil amounts to lower poverty schools than to higher poverty schools, and 3 LEAs used incorrect and/or inconsistent student count data to compute schools' poverty percentages and allocate Title I funds to schools. These weaknesses and their effects are discussed in the **AUDIT RESULTS** section of this report (Finding No. 1).

## 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. Determination 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 action on the audit.

Raymond J Simon, Assistant Secretary
Office of Elementary and Secondary Education Secretary
U. S. Department of Education
FOB-6, Room 3W315
400 Maryland Avenue, SW
Washington, D.C. 20202

It is the policy of the U. S. Department of Education 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 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

# ATTACHMENT

JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

MICHIGAN Department of Education

THOMAS D. WATKINS, JR
SUPERINTENDENT OF
PUBLIC INSTRUCTION

May 4, 2004

Mr. Richard J. Dowd
U.S. Department of Education
Office of Inspector General
111 North Canal Street, Suite 940
Chicago, Illinois 60606-7204

RE: Audit Control Number ED-OIG/A05-D0038

Dear Mr. Dowd:

This is in response to your April 5, 2004, draft audit report on local educational agencies' allocations of Elementary and Secondary Education Act funds to schools.

The department's response is enclosed. If you have any questions, please contact Linda Brown at 517-373-3921.

I want to thank you for the courtesy and consideration extended by your auditors during their visit.

Sincerely,

Tom Watkins

Thomas D. Watkins, Jr.

Enclosure

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Response to USDE Draft Audit Report on Allocation of Title I Funds

**Finding No. 1 Monitoring of LEA's Allocations of Title I Funds to Schools Needs Improvement**

The Michigan Department of Education concurs with this finding, except in the case of one school district where the school in question was eligible once the private school students were included, as they should have been.

The initial corrective action that the Department will take is to strengthen the applicable section of the Michigan School Auditing Manual and to emphasize the proper allocation of Title I funds in the training it provides for the independent auditors who perform the Single Audits. The Department will also follow up individually with the auditors who audited the districts in which the findings occurred to determine why the violations were not identified in the audit reports and strengthen the audit practices of the firms involved.

The department updates the Michigan School Auditing Manual annually. The FY 03-04 manual can be found on the web at:

http://www.michigan.gov/mde/0,1607,7-140-6530_6564_9091-67431--,00.html

Corrective actions resulting will be included in the FY 04-05 manual in April 2005. Further, training will be performed at the Michigan Association of Certified Public Accountants (MACPA) Spring Governmental Accounting and Auditing Conference on May 6, 2004.

If the Department finds that these steps are not adequate, it will implement Recommendations 1.1 and 1.2 of the Draft Audit Report. The Consolidated Application is currently designed to focus on the delivery of educational services and the coordinated use of resources, rather than technical compliance issues. For this reason, the inclusion of the Title I allocation calculations is not the preferable initial step.

The Department will implement Recommendation 1.3 by having the Department consultants who work with the identified districts review the Title I allocation requirements with district staff to ensure a thorough understanding of these requirements. This will be done as part of the planning process for the 2004-05 school year.

**Finding No. 2 System Weakness Affected the Allocation of Title I Funds to Charter Schools**

The Department concurs with this finding and has already taken steps to prevent such an error in the future.