



# MICHIGAN SCHOOL AUDITING MANUAL

---

2014-2015

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## INTRODUCTION

The Michigan Department of Education (MDE) provides this manual to assist public schools and independent auditors in meeting the federal Office of Management and Budget (OMB) Circular A-133 audit requirements. The intent of this manual is to supplement, explain, and interpret the authoritative literature. The manual addresses high-risk areas and issues we believe need further explanation. **This manual is not intended to completely explain and describe or be a substitute for the OMB Circular A-133 audit requirements.** School management and independent auditors will need to refer to the authoritative literature listed in the appendix of this manual to ensure that all federal requirements are met.

The new Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards became effective for new federal awards and/or new funding increments made on or after December 26, 2014. Standards set forth related to the audit requirements are effective for audits of fiscal years beginning on or after January 1, 2015. For public schools, this means the new requirements are effective for audits of the July 1, 2015 through June 30, 2016 fiscal year, and will be incorporated into the School Auditing Manual for fiscal year 2015-2016. Federal guidance can be found in Title 2, Subtitle A, Chapter II, Part 200 of the Code of Federal Regulations.

Every public school district, including public school academies, regardless of whether the school district falls under the OMB Circular A-133 requirement, must submit a financial audit, completed in accordance with Government Auditing Standards, to the MDE Office of Financial Management. **For audits of entities with a year end of June 30, 2015, the audit due date is November 1, 2015.** It is MDE's responsibility to review the audits to: 1) ensure that the audits meet the OMB Circular A-133 requirements and are performed in accordance with Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards (GAS), and 2) ensure that all findings, questioned costs and other audit issues are resolved in a timely manner.

With regard to the auditor's responsibilities, in accordance with GAS, the staff assigned to conduct the audit must collectively possess adequate professional proficiency for the required tasks and the audit organization must have appropriate quality controls for performing government audits. The audit organization is responsible for establishing and implementing a program to ensure that auditors meet the continuing professional education requirements, have an appropriate internal quality control system in place, and participate in an external quality control review (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 AICPA website are required to submit their peer review to MDE. **MDE will not accept audits from firms that do not have proof of a peer review.**

For further information contact:

Office of Financial Management  
Michigan Department of Education  
P.O. Box 30008  
Lansing, Michigan 48909  
(517) 373-4591

[http://www.michigan.gov/mde/0,1607,7-140-6530\\_9091---,00.html](http://www.michigan.gov/mde/0,1607,7-140-6530_9091---,00.html)

## OVERVIEW

### I. AUDITOR RESPONSIBILITIES

- A. Determine the reports and schedules to be issued
1. *Independent Auditor's Opinion on the Financial Statements*
  2. *Report on Internal Control and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (GAS)*
  3. For A-133 audits, *Opinion on the Schedule of Expenditures of Federal Awards*, "in relation to" the Financial Statements taken as a whole (may be combined with item 4)
  4. For A-133 audits, *Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133*. You must plan the audit to support a low assessed level of control risk. See OMB Circular A-133, Section .500, for a more comprehensive description.
  5. For A-133 audits, *Schedule of Findings and Questioned Costs*
  6. SAS No. 115 Letter: *Communicating Internal Control Related Matters Identified in an Audit*

\*\* See Part II – General Audit Issues of this manual for further guidance

**Note:** If the audited financial statements report federal funds received in excess of \$500,000 but the district did not expend \$500,000 or more in federal funds and therefore does not need an A-133 audit, a note should be included in the Notes to the Financial Statements explaining the reason for exclusion of the A-133 audit.

- B. For A-133 audits, determine if the school is a "low-risk auditee" (must meet all of the following for the prior two years):
1. Must have had single audits
  2. Unqualified Opinions on the Financial Statements and the Schedule of Expenditures of Federal Awards
  3. No material weaknesses in internal controls at the financial statement level (See Appendix C for instructions and letter to be sent to USED for low-risk waiver request.)
  4. For each major program:
    - a. No material weaknesses or significant deficiencies in internal controls
    - b. No material noncompliance
    - c. No questioned costs (known or likely) greater than 5% of total federal expenditures for Type A program

\*\*See OMB Circular A-133, Section .530 for a more comprehensive description.

- C. For A-133 audits, determine the programs to be tested (Risk-Based Approach)
1. Identify Type A programs – generally \$300,000 or 3% or more of federal expenditures
  2. Identify Type B programs – generally <\$300,000 of federal expenditures
  3. Identify low-risk Type A programs – audited as a major program at least once in the last two years with no audit findings in most recent year. Auditor needs to consider the risk items identified in number 4 below.

4. Identify high-risk Type B programs – criteria include:
  - a. Complexity of contract requirements
  - b. Subrecipient competence
  - c. Current and prior audit experience
  - d. Internal control environment
  - e. Risk of a material noncompliance
  - f. Other relevant factors – See OMB Circular A-133, Section .525 for a more comprehensive description.
5. Identify the major programs using the following criteria:
  - a. All Type A programs must be tested. Exception: Low-risk Type A programs can be excluded on a rotating basis, but must be audited once every three years.
  - b. The lesser of the number of low-risk Type A programs or one-half of the high-risk Type B or one high-risk Type B program for each low-risk Type A program excluded.
  - c. Additional programs must be selected to comply with the 50% rule that could include programs less than \$100,000 (reduced to 25% for “low risk auditees”).
  - d. Programs not selected for coverage do not need to be tested.
  - e. A cluster of programs shall be considered as one program for determining major programs. See OMB Circular A-133 Compliance Supplement for a complete listing of federal program clusters.

\*\* For additional information, refer to OMB Circular A-133, Section .520.

- D. For A-133 audits, the Schedule of Findings and Questioned Costs (SFQC) **must**:
1. Disclose material noncompliance conditions (Sec. 510[a] [2]).
  2. Disclose known questioned costs greater than \$10,000 or likely questioned costs (based on extrapolation) greater than \$10,000.
  3. Include internal control significant deficiencies and identify those that are material weaknesses (Sec. 510[a] [1]).
  4. Include a description of the findings which includes:
    - a. Reference number
    - b. The size of the universe in number of items and dollars
    - c. The number and dollar amount of transactions tested by the auditor
    - d. The number and dollar amount of instances of noncompliance
    - e. Name of award, source code and project number, grant year, Catalog of Federal Domestic Assistance (CFDA) number
    - f. Condition, criteria, cause, effect, recommendation, legal reference
    - g. Corrective action plan
  5. Include a Summary of the Auditor’s Results (See General Audit Issues, Section B, of this manual for further guidance).
  6. Include separate components for findings and questioned costs related to financial statements and those related to federal awards (Sec. 505).

The components for financial statement findings and the components for federal award findings are not the same.

Financial statement findings should include the following information:

- Reference number
- criteria or specific requirement,
- condition,
- questioned costs,
- context, cause,
- effect,
- recommendation,
- Management's response.

Federal award findings should include the following details, providing information required by Circular A-133:

- Reference number: Each audit finding in the Schedule of Findings and Questioned Costs shall include a reference number to allow for easy referencing of the audit findings during follow-up. The new format for the reference number is the year and three digit number (2015-00x).
- Federal program information (program title, CFDA number, agency, award number and year, and name of pass-through entity, if applicable);
- Criteria or specific requirement on which the audit finding is based, including a statutory regulatory or other citation;
- Condition found, including the facts that support the deficiency identified in the audit finding;
- Questioned costs and how they were computed (Circular A-133 requires auditors to report known or likely questioned costs greater than \$10,000);
- Context; Information to provide proper perspective for judging the prevalence and consequences of the audit findings
- Cause and effect of the finding to provide sufficient information to the auditee and federal agency or pass-through to permit them to determine the cause and effect and take corrective action;
- Recommendation to prevent future occurrences of the deficiency identified in the audit finding; and management's response.
- Corrective Action Plan for resolving the audit findings or view of responsible officials of the auditee when there is disagreement with the audit findings. The Corrective Action Plan should include:
  - Action to be taken
  - Anticipated date of completion
  - Name of responsible party

7. Material misrepresentations in the Summary Schedule of Prior Audit Findings.

\*\* See OMB Circular A-133, Sections .505 and .510, for a more comprehensive description and the AICPA's *Audit Guide, Audits of State, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards* for format examples.

#### E. Audit Work Papers

1. Audit work papers must be in compliance with GAGAS and OMB Circular A-133, if applicable.
2. Audit work papers must support the auditor's planning decisions and results of the audit.
3. Audit work papers must be made available to MDE upon request.
4. Audit work papers must be retained for three years from the date of the audit report.

\*\* See OMB Circular A-133, Section .515 for a comprehensive description.

## II. AUDITOR/PUBLIC SCHOOL RESPONSIBILITIES

For A-133 audits, the report package shall include (sample reports are in the AICPA's *Audit Guide, Audits of State, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards, formerly SOP 98-3*):

- A. Data Collection Form (See OMB Circular A-133, Section .320). For the 2014-2015 fiscal year, MDE will not require the district to submit the Data Collection Form with the audit package submission. The district or the district's auditor will notify MDE the audit has been certified at the Federal Audit Clearinghouse (FAC) and the MDE auditor will retrieve the Data Collection Form from the FAC website.
- B. Financial Statements (See OMB Circular A-133, Section .310)
- C. Schedule of Expenditures of Federal Awards (See OMB Circular A-133, Section .310)
- D. Summary Schedule of Prior Audit Findings (See OMB Circular A-133, Section .315)
- E. Auditors Reports: (See OMB Circular A-133, Section .505) (Note: The format of the reports should follow the AICPA examples. On internet at: <http://www.aicpa.org> )
  1. Opinion on Financial Statements
  2. Opinion on Schedule of Expenditures of Federal Awards, "in relation to" the Financial Statements
  3. *Report on Internal Controls and on Compliance in Accordance with Governmental Auditing Standards (GAS)*
  4. *Report on Compliance with Requirements That Could Have A Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133*
  5. Schedule of Findings and Questioned Costs including a Summary of the Auditor's Results
- F. Corrective Action Plan (See OMB Circular A-133, Section .315)
- G. It is the auditor's responsibility to inform the school of the distribution process.

### III. PUBLIC SCHOOL RESPONSIBILITIES

#### A. Determine the type of audit required

1. All public schools (including public school academies) must have a financial audit in accordance with Generally Accepted Governmental Auditing Standards (GAGAS).
2. Public schools expending \$500,000 or more in federal funds must also have an audit in accordance with OMB Circular A-133 and the Single Audit Act.
3. Public schools expending less than \$500,000 in federal funds have no OMB Circular A-133 audit requirements.

\*\* For further information, see OMB Circular A-133, Section .300

#### B. Audit Procurement

1. Follow the procurement standards prescribed by the Grants Management Common Rule.
2. Factors to be considered in evaluating each proposal include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of external quality control reviews, and price.

\*\* See General Audit Issues, Section E, of this manual and OMB Circular A-133, Section .305 for a complete description.

#### C. For A-133 audits, prepare a Schedule of Expenditures of Federal Awards

\*\* See General Audit Issues, Section B, of this manual for an example and OMB Circular A-133, Section .310 for a complete description.

#### D. For A-133 audits, follow up on all audit findings. This includes the school's preparation of a Summary Schedule of Prior Audit Findings and a Corrective Action Plan.

1. Summary Schedule of Prior Audit Findings shall report the status of all audit findings included in the prior audit's Schedule of Findings and Questioned Costs and include audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings.
  - a. When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.
  - b. When audit findings were not corrected or were partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.
  - c. When corrective action taken is significantly different from corrective action previously reported, the summary schedule shall provide an explanation.
  - d. When the auditee believes the audit findings are no longer valid or does not warrant further action, the reasons for this position shall be described in the summary schedule.
2. The Corrective Action Plan shall include:
  - a. Names of contact persons, the corrective actions planned, and the anticipated completion dates.
  - b. Explanations of any disagreements with the audit findings.

\*\* For further information, see OMB Circular A-133, Section .315.

E. Distribution of Reporting Package

1. For A-133 Audits, submit a copy to the Federal Audit Clearinghouse and additional copies for each federal agency with audit findings in current or prior audit periods.
2. Submit an electronic copy to MDE and other pass-through entities that request a copy

NOTE: MDE, the Michigan Department of Treasury and the Michigan Department of Community Health have unified the audit submission/collection process. School districts only need to submit one audit to MDE to meet the needs of these three departments and satisfy the audit requirements of Public Act 34 of 2001. (See addresses in General Audit Issues, Section C.).

\*\* See General Audit Issues, Section C, of this manual and OMB Circular A-133, Section .320 for a complete description.

F. Subrecipient Monitoring

1. Any school granting federal funds to another entity must perform subrecipient monitoring.

\*\* See General Audit Issues, Section D, of this manual for a complete description.

## GENERAL AUDIT ISSUES

### SECTION A

#### REPORTS

#### I. REFERENCES

- A. Government Auditing Standards (Yellow Book – 2011 Update Version), issued by the Comptroller General of the United States.
- B. American Institute of Certified Public Accountants (AICPA) Audit Guide – “Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards.”
- C. Office of Management and Budget (OMB) Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations,” revised in 2011; Compliance Supplement – revised June 2014.

#### II. REPORTS REQUIRED UNDER THE REVISED OMB CIRCULAR A-133

- A. A report on the financial statements, a report covering Government Auditing Standards (GAS) compliance and internal controls, and the single audit compliance and internal controls report.
- B. Other Reports/Letters
  - 1. A **management letter** may be issued for nonmaterial internal control weaknesses in accordance with GAS. Other nonmaterial instances of noncompliance with state and local laws and regulations may also be reported in the management letter. GAS allows this communication to be oral; MDE prefers the written format. If more than one management letter is issued, or if a letter to the director of business or finance, etc., is issued along with a separate letter to management, 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 of, or replace the auditor’s responsibility to issue a management letter.
  - 2. **Management Discussion & Analysis (MD&A)** – MDE and the Michigan Department of Treasury require the MD&A for all school districts. This should be included as a section in the financial statements.
  - 3. **Reports on Finding of Suspected Fraud and/or Embezzlement** – During the course of an engagement, the independent CPA should be constantly aware of the possibility of fraud and/or embezzlement. **AU §316** should be followed where applicable. If the possibility of the occurrence of any fiscal fraud, defalcation, misfeasance, nonfeasance, or malfeasance comes to the auditor’s attention, the school should make an “oral report” immediately to Naomi Krefman (517-335-6858), Assistant Director of the Michigan Department of Education, Office of Financial Management. This oral report should be followed up by a written report to the Assistant Director with a copy to the CPA disclosing the CPA’s findings within two weeks. If the CPA does not receive a copy of the report within two weeks, then the CPA is required to report the information to the Department.

If the district fails to report suspected irregularities, the Department may withhold state aid in accordance with Section 162 of the State School Aid Act or federal funds in accordance with 34 CFR, Part 80.43. The independent CPA, unless otherwise directed in writing by the Assistant Director, 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.

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

4. **Conflicts of Interest and Related Party Transactions** – It is important that districts document material related party transactions (RPT) in the footnotes to the financial statements. According to GASB 62 and AU §334 and §9334, footnotes should include enough details to adequately describe the situation. Examples are: management agreements; borrowing and lending; and sale or lease of real estate, buildings, and equipment. The interpretation of GASB 62 states that the auditor should apply sufficient audit procedures to provide reasonable assurance that related party transactions are adequately disclosed in the financial statements and are not materially misstated. The Department has discovered many RPTs at public school academies and asks that due care be given in those audits. Conflicts of interest and RPTs should be reported unless they are clearly insignificant.

## SECTION B

### SCHEDULES

#### I. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

A. The schedule must include **all** federal financial assistance (include grants, contracts, property, loans, loan guarantees, interest subsidies, cooperative agreements, insurance, or direct appropriations) and related expenditures. These are reported whether received directly from the federal agencies or indirectly through other units of government, nonprofit organizations, etc.

Examples:

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

B. The following items must be included in the Schedule for each active award:

1. Approved amount of the award/grant
2. Catalog of Federal Domestic Assistance (CFDA) number. If a CFDA number has not been assigned, identify it under the caption "other federal assistance."
3. Source code and project number
4. Beginning inventory and accrued or deferred revenue as of July 1, 2014
5. Prior year(s) cumulative actual expenditures from federal sources
6. Current year cash or payments in-kind received from federal sources
7. Current year actual expenditures of all federal awards
8. Ending inventory and accrued or deferred revenue as of June 30, 2015
9. Adjustments to prior year awards, expenditures and balances including transfers between grants. All adjustments must be explained in the footnotes to the schedule.

C. All projects should be classified by program, and all programs should be classified under the federal department that administers the program. Also, for each program and project, the schedule should identify whether assistance is received directly from a federal

department or passed through a state or local recipient (such as an ISD). The schedule should provide unit amounts, subtotals, and totals for each classification (projects, programs by CFDA number, direct and pass-through, departments, etc.).

**Note:** Clusters must be identified on the schedule and must be considered as one program for determining major programs. See OMB A-133 §.105.

- D. The same amount of accrued/deferred revenue should be reported at 6/30/14 (ending balances) and at 7/1/15 (beginning balances). Project adjustments may be reported when funds are returned by check or as a deduction from future funding requests, when transferred to another project, or when a project is amended.
- E. The schedule should include the following statement: “The accompanying notes are an integral part of this schedule.”
- F. The following footnotes must be included in the schedule:
  - 1. Describe the significant accounting policies used in preparing the schedule. Quite often, reference to the Financial Statements footnotes will be appropriate here.
  - 2. Management has utilized the MDE Cash Management System (CMS) Grant Auditor Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.  
Guidance: 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. When the adjustment column is used, a clear explanation must be given for each adjustment.  
Guidance: For example, the Schedule of Expenditures of Federal Awards includes an award for \$213,000, expenditures of \$209,000, amount received of \$213,000, deferred amount at 6/30 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 7/1 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 has recorded \$4,000 as a payable to MDE,” etc.

## II. SCHEDULE OF RECONCILIATION OF REVENUES WITH EXPENDITURES FOR FEDERAL AWARD PROGRAMS

- A. The purpose of this schedule is to reconcile and explain any differences between the revenues from federal sources reported in the financial statements and the expenditures reported in the Schedule of Expenditures of Federal Awards. This schedule is to be prepared when there are several reconciling items. Otherwise, the reconciliation may be disclosed in a note to the Schedule of Expenditures of Federal Awards. Differences may result from the following:
  - 1. Incoming and outgoing transfers (identified by program)
  - 2. Timing differences (i.e., GASB 33 revenue recognition issues)
  - 3. Federal revenue reported as state revenue and vice versa
  - 4. Beginning and/or ending accrued (deferred) revenues that have not been recognized in the financial statements

Items 3 and 4 should be properly reported on future financial reports to eliminate these differences.

- B. Rebates and discounts from United States Department of Agriculture (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.

### III. SCHEDULE OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS

This schedule must be submitted when funds are passed through to another school and should include all of the following:

- A. Subrecipients' program(s) title and project numbers
- B. CFDA number of program.
- C. Subrecipient award or contract amount. To the extent practical, identify the total amount provided from each program included in the SEFA.
- D. Due to (or from) subrecipients July 1, 2014
- E. Prior year federal expenditures reported by subrecipient
- F. Current year cash, etc., transferred to subrecipients
- G. Current year federal expenditures reported by subrecipients
- H. Due to (or from) subrecipients June 30, 2015

### IV. SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Clear presentation of audit findings and questioned costs is important to single audit users. The revised OMB Circular A-133 (Sections .505 and .510) requires the following three components in the Schedule of Findings and Questioned Costs:

- A. Summary of the auditor's results should include all applicable elements as required by Section .505(d) (1) of the revised OMB Circular A-133.
- B. Findings relating to the financial statements that are required to be reported in accordance with Generally Accepted Government Auditing Standards (GAGAS). For information, refer to Chapter 7, "Reporting Standards for Performance Audits" of Government Auditing Standards (GAS).
- C. Findings and questioned costs for federal awards in accordance with Section .510(a) of the revised OMB Circular A-133 should include the following components:
  - 1. Significant deficiencies in internal control over major programs. Also, identify if any of these significant deficiencies are individually or cumulatively material weaknesses.
  - 2. Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements that the auditor concludes, based on evidence obtained, has occurred or is likely to have occurred in major programs. For reporting purposes, the auditor is required to report a finding when the noncompliance discovered is material to an individual type of compliance requirement.

3. Report all known questioned costs that are greater than \$10,000. Also, report questioned costs when the likely questioned costs are greater than \$10,000.

NOTE: Questioned costs must be calculated for all periods of timekeeping violations where there is not adequate documentation to support the claimed time or where the teacher is not highly qualified. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation. These costs should not be extrapolated but limited to the employee(s) affected.

4. The reasons why the auditor has issued “other than an unqualified opinion” on the report on compliance for major programs. A separate explanation is not necessary if these reasons are reported as audit findings.
5. Report any known fraud or illegal activity unless it is reported as a separate finding.
6. Identify if the Summary Schedule of Prior Year Audit Findings prepared by the school materially misrepresents the status of any prior audit findings.

#### D. Audit Finding Detail

The following information should be included in the Schedule of Findings and Questioned Costs. Also, refer to Section .510(b) of OMB Circular A-133.

1. Identify the federal assistance awards involved by name of award, CFDA number, source code and project number, grant year, grant number, and any applicable pass-through agency. The finding number must include standard reference number format of the finding year and three digit number (2015-00x).
2. Clearly identify the condition found, including the facts relied on that indicate that noncompliance or deficiencies in internal control over federal programs occurred.
3. Put the finding in perspective by relating the extent (number of instances and dollar amount) of noncompliance to the number of cases examined, the dollar amount tested, and the audit universe.
4. Identify the specific requirement(s) (statutory, regulatory, or citation of the requirement) with which the grantee did not comply. The finding may include identification of the records that were made available and efforts to obtain others, when there are conditions of unsupported or undocumented costs.
5. Provide information that would be necessary in order for federal, state, and local officials to determine the cause and effect of the condition so that timely and proper corrective action can be planned and taken.
6. Include recommendations for corrective actions to prevent future occurrences of noncompliance. The recommended action may consist of returning funds received for disallowed expenditures.
7. Include pertinent views of responsible school officials when there is disagreement with the audit findings.
8. Include the auditor’s reasons for rejecting the views of the school’s officials when those views oppose the auditor’s findings and conclusions.
9. Report all known questioned costs that are greater than \$10,000, associated with each condition of noncompliance, along with an indication of what the questioned costs represent (i.e., how it was computed). Also, report questioned costs when the likely questioned costs are greater than \$10,000. If the questioned costs are not calculated, recommend a method of computing them.

10. If the auditor's report does not include the applicable elements identified in these guidelines, then it must specify whether the information will be disclosed at a later date or give the reason(s) why it was not included in the report. For example, "additional information was not considered relevant or obtainable during the audit." **Failure to provide well-developed findings or the exclusion of information may cause a determination that the report is substandard.** A statement of grant purpose, amount of carryover available, grant allocation, etc., may be informational only. Do not include these items as findings in the Schedule of Findings and Questioned Costs.

## V. CORRECTIVE ACTION PLAN

The school's response to the findings should be included with the audit report. It should be specific and action oriented. The response is generally titled a corrective action plan and should be on the school's letterhead and signed by an appropriate official. If funds are due to the state, they must be returned in order to resolve the finding. The corrective action plan should include the following elements:

- A. The school district's comments for each finding; denote by the finding reference number.
- B. The corrective steps that have already been taken.
- C. The steps that will be taken, along with target dates.
- D. The plan for monitoring adherence to the corrective action plan.
- E. If warranted, reasons why the auditee does not consider corrective action necessary.
- F. Name of responsible person(s) for further information.

For funding passed through MDE: If 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 so as to meet the requirements of the grant. For United States Department of Agriculture (USDA) funding and most United States Department of Education (USED) funding, MDE will recover/reduce a future payment by the amount of questioned costs. However, for all other programs, funds may be recovered by the Grants System or the school district may be asked to send a check payable to the Michigan Department of Education, with project and source codes reported on the stub, Checks should be mailed to the following address:

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

**The corrective action plan should disclose the mailing date of the check and the amount of questioned costs returned.**

## VI. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

In accordance with the revised OMB Circular A-133, the school is responsible for follow-up and development of a corrective action plan (see Part V above) for all (current and prior year[s]) federal findings, including significant deficiencies (internal control weaknesses), material noncompliance with laws and regulations, and questioned costs. As part of this responsibility, the school should prepare a Summary Schedule of Prior Audit Findings. The summary schedule should include the following elements as outlined in OMB Circular A-133, Section 315(b):

- A. Audit finding numbers
- B. The fiscal year in which the finding initially occurred
- C. Status of all findings. If a previously reported finding is fully corrected, it must still be listed, and the auditee should state that corrective action was taken. If findings are not corrected or partially corrected, report the planned corrective action.
- D. Report any revisions or deviations in corrective action plans previously reported.
- E. If school staff believes that the audit findings are no longer valid or does not warrant further action, the reasons for this position should be described.

## SECTION C

### REPORT DISTRIBUTION

To comply with OMB Circular A-133 filing requirements, each public school should follow the information provided in this section in conjunction with Section .320 of OMB Circular A-133.

#### I. WHERE TO FILE

##### A. Intermediate School District (ISD)

Each public school should file one copy of the reporting package, a management letter, and data collection form, if required, as discussed in Part II of this section, on or before **November 1, 2015**.

##### B. Michigan Department of Education (MDE)

**For fiscal year 2015**, each ISD, public school and public school academy must file one copy of their audit reporting package and management letter with MDE by **November 1, 2015**.

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

[MDE-FinAudit@michigan.gov](mailto:MDE-FinAudit@michigan.gov). Specific instructions may be found on the MDE – Office of Audits website.

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

Michigan Department of Education  
Office of Financial Management - Audits  
Hannah Building, 4<sup>th</sup> Floor, B-17  
P.O. Box 30008, 608 West Allegan Street  
Lansing, Michigan 48909 (for P.O. Box) **OR** 48933 (for street address)

**Note:** For late audit reports, Section 18(10) of the State School Aid Act requires that MDE withhold 100% of the school's annual state aid **beginning with the next scheduled payment**, until the audit is received.

##### C. Federal Audit Clearinghouse

Each school receiving an OMB A-133 audit **must** electronically submit the reporting package and Form SF-SAC to the Federal Audit Clearinghouse. Also, send one copy for each federal awarding agency when the Schedule of Findings and Questioned Costs disclosed audit findings relating to awards that the federal awarding agency provided directly, or the Summary Schedule of Prior Audit Findings reported the status of any audit findings relating to awards that the federal awarding agency provided directly. The website address for the Federal Audit Clearinghouse is:

<http://harvester.census.gov/fac/collect/ddeindex.html>. Directions for electronic filing may be found at the Federal Audit Clearinghouse website: <http://harvester.census.gov/fac>.

D. Michigan Department of Treasury

MDE and the Michigan Department of Treasury have unified their process for submission of school district financial audits. Districts will need to submit only one audit, which will meet the needs of both Departments and satisfy the audit filing requirements of Public Act 34 of 2001. The audits must be submitted to [MDE-FinAudit@michigan.gov](mailto: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.”

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

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

All Promise Zone audits will need to be submitted to MDE in the same manner as school district audits. These will be saved to the MDE audit website with the M1 designation.

E. Michigan Department of Community Health (MDCH)

The Michigan Department of Community Health has joined with the Michigan Department of Education 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 MDCH. The copy submitted to MDE-FinAudit address will satisfy the MDCH audit submission requirement.

F. Additional Submission Requirements

As discussed in Section .320(e) and (f) of the OMB Circular A-133, schools are required to submit to each pass-through entity (for MDE, see Part I-B, above) one copy of the following:

1. Reporting package as discussed in Part II of this section when the Schedule of Findings and Questioned Costs disclosed audit findings relating to federal awards that the pass-through entity provided or the Summary Schedule of Prior Audit Findings reported the status of any audit findings relating to federal awards that the pass-through entity provided.
2. Requests for copies of reports: When requested by any federal or pass-through entity, schools should provide copies of the reporting package and the management letter. If not requested, subrecipients must still inform pass-through agents of compliance with the single audit. (This may be communicated by letter.)

## II. WHAT TO FILE

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

1. Data Collection Form - Both the auditor and the school official need to electronically certify the information included in the data collection form. As discussed in Section .320(b) of OMB Circular A-133, this form should be approved by the Office of Management and Budget. It is available from the Federal Audit Clearinghouse (<http://harvester.census.gov/sac/>) and must be filed on-line. The new format for Data Collection Forms at the Federal Audit Clearinghouse is Excel. These must be converted to pdf before submission to MDE.

For the 2014-2015 fiscal year, MDE will not require the district to submit the Data Collection Form with the audit package submission that is sent to MDE. The district or the district's auditor will notify MDE the audit has been certified at the Federal Audit Clearinghouse and the MDE auditor will retrieve the Data Collection Form from the FAC website.

2. Audited financial statements and Schedule of Expenditures of Federal Awards  
Reference: General Audit Issues, Section B, of this manual and Section .310(a) and (b), respectively, of OMB Circular A-133.
  3. A Summary Schedule of Prior Audit Findings prepared by the district  
Reference: Section .315(b) of OMB Circular A-133
  4. Auditor's reports  
Reference: General Audit Issues, Section A, of this manual and Section .505 of OMB Circular A-133
  5. A corrective action plan to resolve the current and prior year audit findings as prepared by districts.  
Reference: General Audit Issues, Section B, of this manual and Section .315(c) of OMB Circular A-133
- B. Management letter, if issued by auditors. This letter should be filed with MDE. Also, this letter should be submitted to other federal and pass-through entities upon request. If the auditor does not issue a management letter, schools should include a memo to MDE indicating that a management letter was not issued.
- C. Statements on Auditing Standards (SAS) 114 letter: *The Auditor's Communication with Those Charged with Governance*.
- D. Public schools expending less than \$500,000 in federal funds are not required to have single audits performed. However, they are required to file financial statement audits (performed in accordance with Government Auditing Standards) and management letters with the ISD, MDE, MDCH (if they meet requirements listed in Section I-E),.

### III. WHEN TO FILE

As discussed in Part I of this section, to avoid penalties, schools should file all required reports with MDE by November 1 of each year, beginning with the 2014/2015 fiscal year. Also, the reporting package or required reports should be filed with appropriate agencies within 30 days after issuance of the auditor's reports or 9 months from fiscal year end, whichever is sooner, per OMB Circular A-133, Section .320(a).

#### \*\*\*SPECIAL NOTE\*\*\*

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

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

## SECTION D

### SUBRECIPIENT MONITORING

#### I. PRIMARY RECIPIENT RESPONSIBILITIES

A primary recipient assumes responsibility for complying with federal requirements when it accepts federal financial assistance. That responsibility includes operating the program, maintaining property and financial records, arranging for audits, and assuring audit resolution. When the primary recipient provides a pass-through grant to a subrecipient, federal agencies hold the primary recipient ultimately responsible for compliance at the subrecipient level. The primary recipient is responsible for providing the subrecipient with applicable federal requirements as well as identification of the source of funding and any additional administrative requirements imposed on the subrecipient.

- A. Office of Management and Budget (OMB) Circular A-133 requires the primary recipient to perform the following for the federal awards it passes through to subrecipients:
1. Identify federal awards passed through by informing each subrecipient of Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, award year, if the award is for research and development, and name of the agency. When some of this information is not available, the pass-through entity will provide the best information available to describe the federal award.
  2. Advise subrecipients of requirements imposed on them by laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
  3. Monitor the activities of subrecipients, as necessary, to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements, and to ensure that performance goals are achieved.
  4. Ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 for that fiscal year.
  5. Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
  6. Consider whether subrecipient audits necessitate adjustment of the primary recipient's own records.
  7. Require each subrecipient to permit independent auditors to have access to its records and financial statements as necessary for the pass-through entity to comply with the requirements of OMB Circular A-133.

#### B. Subrecipient Monitoring Responsibilities

Primary recipients should monitor subrecipients during the grant period to ensure compliance with applicable federal requirements and attainment of performance goals. The primary recipients are expected to establish a system to ensure that audits of their subrecipients meet the requirements of OMB Circular A-133. Such a system should include a desk review of each subrecipient report or Data Collection Form to ensure that it conforms to the circular. Management of primary recipients may perform the following procedures when monitoring subrecipients:

1. Review submitted A-133 single audit reports.
2. Evaluate audit findings and corrective action plans.

3. Determine if funds are disbursed to subrecipients only on an “as needed” basis.
4. Determine if disbursements to subrecipients are approved and properly supported.
5. Ensure the subgrant agreement identifies the federal award, CFDA number, and the primary recipient, or the primary recipient’s auditor has access to the subrecipient’s records to verify funds were passed through appropriately.
6. Determine if procedures exist to ensure that subrecipients meet all eligibility requirements.
7. Determine if reports received from subrecipients are reviewed on time.
8. Review evidence of previously detected deficiencies and determine whether corrective action was taken.
9. Perform on-site visits.

## II. AUDITOR OF THE PRIMARY RECIPIENT RESPONSIBILITIES

- A. Review the primary recipient’s system for monitoring, obtaining, and acting on subrecipient audit reports and review the adequacy of the system.
- B. Test to determine whether the system is functioning in accordance with prescribed procedures.
- C. Determine whether the subrecipient has complied with all applicable A-133 audit requirements and whether subrecipient audit reports are current.
- D. Comment on the primary recipient’s monitoring and disbursing procedures with respect to subrecipients.
- E. Determine if subrecipient questioned costs or compliance findings, which may or may not be material, require adjustment of the primary recipient’s records are properly reflected.
- F. If subrecipient monitoring has not been completed and the federal awards are material to programs administered by the primary recipient, the scope of the primary recipient’s audit can be expanded by management to include testing of the subrecipient records for compliance with the applicable provisions of the program. If the scope of the audit is not expanded, the auditor should consider disclosing the amount of the subgrant as a questioned cost and modify the applicable auditor’s reports. In addition, the auditor should consider whether a significant deficiency or material weakness in the internal control system may exist.
- G. If a subrecipient’s audit report or Data Collection Form was due but not received, the primary recipient’s auditor should consider noncompliance with the implementation of reporting requirements when evaluating the finding or 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.

The primary recipient’s auditor is strongly encouraged to review the OMB Circular A-133. Insight is given on how to deal with subrecipients expending less than \$500,000 in federal awards.

## SECTION E

### PROCUREMENT AND MANAGEMENT OF AUDIT SERVICES

#### I. PROCUREMENT OF AUDIT SERVICES

##### A. Audit Requirements

MDE requires school districts, including public school academies, which expend **less** than \$500,000 of federal financial assistance to procure an audit made in accordance with Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards (GAS), issued by the Comptroller General of the United States. MDE requires school districts, including public school academies and intermediate school districts, which expend **\$500,000 or more** a year of federal financial assistance to procure an audit made in accordance with GAAS; GAS, issued by the Comptroller General of the United States; the OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations"; and the Single Audit Act.

##### B. Auditor Selection

Public school officials should use appropriate procurement procedures when contracting for audit services. Sound contract award and approval procedures, including the monitoring of contract performance, should be in place. School officials should know the objectives and scope of the audit before procuring services. Although price is a consideration, other factors must also be considered. Some of these factors are listed for your reference:

1. The auditor should understand the audit requirements and the single audit process unique to schools. Review the CPA's qualifications. The proposal should contain a sound technical plan, a realistic cost proposal, and an estimate of time to complete the audit.
2. **The auditor should have a** track record of performing acceptable audits. This would include verifying the filing of acceptable reports on a timely basis.
3. **The auditor should have** commitment to perform a quality audit. Responsiveness in taking corrective action (for audit deficiencies) and implementing single audit requirements should be timely.
4. Prospective bidders should be notified of work paper retention requirements (three years minimum for retention of work papers), and work papers must be available to the school and its oversight agencies, such as MDE. Reference: Paragraph 6.65 of GAS.
5. Schools should have the prospective bidder's most recent completed peer quality review opinion report. Reference: Paragraph 3.36 of GAS. **Audits performed by firms that have not had the required peer quality review will not be accepted by the Department.**

The quality of the audit depends on the skill and professionalism of the provider. Professional service demands special skills and training and includes consideration of the needs and requirements of the auditee and its oversight agencies. The price alone should not be used to guide the selection of an auditor. Public schools that continue to employ a competitive bid process should balance price with the auditor's professional qualifications. If auditors are selected on the basis of cost rather than professional qualifications, the school faces the prospect of receiving a substandard or an unacceptable audit that is subject to very strict sanctions.

### C. References

The Michigan School Auditing Manual and OMB Circular A-102, Section 36, provide school officials with essential information on the single audit concept, process and requirements, or references to additional information that provides guidance for receiving an acceptable audit. It is intended to guide school officials in determining the scope and applicability of the audit and in procurement of audit services. For further guidance, see Section .305 of OMB Circular A-133.

### D. Written Agreement

An adequate written agreement (an engagement letter) provides a basis for a quality audit and enhances the school's ability to monitor the audit. An adequate written agreement must be signed by the school and the auditor and should document the expectations of both parties. It should include the following: administrative information (period to be audited, support to be provided, etc.), audit work and reporting requirements, audit fee, time requirements, contractual information (provisions for termination of contracts, recourse if poor quality work, etc.), statement as to the type of engagement and that the engagement is intended to meet governmental oversight agencies' requirements, Michigan School Auditing Manual, OMB Circular A-133, GAAS and GAS.

## II. MANAGING YOUR AUDIT

### A. The responsibility to work with your auditor includes the following functions:

1. Fully cooperate with your auditor during the auditing process by performing tasks essential to "readying" books and records, files, and documents for the auditor in a timely fashion. Also, implement prior and current recommendations and suggestions made by your auditor.
2. Meet periodically with your auditor or assess the audit progress and/or request progress reports. Review such items as accounting adjustments, findings and questioned costs, documentation for work performed and conclusions reached, caliber of staff and work performed, and the draft report, etc. Coordinate and follow up on corrective actions taken by school personnel until audit resolution is satisfactorily achieved.
3. Formulate, in consultation with your auditors and 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. If the audit findings are not resolved in the requested time or manner, MDE will inform the school that the necessary corrective action has not been taken or planned. If the school has been notified by MDE that the audit requirements have not been met, the school should monitor the auditor's responsiveness in resolving audit deficiencies. If corrective action is not taken in the requested time, MDE will notify the school and other interested parties and will make recommendations for follow-up action. Federal regulations and the Single Audit Act provide that costs for deficient audits may not be charged to federal programs. In cases of substandard audits, MDE and federal agencies must consider appropriate sanctions including, but not limited to, the withholding of federal funds or referral to the State Board of Accountancy or other licensing bodies.

## SECTION F

### INDIRECT COST RATES

#### I. OVERVIEW

When an organization has an approved indirect cost rate (ICR), it is allowed to assign value for indirect costs to grants or projects. In the majority of grants, it is permissible to request reimbursement for both direct and indirect costs to the extent of the grant award. Your organization may be able to increase the dollars recoverable on grants by using an approved indirect cost rate.

#### II. AUTHORIZATION

Edgar 34CFR 75.561

#### III. DEFINITIONS

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

Indirect costs: costs that are incurred for the benefit of more than one cost objective, but are not readily assignable to any program. Indirect costs serve common or joint purposes, and to identify the specific program or project served would take an effort disproportionate to the results achieved. Typically, salaries and expenses for auditing, budgeting, payroll, personnel, purchasing, and employee relations are examples of costs that are considered to be indirect costs.

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

#### IV. OBTAINING AN APPROVED INDIRECT COST RATE

The MDE Office of State Aid and School Finance calculates restricted and unrestricted indirect cost rates for all Michigan public schools (including academies) and intermediate school districts annually in the spring.

#### V. CALCULATION OF INDIRECT COST RATE

The calculation is based on the information reported in the school's prior year Financial Information Database (FID) Report/FID Submission. For example, the 2014-2015 indirect cost rates are based on data collected on the 2012-2013 FID Report. For local districts, the information is compiled and reported on Form R0418 and sent to the school for review and adjustment to be made on Form DS-4513. For intermediate school districts (ISDs), the information is compiled on Form 4513 and sent to the ISD for completion. Once adjustments are approved, a final approved indirect cost rate is reported to the school. MDE caps the

approved indirect cost rate at 15%. For example, if your approved rate calculates out to 18.2%, you are limited to the 15% maximum cap.

## VI. USE OF RESTRICTED VS. UNRESTRICTED INDIRECT COST RATES

The restricted indirect cost rate is used for all programs subject to “supplement, not supplant” requirements. Generally, United States Department of Education (USED) programs use the restricted rate.

## VII. EXAMPLE APPLICATION OF INDIRECT COST RATE

A local education agency (LEA) has a restricted indirect cost rate of 5%. The total grant award is \$10,000. To determine the budgeted amount of direct and indirect costs, the following formulas are used:

$$\begin{aligned} \text{Direct Costs} + \text{Indirect Costs} &= \text{Total Grant Award} \\ \text{Indirect Costs} &= (\text{Direct Costs}) * (\text{Indirect Cost Rate}) \end{aligned}$$

Step 1: We know the total grant award is \$10,000, so:

$$\text{Direct Cost} + \text{Indirect Cost} = \$10,000$$

Step 2: We know that the Indirect Cost is 5% of the Direct Cost, so:

$$\text{Indirect Costs} = .05(\text{Direct Cost})$$

Step 3: Substitute .05(Direct Cost) for Indirect Costs in the equation in Step 1:

$$\text{Direct Cost} + .05(\text{Direct Cost}) = \$10,000$$

Step 4: Solve the equation:

$$1.05(\text{Direct Cost}) = \$10,000$$

$$\text{Direct Cost} = \$10,000/1.05$$

$$\text{Direct Cost} = \$9,524$$

Step 5: Substitute the \$9,524 for Direct Costs in the equation in Step 1:

$$\$9,524 + \text{Indirect Cost} = \$10,000$$

Step 6: Solve for Indirect Costs:

$$\$9,524 + \text{Indirect Cost} = \$10,000$$

$$\text{Indirect Cost} = \$10,000 - \$9,524$$

$$\text{Indirect Cost} = \$476$$

Step 7: Prove your results:

$$\text{Direct Costs} + \text{Indirect Costs} = \text{Total Grant}$$

$$\$9,524 + \$476 = \$10,000$$

$$\text{Indirect Costs} = (\text{Direct Costs}) * (\text{Indirect Cost Rate})$$

$$\$476 = \$9,524 * 5\%$$

## VIII. AUDIT CONSIDERATIONS

- A. Verify that the correct rate category (restricted or unrestricted) was applied according to grant guidelines.
- B. Verify that the rate applied was the approved rate for the current year.
- C. Verify that no indirect charges were applied to exclusions, such as equipment or flow-through dollars.

## IX. REFERENCE MATERIALS

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

2 CFR part 225

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

## X. PERSONNEL

Rose Zuker  
Office of Financial Management  
Michigan Department of Education  
(517) 335-2429  
[ZukerR@michigan.gov](mailto:ZukerR@michigan.gov)

Phillip Boone  
Office of State Aid and School Finance  
Michigan Department of Education  
(517) 335-4059  
[BooneP2@michigan.gov](mailto:BooneP2@michigan.gov)

## **SECTION G**

### **TIME AND EFFORT CERTIFICATION**

Time/salaries must be documented in compliance with 2 Code of Federal Regulations (CFR) Part 225, Attachment B, Item 8h

#### A. Single Cost Objective:

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. (2 CFR Part 225, Appendix B to Part 225, item 8.h. (4)) (Formerly OMB Circular A-87)

In an effort to reduce paperwork, USED has authorized the use of a “blanket semi-annual certification” that would identify multiple employees working on the same single cost objective. This single certification would be signed and dated (after-the-fact date) by the supervisory official having firsthand knowledge of the work performed by the employees.

School wide is a single cost objective unless a teacher’s time is split between a school-wide and a non-school wide building. Semi-annual certifications are required for anyone charged to federal funds in a school wide building. Staff whose time is split between school wide and non-school wide activities must complete personnel activity reports (PARs).

#### B. Working on More than One Activity:

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency.

Acceptable methods for multiple cost objective staff include written schedules if they are documented by PARs confirming that the schedules were followed (e.g., directors, secretaries, counselors, paraprofessionals).

Instructional staff may only use their lesson plans with contemporaneous edits to confirm their written schedules and as backup documentation to support PARs. Lesson plans are not an acceptable substitute for PARs.

Personnel activity reports or equivalent documentation must meet the following standards:

1. They must reflect an after-the-fact distribution of the actual activity of each employee,
2. They must account for the total activity for which each employee is compensated,

3. They must be prepared at least monthly and must coincide with one or more pay periods,
4. They must be signed by the employee.

Cost Objective – means a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.

In determining which rules apply (those for single vs. multiple cost objectives), the significant factor is the number of cost objectives on which the employee works, not the number of funding sources supporting the employee's salary.

NOTE: Questioned costs must be calculated for all periods of timekeeping violations where there is not documentation to support the charges to the programs or where the teacher is not highly qualified. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation.

## **USDA DONATED FOODS**

### **CFDA–Based on Program Supported by USDA Foods:**

#### **10.555 – National School Lunch & Breakfast**

#### **10.559 - Summer Food Service Program**

#### **10.558 – Child & Adult Care Food Program**

- I. Introduction
- II. Identification and Value of USDA Donated Foods
- III. Revenue Recognition Criteria
- IV. Procurement, Suspension and Debarment
- V. Findings
- VI. Contacts

## I. INTRODUCTION

- A. Federal financial assistance received by school districts or School Food Authorities (SFA) from the US Department of Agriculture (USDA) may include the following:
1. Claims for reimbursement on reimbursable meals, after school snacks, and milk served.
  2. Cash in lieu of commodities.
  3. USDA donated 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 several USDA funded programs that include USDA Foods:
1. National School Lunch Program (NSLP) for the regular school year and extended school year (summer, June-August) CFDA #10.555 - Includes reimbursement for reimbursable meals served, NSLP snack reimbursements, USDA donated foods, discounts, and rebates for USDA donated foods included in processed items. Code of Federal Regulations 7 (CFR), Part 210. Food distribution is reported under Catalog of Federal Domestic Assistance (CFDA) number of the program supported by the USDA Foods (7 CFR, Part 250). Under the USDA Foods processing system, the value of the USDA Foods reduces the price of the end product. Salad dressing, for example, would cost \$12.00 for four gallons without the use of USDA Foods, but because USDA oil is being utilized, the cost of salad dressing is reduced by approximately \$3.00 for the value of the oil.
  2. Summer Food Service Program for Children (SFSPC), CFDA #10.559 – Includes reimbursement for meals and administrative costs, USDA donated foods, discounts, and rebates for both schools and camps. Federal Regulations 7 CFR, Part 225.
  3. Special Milk Program, CFDA #10.556 – Reimbursement for milk. Federal Regulations 7 CFR, Part 215.

## II. IDENTIFICATION AND VALUE OF USDA DONATED FOODS

The value of entitlement (non-bonus) and bonus USDA Foods for the 2014-2015 school year are available on the internet at the Office of School Support Services (OSSS) Food Distribution Programs website:

[http://www.michigan.gov/documents/mde/Ave\\_Price\\_File\\_SY\\_15\\_471363\\_7.pdf](http://www.michigan.gov/documents/mde/Ave_Price_File_SY_15_471363_7.pdf)

- 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 prior to July 1 of the current year. This formula is used to prepare the entitlement value for the PAL Report.

Calculation of the Program Award for Entitlement:

Actual Lunch Meal Count	_____	x
Commodity Cash Value	_____	=

## Total Entitlement

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Delivery charges and any processing charges are not included as part of the program award. These charges should be expensed in a separate account as used.

### B. USDA Donated Foods Reports

1. The Planned Assistance Level (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. (Note: SPARC e-mails reports to members quarterly). 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 a SFA is entitled for the current school year ended June 30, 2015, is calculated by multiplying its previous school year's June 30, 2014 total reimbursable lunches by the entitlement rate (\$.2475 for 2014-2015)\*. This number represents the entitlement allocated to a school. Use of these USDA foods entitlement dollars represents lowering of food cost; therefore, maximum usage is an indication of efficiency. Fair market values for Entitlement and Bonus USDA Foods: SFAs should use the fourth quarter PAL Report figures (value of USDA Foods delivered to the district during the school year). The fourth quarter PAL Report can be accessed on each consortium's website after July 15. (Note: SPARC e-mails reports to members quarterly.)

- C. Entitlement Values - The USDA Food values are listed in the USDA Average Price File Reports located on the USDA Food Distribution Program's website. This is a listing that describes the product, pack weight, loading data, and an estimated cost per pound. The cost data is used in developing the USDA Food Fair Market Value Reports and the PAL Report.

- D. Bonus Values – The USDA sometimes purchases other foods referred to as “bonus.” 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. (As per USDA Foods 7 CFR, Part 250.)

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

- F. USDA Foods in Summer Feeding Programs – School Districts may utilize their USDA Foods within their summer feeding programs. Summer camps participating in the MDE summer feeding programs will be invited to purchase any brown box (non-processed) USDA Foods items that schools did not purchase at the end of the school year.

- G. Any school/agency that diverts USDA Foods to processors using the Net Off Invoice (NOI) pass-through-value shall respond to MDE, processor, and/or distributor to verify the discount of USDA Foods on their invoices. Sales verification is a mandatory process that must be conducted for items sold as NOI to ensure schools are receiving their proper

discount. The USDA requires MDE to verify 10% of all NOI processor activity by surveying a group of consortia members during every six (6) month period. [7 CFR 250.19(2)(vi)(C)]

- H. During the school year 2014-15, three school district consortia and Detroit Public Schools (DPS) are participating in the direct diversion of USDA Foods. The GLC (Great Lakes Consortium), SPARC (School Purchasing and Resource Consortium), MOR (Macomb, Oakland and Wayne RESA), and Detroit Public Schools (DPS) are diverting all USDA donated and processed food products to their contracted warehouse and processors. (For questions, contact Jaime Malnar at 517-335-3792.)
- I. Correspondence for Planning and Tracking USDA Foods - Newsletters and information on USDA foods and food products, such as availability or status of food products (what, when, how much can be ordered, demand for, etc.) are provided by each consortium.

### III. REVENUE RECOGNITION CRITERIA

The Single Audit Act of 1984, as amended, and OMB Circular A-133 define federal financial assistance to include both monetary and non-monetary forms of assistance provided by or passed down from a federal agency, such as grants, contracts, loans, loan guarantees, property, etc. The Schedule of Expenditures of Federal Awards (SEFA) should report commodities under CFDA #10.555. Bonus and entitlements should be reported separately on both the SEFA and the FID. The National School Lunch Program should be reported under CFDA #10.555.

### IV. PROCUREMENT, SUSPENSION AND DEBARMENT

- A. Procurement – Regardless of whether the State elects to follow State or Federal rules in accordance with the A-102 Common Rule, the following requirements must be followed for procurements initiated by State agencies and SFSPC institutions on or after October 1, 2000. The effective date of these requirements for SFAs (school districts) is set by their administering agencies, but cannot be later than July 1, 2001.
  - 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. (7 CFR sections 3016.60(b) and 3019.43).
  - 2. Geographical Preference – A State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts (7 CFR section 3016.60(c)). Effective October 1, 2008, the purchase of unprocessed locally grown and locally raised agricultural products is exempt from the geographical preference requirement.
- B. Suspension and Debarment – Mandatory awards by pass-through entities to subrecipients are excluded from the suspension and debarment rules (7 CFR section 3017.110(a) (2) (i)).

## V. FINDINGS

If USDA donated foods are not reported or are improperly reported in the Schedule of Expenditures of Federal Awards, the financial statements and/or the FID financial report, this should be reported as a finding.

## VI. CONTACTS

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

Jaime Malnar  
Office of School Support Services  
Michigan Department of Education  
(517) 335-3792  
OR  
Gloria Suggitt  
Single Audit Coordinator  
Office of Financial Management  
Michigan Department of Education  
(517) 373-4591

If you have questions regarding the PAL for Great Lakes Consortium, please contact:

Lead School District  
Grand Rapids Public Schools  
Teresa Allen  
(800) 632-4572

If you have questions regarding the PAL for SPARC, please contact:

Lead School District  
Manistee ISD  
Terri Sincock  
(248) 310-3988

If you have questions regarding the PAL for MOR, please contact:

Lead School District  
Wayne RESA  
Chuck Wolford  
(734) -334-1511  
OR  
Lori Adkins  
(248) 209-2102 or (586) 228-3349

## **CHILD NUTRITION CLUSTER**

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

- I. FEDERAL OVERVIEW
- II. STATE OVERVIEW
- III. DISTRICT CONSIDERATIONS
- IV. AUDIT CONSIDERATIONS
- V. REFERENCE MATERIALS AND PERSONNEL

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

## **ATTACHMENTS**

- 1. Menu Planning System, Nutrition Standards, and Implementation Timeline
- 2. Breakfast Meal Pattern for School Year (SY) 2014-2015
- 3. Program Requirements Calendar

## I. FEDERAL OVERVIEW

- A. Federal Agency. Food and Nutrition Services (FNS), United States Department of Agriculture (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); Healthy Hunger-Free Act of 2010.
- C. Beneficiary Eligibility. All public school districts, except intermediate school districts, public school academies, and districts serving less than K-12 programs, are mandated to provide lunches meeting the standards of the National School Lunch Program. All students attending public schools may participate in the school lunch program. Also, non-public schools may participate in the school lunch program if they desire to do so. An Afterschool Snack Program was implemented in Fiscal Year 1999. Income eligibility guidelines, updated annually by the USDA, are provided to all schools 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 is available to split-session preschoolers and kindergarteners who do not have access to a federally reimbursed meal/snack program.
- D. Beneficiary/Participant Eligibility for Summer Food Service Program (SFSP) Only. Children age 18 and younger may receive meals through SFSP. Eligibility to participate in the SFSP is based upon the type of site. A site is a physical location where meals are served during a supervised time period. There are five types of sites:
  1. Open. At least half the children in the area are eligible for free and reduced price school meals.
  2. Enrolled. At least half of the children enrolled in the program are eligible for free and reduced price school meals.
  3. Camp. Offers a regularly scheduled food service as part of a residential or day camp program.
  4. Migrant. Primarily serves children of migrant families.
  5. National Youth Sports Program (NYSP). At least half of the children in the area are eligible for free and reduced price school meals or at least half of the children enrolled in the program are eligible for free and reduced price school meals.

## II. STATE OVERVIEW - Administrative Review

A. The Administrative Review is a plan of action whereby all school food authorities (public, private, or residential childcare institutions) that participate in the National School Lunch Program are reviewed for compliance once every three years 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
    1. 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 the Michigan Department of Human Services (MDHS)/ The eligibility categories on the direct certification report are:
    1. Supplemental Nutrition Assistance Program (SNAP)
    2. Temporary Assistance for Needy Families (TANF)
    3. Foster children data

The Direct Certification Report must be pulled at a minimum of three times during the school year. The provision, found at 7 CFR 245.6(b) (3), requires that direct certification matching activities with SNAP be done at least three times per school year:

1. At or around the beginning of the school year;
2. Three months after the initial effort; and
3. Six months after the initial effort.

The Center for Educational Performance and Information (CEPI) refreshes the Direct Certification Report monthly. MDE encourages schools to pull the Direct Certification Report monthly to ensure all eligible students are receiving proper meal benefits. The *Direct Certification Report Timeline* for School Year 2014-2015 is available at [http://www.michigan.gov/cepi/0,4546,7-113-986\\_50502\\_53828---,00.html](http://www.michigan.gov/cepi/0,4546,7-113-986_50502_53828---,00.html).

For more information on the requirements for pulling the Direct Certification Report go to the USDA memo, *Frequency of Direct Certification Matching Activities Beginning in School Year 2011-2012* available at: <http://www.fns.usda.gov/frequency-direct-certification-matching-activities-beginning-sy-2011-2012>.

To review a sample direct certification report, go to <http://www.michigan.gov/cepi>.

1. Click on "CEPI Applications," then "Michigan Student Data System," then "Direct Certification Report" from the left navigation menu
2. Click on the "Direct Certification Report Format" link under "Direct Certification Help"
  - a. Benefit Issuance. Electronic barcoded and magnetic strip systems, rosters, class lists, and other documents used at point of service (where students actually 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 benefits.
  - b. Changes in Eligibility Status. Changes in eligibility that reflect an increase in benefits are made within three days, and changes in eligibility that reflect a decrease in benefits are made within ten days. Households with a decrease in benefits must be notified in writing.
  - c. Verification System. The SFA must confirm selected students' eligibility for free and reduced price meals. Verification is only required for a sample of students whose eligibility is certified using a household application submitted with income information or a case number for the Supplemental Nutrition Assistance Program (SNAP), Food Distribution Program on Indian Reservations (FDPIR), or Temporary Assistance Program for Needy Families (TANF). Steps to complete verification and SFA verification reporting requirements to MDE are located at [www.michigan.gov/schoolnutrition](http://www.michigan.gov/schoolnutrition) under the What's New and Guidance sections.
  - d. 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.
  - e. System for Consolidating School Counts. Counts taken at point of service from all buildings are correctly combined and filed on the "Claim for Reimbursement" to MDE. For more information about counting and claiming refer to the USDA Meal Counting and Claiming Manual at [http://www.michigan.gov/documents/mde/4-01\\_USDA\\_MANUAL\\_-Meal\\_Counting\\_Claiming\\_WHITE\\_250808\\_7.pdf](http://www.michigan.gov/documents/mde/4-01_USDA_MANUAL_-Meal_Counting_Claiming_WHITE_250808_7.pdf)
2. Performance Standard #2: Meal Pattern and Nutritional Quality. Lunches and breakfasts claimed for reimbursement within the School Food Authority (SFA) contain food items/components as required by program regulations 7 CFR 210.10 and 7 CFR 220.8.
  - a. Food-Based Menu Planning System – Lunch
    1. 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 vs. serve" 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. Refer to Attachment 1 for appropriate portion sizes for each grade grouping.
2. Offer vs. Serve. The “offer vs. serve” lunch option is mandatory at the high school level and optional at the lower grades. In the “offer vs. serve” option, the students may decline up to two of the five components available. NOTE: with the “offer vs. serve” option, three food components must be selected by the student in the minimum required serving size. One of the selections must be at least ½ cup of a fruit, vegetable, or 100% juice, or a combination of the former to equal ½ cup total (e.g., ¼ cup of green beans and ¼ cup pineapple). Depending on the planned menu, the student may need to select more than one food item in order to have an adequate amount for a component to be credited.
  3. 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.
- b. Food-Based Menu Planning System – Breakfast
1. 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/vegetables/juice, and grains. Meat/meat alternates are an optional food component and may be offered as long as one serving of grain is offered daily. There are two serving options: regular breakfast and “offer vs. serve” 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. Refer to Attachment 2 for appropriate portion sizes for each grade grouping.
  2. Offer vs. Serve. The “offer vs. serve” breakfast option is optional at all grade levels. In the “offer vs. serve” option, at least four food items from the three food components must be offered and students must select at least three food items in the minimum required serving size. Students are required to select ½ cup of a fruit, vegetable, or 100% juice, or a combination of the former in order for the meal to be a reimbursable meal. Larger food items may count toward two food items (e.g., a two ounce bagel may count as two grain items).
  3. 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.

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

1. Resource Management

- a. Risk Assessment for Resource Management
- b. Maintenance of the Non-Profit School Food Service Account
- c. Paid Lunch Equity
- d. Revenue from Non-Program Foods
- e. Indirect Costs

## 2. General Program Compliance

- a. Self-Monitoring Reviews conducted by the SFA of each building by February 1 of each year. Self-Monitoring Reviews conducted by the SFA of each Afterschool Snack Program during the first four weeks that the snack program is in operation and in the second half of each school year.
- b. Civil Rights
- c. Health Inspections, Sanitation Food Safety Program based on Hazard Analysis and Critical Control Point (HACCP) Principles
- d. Water
- e. Local Wellness Policy
- f. Reporting and Record Keeping
- g. SBP and SFSP Outreach

## 3. Other Federal Programs

- a. Afterschool Snack Program
- b. Fresh Fruit and Vegetable Program
- c. Special Milk Program

C. SFSP Administrative Review. The SFSP Administrative Review is similar to the NSLP administrative review, and is completed once every three years. The SFSP Administrative Review involves two performance standards.

### 1. Performance Standard #1: Certification, Counting, and Claiming

- a. Certification. All meals served to children in the SFSP are considered eligible for maximum reimbursement, except for camp sites. Camp sites must use family 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 of the highest program participation should have a completed and eligible application for free meals on file.
- b. Counting. All meals must be counted at the point of service on the daily meal count form, except for camps. Camps may use the seven-day meal count consolidation form.
- c. Claiming. Meals counted accurately at point of service may be claimed.

### 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 in order for the sponsor to receive reimbursement for each meal.
  1. 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 full-strength juice
    - c. One serving of grain or bread
  2. 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 or bread
- d. One serving of meat or meat alternate

3. 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 reviews conducted by the sponsor within the first four weeks of the program. Pre-operational site reviews and first week visits conducted on all new sites and problem-prone sites. Documentation of the reviews/visits maintained by the sponsor.
- e. Purchasing
- f. Civil rights
- g. Sanitation
- h. Other

D. Performance-Based Certification and Reimbursement. Beginning SY 2012-2013, SFAs could request an additional six cents per lunch for performance-based reimbursement. To receive the additional reimbursement per lunch, the SFA submits documentation to the State Agency demonstrating they are in 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.

Certification materials must reflect the current meal service (i.e., meal service in the month the certification materials are submitted, in the month preceding the calendar month of submission, or the month after the calendar month of submission). Certification materials can be submitted to the State Agency through one of two options.

Option 1 requires the SFA to submit one week of each menu type offered in the schools under their jurisdiction, a detailed menu worksheet, and a completed nutrient analysis using USDA approved software.

Option 2 requires the SFA to submit one week of each menu type offered in the schools under their jurisdiction, a detailed menu worksheet, and a simplified nutrient assessment.

The State Agency has 60 days to review the certification materials and make a certification determination once the SFA submits a complete application for certification. Upon certification, the State Agency 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.

### 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 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, and Special Milk Programs must complete a “permanent” Application-Agreement and Policy Statement on-line on the Michigan Electronic Grants System Plus (MEGS+).
- B. Program Renewal (MEGS+). Each year all districts already participating in the National School Lunch, School Breakfast, Afterschool Snack, and Special Milk Programs that choose to continue participation must renew the Application-Agreement. This renewal process is completed in MEGS+. All application (MEGS+) information must be reviewed, updated, and submitted electronically. This web-based program is available through the MEGS+ link at <https://mdoe.state.mi.us/megsplus/>.
- C. Application for Free and Reduced Price School Meals
  - 1. Prototype materials, including Free and Reduced Price School Meals Family Application and a letter to parents, are available at [www.michigan.gov/schoolnutrition](http://www.michigan.gov/schoolnutrition). Each district is required to print and photocopy both sides of the form and letter, and then provide one to each household at the beginning of the school year. A district may develop its own application and letter; however, the district must have prior approval for use by MDE. The application forms are completed by any parents or guardians believing that their income level or family financial situation may qualify the household students for free or reduced price meals under the National School Lunch, School Breakfast, Afterschool Snack, and Special Milk Programs. Each form returned must include the following information:
  - 2. Child(ren)’s name(s).  
Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance for Needy Families (TANF) or Food Distribution Program on Indian Reservations (FDPIR) case number [the number on the Electronic Benefit Transfer (EBT) is 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.”
    - a. Names of all household members.
    - b. Last four digits of an adult household member’s social security number. Indicate “none” if adult has no social security number.
    - c. Income by source.
    - d. Adult’s signature.
      - 1. 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.
      - 2. In all other cases, eligibility is determined by using the “Income Scale for Reduced Price or Free Meals” provided annually (via the USDA) by MDE. All applications returned, regardless of eligibility determination, must remain on file within the district. The district can provide free/reduced lunches to any student who has a properly completed and approved application on file from the previous school year

(for 30 operating days from the first day of school). This process can take place until a new application (for current year) is approved or disapproved. At the same time, the free and reduced applications are distributed. Information regarding the school breakfast program must be sent at or near the beginning of the school year. This information must include items such as time, place, location, and prices.

3. SFSP Application for Free Meals. Free meal applications are not necessary for area eligible locations (schools are area eligible when 50% or more children enrolled in the school are on 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 meals.
  - b. Residential and day camps.

D. Verification Procedure for Applications and Free and Reduced Price School Meals  
Each school year, the School Food Authority (SFA) is required to perform income verification for an exact sample size of all approved free/reduced applications on file as of October 1. There are three sample sizes established for verification activities. The standard sample size must be used by the SFA unless it qualifies to use one of the alternate sample sizes. If the SFA is not on the list for Standard Sample Size one of the two alternate methods may be selected.

- [Standard Sample Size](#)
- [Alternative One Sample Size \(Random Sampling\)](#)
- [Alternative Two \(Error Prone Sampling\)](#)

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. Qualifying LEAs (response rate to verification during the previous school year was greater than 80%) also may use one of two alternate sample sizes. These are:
  - a. Alternate One Sample Size (Random Sampling)
    1. LEA must verify three percent or 3,000, whichever is less, of all approved applications on file as of October 1.
    2. Once the sample size is determined, applications are selected at random.
  - b. Alternate Two (Error Prone Sampling)  
LEA must verify:
    1. The lesser of 1,000 or one percent of all applications approved as of October 1  
AND
    2. The lesser of 500 or one-half of one percent of all applications approved as of October 1 that provided a case number in lieu of income on free and reduced price applications

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

The SFA-VCR is reported in the web based system Michigan Nutrition Data System (MiND), located at [www.michigan.gov/meis](http://www.michigan.gov/meis). The SFA-VCR will be provided by MDE for review.

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.

<http://www.fns.usda.gov/2014-edition-eligibility-manual-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 Part 210.18(l) (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 August 2014, Part 8. <http://www.fns.usda.gov/2014-edition-eligibility-manual-school-meals>.

- F. Daily/Monthly Meals Served Counts. Each district is required to maintain records of meals served daily by building. This information must be derived from a count of meals served at the point of service and must be maintained by category: free, reduced, and paid. This information is submitted monthly via the internet on the Michigan Education Information System (MEIS) 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 MEIS.

- G. Reimbursable Meals. Effective July 1, 2012, the final rule, Nutrition Standards in The National School Lunch Program and School Breakfast Programs (77 FR4088), went into effect. The new school meal requirements are being phased in over several years (see Attachment 1):

1. One Food-Based Menu System. Schools must follow the new meal pattern requirements, using food-based menus, and serve lunches composed of five food components as described in Section II (A) (2) (a) and (b) of this document. Schools must provide documentation of compliance for one week of menus, using USDA approved menu certification worksheets or USDA approved nutrition software. Support documentation for the week must be kept on file at the SFA level, and include menus, production records, standardized recipes, food labels, Child Nutrition (CN) labels, and product formulation statements from manufacturers showing the nutrient content of all food prepared meets nutrient requirements for one week.
2. Menus certified by the SA as meeting nutrition standards for the age/grade groups, as specified by USDA, will receive an additional six cent reimbursement rate for each

lunch, payable to SFAs, for being in compliance with the new meal pattern, as specified in the Healthy, Hunger-Free Kids Act. This is known as the performance-based certification and SFAs are only required to go through this process one time.

- H. Meal Reimbursement Rates and Commodity Entitlement Values. These rates are subject to change annually and are provided to each district by the USDA via MDE as an Administrative Policy. The district's monthly reimbursement will be based on these meal reimbursement rates. The commodity entitlement value is used to compute the amount of the district's award for entitlement commodities for single audit purposes.
- I. Number of Eligibles. This information is used in conjunction with the commodity entitlement value to calculate the district's entitlement commodity award. The number of eligibles will be displayed on the district's commodity warehouse order form and will change each January, based on the October claim data.
- J. Purchasing. Refer to IV (B).
- K. Procurement, Suspension, and Debarment. USDA procurement requirements are addressed in 7 CFR 3016.36 and 7 CFR 3019.44, which can be found at <http://www.gpo.gov/fdsys/>.

Subgrantees are required to follow their own procurement procedures provided that they conform to state and federal laws and standards. Subgrantees 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 into a contract with a debarred party. Contracts must include requirements for comprehensive invoices. Contractor and vendor invoices must include details of the service provided; for whom, when, and 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.

- L. Smart Snacks in School. According to the interim final rule (updated 7 CFR Parts 210 and 220), which went into effect July 1, 2014, Smart Snacks in School standards apply to all foods and beverages sold outside of Federal meal programs (such as NSLP, SBP and CACFP) on school campus during the school day. The standards only apply to schools participating in NSLP. The guidelines include limits on the types of food and beverage items that can be offered as well as additional nutrition requirements.

In this setting, "selling" is interpreted as using money, tokens, tickets, suggested donations, points, or other currency or barter in exchange for a food or beverage. "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 (without earning with tokens, tickets, good behavior, or other sale); sold more than 30 minutes after the end of the school day; sold outside of school campus or sold as fundraisers not meant for immediate consumption (such as raw cookie or pizza dough).

The State of Michigan School Nutrition Programs does not allow any fundraisers to be exempt from this rule.

- M. Fund Equity. The USDA requires that the ending balance of the non-profit food service fund does not exceed three months' operating expenses [7 CFR Part 210.14(b)]. If an excess balance should occur, the SFA will be required to develop a spending plan for reducing the balance to an acceptable level during the following school year. The plan must be submitted to MDE, Office of School Support Services, for prior approval. Revenues received by the non-profit school food service are to be used only for the operation or improvement of the Child Nutrition Programs. See Item IV (F) (3).

Excess funds may be applied to another child nutrition program or carried over to the next year to cover operating and administrative costs for the SFSP.

- N. Long-term Debt:

**School Food Authorities (SFAs) follow a multi-step process to determine whether funds from the nonprofit school food service account may be used for a certain cost:**

1. Examine each cost by reviewing the criteria in 2 CFR Part 225
2. Review program regulations located at 7 CFR Part 210 in conjunction with historical FNS policy (which clarifies program regulations)
3. Apply these collective principles to the specific facts and circumstances regarding each cost.

A cost would not be deemed an allowable charge to the nonprofit school food service account by simply applying the general criteria outlined in 2 CFR Part 225 because the cost must also conform to the program-specific rules. For example, the NSLP regulations at 7 CFR Part 210.14(a) prohibit use of the SFA's nonprofit school food service account to pay for the cost of purchasing land or buildings, unless otherwise approved by FNS. A cost must be incurred in accordance with all applicable terms and conditions.

**Renovating a School Kitchen:**

2 CFR Part 225, Appendix B, Section 25, *Maintenance, operations and repairs*, identifies costs of normal repairs and alterations as allowable as long as they:

1. Keep property in an efficient operating condition
2. Do not add to the permanent value of the property or appreciably prolong its intended life
3. Are not otherwise included in rental costs or other charges for space

Based on these principles, FNS has allowed limited renovations **within the inside perimeter** of a kitchen/cafeteria space with the required **prior SA approval**.

For example, renovating a kitchen by cutting away a portion of the wall to allow room for a walk-in refrigerator and related electrical wiring would be an allowable expense if the

renovation is necessary to accommodate increased participation of students in the School Meals Program (SMP). However, it would be an unallowable expense if renovation of the kitchen was purely an aesthetic matter.

**Maintenance Costs:**

The SFA cannot charge normal maintenance costs directly to the nonprofit school food service account if such costs are included in the school district's indirect cost pool.

**Building a School Kitchen:**

Regulations at 7 CFR Parts 210.14 and 220.7€(1) require that revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service, except that, such revenue shall not be used to purchase land or buildings, or to construct buildings, unless otherwise approved by the FNS. Historically, FNS has not approved the cost of building purchases because program funds are made available to help support the costs of nutritional benefits for children in school settings and not to construct school related facilities. The goal is to ensure that an SFA maintains the necessary funding to operate the program as required by the authorizing legislation and regulations, and that the nonprofit school food service account is not used to cover major expenses that should be borne by the school district's general funds (i.e., capital infrastructure costs).

The costs of building a kitchen are comparable to the costs of constructing school buildings, which historically have been borne by the school district with general or capital improvement funds. Similarly, such capital infrastructure costs should be borne by the school district just as the school building and its contents should be. The costs of long-term debt and interest charges are considered to be unallowable costs in the SMP.

- O. Child Nutrition Reauthorization 2010 – Paid Lunch Equity (PLE) and Revenue from Non-program Foods. Effective July 1, 2011, the National School Lunch Program (NSLP) regulations were amended to conform to requirements contained in the Healthy, Hunger-Free Kids Act (HHFKA) of 2010, Sections 205 and 206. These provisions established requirements for school food authorities (SFAs) for both of the following:
  1. Revenue from paid reimbursable lunches [7 CFR 210.14 (e)].
  2. Revenue from foods sold outside of reimbursable meals when those foods are purchased with school food service account funds [7 CFR 210.14(f)].

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.

USDA has issued guidance on this topic. The USDA memo related to the PLE tool is available at <http://www.fns.usda.gov/sites/default/files/SP15-2014os.pdf>

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, \$2.65 or more for a paid lunch would not be required to adjust prices in School Year (SY) 2014-2015. SFAs currently charging, on average, less than \$2.65 for a paid lunch may be required to either gradually increase prices or provide additional non-federal support for its lunches.

To determine how much, these SFAs must calculate an adjusted average paid lunch price for SY 2014-2015, the adjusted average price is the average price charged in SY 2013-2014 increased by a factor equal to two percentage points above the inflation rate and may be rounded down to the nearest five cents.

For SY 2014-2015, SFAs that charged on average less than \$2.65 for paid lunches in SY 2013-2014 are required to adjust their average price or provide additional non-federal funds to the non-profit school food service account. The amount of the per-meal increase will be calculated using 2 percent plus 2.93 percent, or 4.93 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 increase in the average paid lunch price at ten cents in any year.

The USDA memo related to the PLE tool for the SY 2014-2015 is available at <http://www.fns.usda.gov/sites/default/files/SP1-2014os.pdf>

- P. Annual Self-Monitoring Reviews. A complete review of the National School Lunch Program 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)].

School Meals Program applications, forms and reports are submitted to the Michigan Department of Education via the Michigan Nutrition Data System (MiND) and located at <http://mdoe.state.mi.us/mind/>.

See Attachment 3 for the Program Requirements Calendar

#### IV. AUDIT CONSIDERATIONS

The following suggested audit procedures are not to be considered all-inclusive or a substitute for professional judgment. Rather, these procedures, along with those listed in the Office of Management and Budget (OMB) A-133 Compliance Supplement, are to help the auditor perform compliance procedures in an efficient and effective manner in accordance with professional standards and federal guidelines. Part 4 includes specific compliance requirements and Part 6 includes specific internal control requirements. The following are specific requirements that should be considered when auditing National School Lunch, School Breakfast, and the Summer Food Service Programs:

## A. Eligibility

1. Review the eligibility requirements in the “Eligibility Guidance for School Meals Manual” at <http://www.fns.usda.gov/sites/default/files/cn/EliMan.pdf>.
2. Review selected applications to determine applicants are properly accounted for and applications are properly completed.
3. Determine the number of free and reduced meals claimed for reimbursement. This amount should not exceed the number of approved applications on file and from children eligible from Direct Certification. Determine that the number of applications reported on the monthly claim does not include applications for students found ineligible or who had departed the building before the beginning of the month.
4. Review applications to determine that changes in eligibility that reflect an increase in benefits are made within three days, and that changes in eligibility that reflect a decrease in benefits due to verification of parental request are made within ten days of notification of such changes.
5. Review the “benefit issuance” list (roster of approved free and reduced applicants). Approved names at point of service must match the approved applications on file and from the Direct Certification list.
6. Review the collection procedures to ensure eligible participants are not overlooked.
7. Summer Food Service Program (SFSP)
  - a. Area eligibility. Review that the school qualifies as area eligible - it has 50% or more free and reduced price children enrolled in the school 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.

## B. Purchasing. Refer to OMB Circular A-133 Compliance Supplement, Part 6 for procurement and suspension and debarment internal control requirements. For contracts, purchase orders, equipment purchases, or other procurements selected for testing, perform the following audit procedures:

1. Obtain the district’s procurement policies/procedures. Determine that they are in compliance with state and federal procurement requirements. Determine that the food service has a standard of conduct consistent with 7 CFR 3016.36(b) (3) and 3019.42.\*\*
2. Determine that the district complied with bidding requirements. Determine that the process provides open and free competition consistent with 7 CFR 3016.36(c) (1) and 3019.43.\*\*
3. Determine that the equal employment opportunity provision was adhered to consistent with 7 CFR 3016.36(e) and 3019.44.\*\*
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 7 CFR 3016.60(b) and 3019.43.
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) found at <https://www.sam.gov/portal/public/SAM/> to determine the eligibility of its party.

6. Determine that procurements by small purchase procedures were properly documented. For purchases in excess of \$23,126, make sure a sealed bid, formal advertisement, and a reasonable bid specification were used by the district. See MCL 38.1274 (5) for an exception. Competitive bids are not required for single food purchase transactions less than \$100,000. Also, assure that the district did not use a "cost plus a percentage of cost or cost plus percentage of income method." (34 CFR 80.36)
7. If bids were accepted which allow price adjustments for changes in the base price of a product, determine that the districts validated those adjustments using the standard(s) specified in the bid (Consumer Price Index, Market Basket, etc.).
8. Determine that bid specifications used by the district did not limit the supplier companies' operation or structure on geographic preference consistent with 7 CFR 3016.36(c) (2).\*\* Open and fair competition must be maintained in accordance with 7 CFR 3016.36(c) (1) and 3019.43.\*\*
9. Determine that bid protest procedures are in place in accordance with 7 CFR 3016.36 (b) (12) and 3019.41.
10. Determine that vendor invoices include details of the service provided for whom, when, how much and any other details required by the contracts or purchase orders.
11. Determine that payments to contractors and vendors were according to the contract or purchase order.
12. If contract or purchase order is new (not a renewal or extension), compare the Request for Proposal (RFP) with the signed contract or purchase order to determine that conditions are being met. Note: For Food Service Management Company (FSMC) and Vended School Meal Company (VSMC) contracts, only MDE-approved RFP may be used by the district. Assure that the FSMC and VSMC RFPs and contracts are MDE-approved RFP and contract.
13. If the contract or purchase order is a renewal or extension, determine that the conditions are the same as the original contract or purchase order.
14. Determine that the district maintained a compliance system so that contractors complied with the terms and conditions of the contract.

\*\*Please refer to 7 CFR Part 3016 and 3019 at <http://www.gpo.gov/fdsys/>.

- C. Matching Level of Effort and/or Earmarking Requirements. No procedures required for the auditor to perform.
- D. Food Service Management Company (FSMC) and Vended School Meal Company (VSMC) Operated Food Services
  1. Verify that the signed contract is consistent with the issued RFP.
  2. Verify that the financial requirements of the food service management contract are being followed.
  3. Review the renewal of the contract to assure that MDE has given its approval of the contract renewal and that a copy of the renewal has been submitted to MDE. Districts may renew the contract annually for up to four years.
  4. Assure that any increase in payments to the food service management company does not exceed the provisions of the contract and that the increase was approved by MDE.
  5. Assure that the FSMC is properly crediting the SFA's food service account monthly for all discounts, rebates, credits, and allowances received by the FSMC from the purchase of goods and services on behalf of the SFA. Assure that the VSMC is

properly crediting the SFA on its monthly invoice for the USDA Foods received by the VSMC on behalf of the SFA.

6. Ensure the following activities are performed by school district personnel, not employees of the food service management company:
  - a. All hearings.
  - b. Certification of meal reimbursement claims via MEIS and certification of the on-line School Meals Program Year End Report (SM-4012-A/R), if applicable.
  - c. Annual on-site reviews.

Note: The LEA may delegate certain responsibilities to the FSMC. See Food Service Administrative Policy #3 – SY 2008-2009.

#### E. Reporting Requirements

1. Review daily and monthly meal counts reported to determine accurate data. This is the basis for preparing the monthly claim for reimbursement.
2. Review the last Claim Status Report available on the Claim Form website (MEIS).

#### F. Special Tests and Provisions. Consider the following:

1. Review the year-end statement of revenues and expenses from the SFA's non-profit food service account to ensure that general expenses appear to be reasonable, necessary and allocable. Regardless of whether a cost is allocable as indirect or direct, it must be allowable based on the federal cost principles located in 2 CFR Part 225.
2. Select a sample of expenditures from the general ledger report for the most recent closed out year. The funds in the non-profit school food service account must only be used to pay for expenses that are necessary and reasonable to provide quality meals in the SMP's.
3. Verify that the SFA is compliant with limiting its net cash resources to an amount that does not exceed three months' average expenditures for its non-profit school food service per requirements in 7 CFR 210.14 (b). Review the fund equity and in the event that net cash resources exceed the three months' average expenditures for the SFA's non-profit school food service, MDE will require the SFA to improve the food quality or take other action designed to improve the nonprofit school food service per 7 CFR Part 210.19 (a)(2). Identify the SFA's three months' average expenditures using the total program costs or comparable documentation. MDE has established the policy as the State Agency to convert the annual expenditures to average monthly expenditures by dividing a full year's total expenditures by the number nine (9) of operational months and multiplied by three (3) months.

Example:

Total program costs, less capital outlay, divided by nine (9) months and times by three (3) months is the calculation for the Allowable Fund Balance. When the Ending Fund Balance is greater than the Allowable Fund Balance, this will result in an excess of fund balance. Excess funds cannot be transferred to the general fund.

4. Test transfers out of the school food service account. Districts may only transfer funds out of the SMP for the purpose of recovering indirect costs using object code 9990. It is unallowable to bill the non-profit school food service account for indirect costs that were previously paid from the general fund unless an agreement exists to show that the district had been "loaning" the non-profit school food service account funds to

cover the indirect costs in one or more prior years. Costs excluded from the direct cost base include debt service, judgments, fines and penalties, bad debts, food used in School Meals Program, other items for resale, and capital outlay. Individual contracts that are part of the direct cost base should only be included in the calculation for individual contract amounts up to the first \$25,000 and where all other costs are excluded.

5. Review the most recent Administrative Review Report. Check for corrective action on findings. In conducting management evaluations, reviews, or audits in a fiscal year, MDE will disregard an overpayment if the overpayment does not exceed \$600 per program National School Lunch Program and School Breakfast Program, respectively. MDE Child Nutrition Programs have established a disregard threshold that does not exceed \$600. No overpayment is to be disregarded where there is substantial evidence of violations of criminal law or civil fraud statutes per 7 CFR Part 210.19 (d).
6. Review the procedures performed for the required internal on-site self-monitoring review and the status of findings, if any.
7. Review the Paid Lunch Equity (PLE) Calculations for previous and current school years.
8. Review adjusted prices and/or identify a source of allowable non-federal funds.

G. Reporting in the Schedule of Expenditures of Federal Awards

1. The National School Lunch funding must be reported, by each project, in the following manner:

Example:

Accrued (Deferred) Revenue July 1, 2010	\$15,000
<u>PLUS</u> : Current Year Expenditures	\$25,000
<u>LESS</u> : Current Year Cash Receipts	<u>(30,000)*</u>
Accrued (Deferred) Revenue June 30, 2011	\$10,000

\*This amount must match the amount reported as “Current Payment” in the “Grant Sections Auditors Report,” Form R7120.

2. Each project reported under the CFDA #10.555 must foot using the above equation. Any adjustments or timing differences must be explained as notes to the Schedule of Expenditures of Federal Awards.

H. Refer to the Federal Compliance Supplement for testing compliance requirements for the following areas: allowable costs/cost principles, cash management, and recovery of indirect costs and period of availability of federal funds, program income, and subrecipient monitoring.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

1. Catalog of Federal Domestic Assistance, Section 10.555, National School Lunch Program  
<https://www.cfda.gov/index?s=program&mode=form&tab=step1&id=e8e78e131dd3b1b8f62b08b703df4868>
2. Accounting and Reporting of USDA Donated Foods

3. Healthy, Hunger-Free Kids Act of 2010 (Public Law 111-296)  
<http://www.fns.usda.gov/school-meals/healthy-hunger-free-kids-act>
4. Final Rule: Nutrition Standards in the National School Lunch and School Breakfast Programs  
<http://www.gpo.gov/fdsys/pkg/FR-2012-01-26/pdf/2012-1010.pdf>
5. Implementation Timeline for Nutrition Standards in the National School Lunch and School Breakfast Programs
6. [http://www.fns.usda.gov/sites/default/files/implementation\\_timeline.pdf](http://www.fns.usda.gov/sites/default/files/implementation_timeline.pdf)
7. Certification of Compliance with Meal Requirements  
<http://www.fns.usda.gov/cnd/Governance/Legislation/certificationofcompliance.htm>
8. Nutrition Standards for School Meals  
<http://www.fns.usda.gov/cnd/Governance/Legislation/nutritionstandards.htm>
9. Meal Pattern and Dietary Specifications – Lunch  
<http://www.fns.usda.gov/cnd/Governance/Legislation/dietaryspecs.pdf>  
<http://www.fns.usda.gov/sites/default/files/SP10-2012v8os.pdf>  
[http://www.michigan.gov/mde/0,4615,7-140-43092\\_50144-194515--,00.html](http://www.michigan.gov/mde/0,4615,7-140-43092_50144-194515--,00.html)
10. Meal Pattern and Dietary Specifications – Breakfast  
<http://www.fns.usda.gov/sites/default/files/dietaryspecs.pdf>  
<http://www.fns.usda.gov/sites/default/files/SP10-2012v8os.pdf>  
<http://www.fns.usda.gov/sites/default/files/SP43-2014os.pdf>  
[http://www.michigan.gov/mde/0,4615,7-140-43092\\_50144-194516--,00.html](http://www.michigan.gov/mde/0,4615,7-140-43092_50144-194516--,00.html)
11. Offer vs. Serve Manual  
<http://www.fns.usda.gov/sites/default/files/SP57-2014a.pdf>
12. Administrative Review Manual  
<http://www.fns.usda.gov/school-meals/guidance-and-resources>
13. Paid Lunch Equity Tools  
[http://www.fns.usda.gov/cnd/Governance/Legislation/CNR\\_resources.htm](http://www.fns.usda.gov/cnd/Governance/Legislation/CNR_resources.htm)
14. Indirect Cost Guidance  
[http://www.fns.usda.gov/cnd/Governance/Legislation/CNR\\_resources.htm](http://www.fns.usda.gov/cnd/Governance/Legislation/CNR_resources.htm)
15. Food Buying Guide for School Meals Programs  
<http://www.fns.usda.gov/tn/food-buying-guide-school-meal-programs>
16. Eligibility Manual for School Meals  
<http://www.fns.usda.gov/sites/default/files/cn/EliMan.pdf>
17. USDA Meal Counting and Claiming Manual:

[http://www.michigan.gov/documents/mde/4-01\\_USDA\\_MANUAL -  
\\_Meal\\_Counting\\_Claiming\\_WHITE\\_250808\\_7.pdf](http://www.michigan.gov/documents/mde/4-01_USDA_MANUAL_-_Meal_Counting_Claiming_WHITE_250808_7.pdf)

18. Direct Certification Center for Educational Performance and Information (CEPI)  
Direct Certification Help and Official Communications  
[http://www.michigan.gov/cepi/0,4546,7-113-986\\_50502\\_53828---,00.html](http://www.michigan.gov/cepi/0,4546,7-113-986_50502_53828---,00.html)
19. School Meals Program Regulations and Rules  
<http://www.fns.usda.gov/cnd/governance/regulations.htm>
20. School Meals Program Policy Memos  
<http://www.fns.usda.gov/nslp/policy>
21. Afterschool Snack Program  
[http://www.michigan.gov/mde/0,4615,7-140-43092\\_50144-194517--,00.html](http://www.michigan.gov/mde/0,4615,7-140-43092_50144-194517--,00.html)
22. Whole Grain Instruction  
<http://www.fns.usda.gov/tn/whole-grain-resource>  
<http://www.fns.usda.gov/sites/default/files/SP41-2014os.pdf>  
<http://www.fns.usda.gov/sites/default/files/SP47-2014os.pdf>
23. Summer Food Service Program for Children Administrative Guidance for Sponsors  
[www.michigan.gov/sfsp](http://www.michigan.gov/sfsp)
24. The Key to Reimbursement Michigan Summer Food Service Program  
[www.michigan.gov/sfsp](http://www.michigan.gov/sfsp)

#### B. Personnel

1. For information regarding school meal regulations and policies, findings of school food authority Administrative Reviews, or concerns about an SFSP administrative review, please contact Howard Leikert, School Nutrition Programs Supervisor, at (517) 373-3892.
2. For information on payment of claims for reimbursement for school meals, please contact Pam Miller, Departmental Specialist, at (517) 373-1074.
3. For information regarding processing contracts and calculating commodity entitlement values, please contact Cheryl Schubel, Food Distribution Supervisor, at (517) 373-8642.
4. For information on Child and Adult Care Food Program requirements or reimbursement, please contact Kim Bilyk, Child and Adult Care Food Program Supervisor, at (517) 373-0377.
5. For information regarding the Summer Food Service Program, please contact Bryan Van Dorn, Consultant, at (517) 373-0107.
6. For information regarding food service management and vended school meal contracts, please contact Katherine Fuller, Consultant, at (517) 373-4017.

## Final Rule Nutrition Standards in the National School Lunch and School Breakfast Programs – Jan. 2012

	Breakfast Meal Pattern			Lunch Meal Pattern		
	Grades K-5 <sup>a</sup>	Grades 6-8 <sup>a</sup>	Grades 9-12 <sup>a</sup>	Grades K-5	Grades 6-8	Grades 9-12
<b>Meal Pattern</b>	<b>Amount of Food<sup>b</sup> Per Week (Minimum Per Day)</b>					
Fruits (cups) <sup>c,d</sup>	5 (1) <sup>e</sup>	5 (1) <sup>e</sup>	5 (1) <sup>e</sup>	2½ (½)	2½ (½)	5 (1)
Vegetables (cups) <sup>c,d</sup>	0	0	0	3¾ (¾)	3¾ (¾)	5 (1)
Dark green <sup>f</sup>	0	0	0	½	½	½
Red/Orange <sup>f</sup>	0	0	0	¾	¾	1¼
Beans/Peas (Legumes) <sup>f</sup>	0	0	0	½	½	½
Starchy <sup>f</sup>	0	0	0	½	½	½
Other <sup>f,g</sup>	0	0	0	½	½	¾
Additional Veg to Reach Total <sup>h</sup>	0	0	0	1	1	1½
Grains (oz eq) <sup>i</sup>	7-10 (1) <sup>j</sup>	8-10 (1) <sup>j</sup>	9-10 (1) <sup>j</sup>	8-9 (1)	8-10 (1)	10-12 (2)
Meats/Meat Alternates (oz eq)	0 <sup>k</sup>	0 <sup>k</sup>	0 <sup>k</sup>	8-10 (1)	9-10 (1)	10-12 (2)
Fluid milk (cups) <sup>l</sup>	5 (1)	5 (1)	5 (1)	5 (1)	5 (1)	5 (1)
<b>Other Specifications: Daily Amount Based on the Average for a 5-Day Week</b>						
Min-max calories (kcal) <sup>m,n,o</sup>	350-500	400-550	450-600	550-650	600-700	750-850
Saturated fat (% of total calories) <sup>n,o</sup>	< 10	< 10	< 10	< 10	< 10	< 10
Sodium (mg) <sup>n,p</sup>	≤ 430	≤ 470	≤ 500	≤ 640	≤ 710	≤ 740
Trans fat <sup>n,o</sup>	Nutrition label or manufacturer specifications must indicate zero grams of trans fat per serving.					

<sup>a</sup>In the SBP, the above age-grade groups are required beginning July 1, 2013 (SY 2013-14). In SY 2012-2013 only, schools may continue to use the meal pattern for grades K-12 (see § 220.23).

<sup>b</sup>Food items included in each food group and subgroup and amount equivalents. Minimum creditable serving is ¼ cup.

<sup>c</sup>One quarter-cup of dried fruit counts as ½ cup of fruit; 1 cup of leafy greens counts as ½ cup of vegetables. No more than half of the fruit or vegetable offerings may be in the form of juice. All juice must be 100% full-strength.

<sup>d</sup>For breakfast, vegetables may be substituted for fruits, but the first two cups per week of any such substitution must be from the dark green, red/orange, beans and peas (legumes) or "Other vegetables" subgroups as defined in §210.10(c)(2)(iii).

<sup>e</sup>The fruit quantity requirement for the SBP (5 cups/week and a minimum of 1 cup/day) is effective July 1, 2014 (SY 2014-2015).

<sup>f</sup>Larger amounts of these vegetables may be served.

<sup>g</sup>This category consists of "Other vegetables" as defined in §210.10(c)(2)(iii)(E). For the purposes of the NSLP, "Other vegetables" requirement may be met with any additional amounts from the dark green, red/orange, and beans/peas (legumes) vegetable subgroups as defined in §210.10(c)(2)(iii).

<sup>h</sup>Any vegetable subgroup may be offered to meet the total weekly vegetable requirement.

<sup>i</sup>At least half of the grains offered must be whole grain-rich in the NSLP beginning July 1, 2012 (SY 2012-2013), and in the SBP beginning July 1, 2013 (SY 2013-2014). All grains must be whole grain-rich in both the NSLP and the SBP beginning July 1, 2014 (SY 2014-15).

<sup>j</sup>In the SBP, the grain ranges must be offered beginning July 1, 2013 (SY 2013-2014).

<sup>k</sup>There is no separate meat/meat alternate component in the SBP. Beginning July 1, 2013 (SY 2013-2014), schools may substitute 1 oz. eq. of meat/meat alternate for 1 oz. eq. of grains after the minimum daily grains requirement is met.

<sup>l</sup>Fluid milk must be low-fat (1 percent milk fat or less, unflavored) or fat-free (unflavored or flavored).

<sup>m</sup>The average daily amount of calories for a 5-day school week must be within the range (at least the minimum and no more than the maximum values).

<sup>n</sup>Discretionary sources of calories (solid fats and added sugars) may be added to the meal pattern if within the specifications for calories, saturated fat, trans fat, and sodium. Foods of minimal nutritional value and fluid milk with fat content greater than 1 percent milk fat are not allowed.

<sup>o</sup>In the SBP, calories and trans fat specifications take effect beginning July 1, 2013 (SY 2013-2014).

<sup>p</sup>Final sodium specifications are to be reached by SY 2022-2023 or July 1, 2022. Intermediate sodium specifications are established for SY 2014-2015 and 2017-2018. See required intermediate specifications in § 210.10(f)(3) for lunches and § 220.8(f)(3) for breakfast.

Jan. 2012

## Implementation Timeline for Final Rule

### “Nutrition Standards in the National School Lunch and School Breakfast Programs”

Implementation of most meal requirements in the NSLP begins SY 2012-2013. In the SBP, the meal requirements (other than milk) will be implemented gradually beginning SY 2013-2014.

New Requirements	Implementation (School Year) for NSLP (L) and SBP (B)						
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2022/23
<b>Fruits Component</b>							
• Offer fruit daily	L						
• Fruit quantity increase to 5 cups/week (minimum 1 cup/day)			B				
<b>Vegetables Component</b>							
• Offer vegetables subgroups weekly	L						
<b>Grains Component</b>							
• Half of grains must be whole grain-rich	L	B					
• All grains must be whole-grain rich			L, B				
• Offer weekly grains ranges	L	B					
<b>Meats/Meat Alternates Component</b>							
• Offer weekly meats/meat alternates ranges (daily min.)	L						
<b>Milk Component</b>							
• Offer only fat-free (unflavored or flavored) and low-fat (unflavored) milk	L, B						
<b>Dietary Specifications (to be met on average over a week)</b>							
• Calorie ranges	L	B					
• Saturated fat limit (no change)	L, B						
• Sodium Targets <ul style="list-style-type: none"> <li>○ Target 1</li> <li>○ Target 2</li> <li>○ Final target</li> </ul>			L, B			L, B	L, B
• Zero grams of trans fat per portion	L	B					
<b>Menu Planning</b>							
• A single FBMP approach	L	B					
<b>Age-Grade Groups</b>							
• Establish age/grade groups: K-5, 6-8, 9-12	L	B					
<b>Offer vs. Serve</b>							
• Reimbursable meals must contain a fruit or vegetable (1/2 cup minimum)	L		B				
<b>Monitoring</b>							
• 3-year adm. review cycle		L, B					
• Conduct weighted nutrient analysis on 1 week of menus	L	B					

## BREAKFAST MEAL PATTERN FOR SCHOOL YEAR 2014-2015

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

Michigan Department of Education  
Office of School Support Services  
School Nutrition Programs  
**PROGRAM REQUIREMENTS CALENDAR**

**Attachment 3**

To ensure program compliance, please distribute a copy of this calendar to each of the staff responsible for completing the following tasks related to the National School Lunch Program (NSLP), School Breakfast Program (SBP), Summer Food Service Program (SFSP) and Afterschool Snack Program operations. All required records must be retained at the School Food Authority (SFA) for 3 prior school years, plus the current year of operation for audit compliance. If there is an open audit/investigation, retain longer.

INFORMATION	DUE DATE	SEND/FILE
<p><b>SECURITY ACCESS FORM</b> Access to: Michigan Electronic Grants System Plus (MEGS+), Child Nutrition Programs (CNP), Meal Reimbursement Claim, Local Educational Agency Reporting System (LEARS) – Verification Summary Report, Fresh Fruit and Vegetable Program (FFVP) Claim in Michigan Nutrition Data System (MiND), Year End Report.</p>	<p>Whenever any change for designated individuals with Level 3 access rights (Refer to Food Service Administrative Policy #7, SY 2005-06).</p>	<p>Fax to: Ruby Zavala at 517-373-4022.</p>
<p><b>CONTRACT RENEWAL</b> Food Service Management Contracts or Vended School Meal Contracts</p>	<p>June 30 (each school year).</p>	<p>Michigan Department of Education (MDE) approval of renewal documents is required prior to the listed due date. Obtain contract renewal documents and follow the instructions found at the fiscal reporting website: <a href="http://www.michigan.gov/mde/0,1607,7-140-6530_6569-19568--,00.html">http://www.michigan.gov/mde/0,1607,7-140-6530_6569-19568--,00.html</a></p>
<p><b>DIRECT CERTIFICATION REPORT</b></p>	<p>The Direct Certification Report must be pulled at a minimum three times during the school year: At or around the beginning of the school year. Three months after the initial effort. Six months after the initial effort.</p> <p>The Center for Educational Performance and Information (CEPI) will refresh the Direct Certification report monthly. MDE encourages schools to pull the Direct Certification monthly to ensure all eligible students are receiving proper meal benefits.</p>	
<p><b>ELIGIBILITY APPLICATIONS</b> Free and Reduced Price School Meals/Free Milk</p>	<p>Distribute at beginning of each school year, but <i>not</i> before July 1. Process completed applications within 10 school days after receipt.</p>	<p>File at the Local Educational Agency (LEA), also referred to as the SFA.</p>

<b>YEAR END REPORT-</b> Non-Public School Meals Program Form SM-4012-A/R	Non-public schools and Residential Child Care Institutions (RCCI) Year End Reports are due September 1 for the prior school year.	Submit to MDE via <a href="http://www.michigan.gov/meis">www.michigan.gov/meis</a>
<b>APPLICATION – NEW SPONSORS</b> MEGS+ CNP Performance Based Certification (6 Cent Certification)	New sponsors must complete both the MEGS+ CNP and Performance Based Certification applications to be eligible for participation in the National School Lunch and/or Breakfast Program.	Submit to MDE via <a href="http://www.michigan.gov/meis">www.michigan.gov/meis</a> at Michigan Electronic Grants Plus System.
<b>APPLICATION RENEWAL</b> MEGS+ CNP	Available during summer with a due date of September 30, 2014.	Submit to MDE via <a href="http://www.michigan.gov/meis">www.michigan.gov/meis</a> at Michigan Electronic Grants Plus System. Update during year as needed.
<b>COMMUNITY ELIGIBILITY PROVISION (CEP)</b> Application in Michigan Nutrition Data System (MiND)	Available early April with a due date of August 31, 2014, for the 2014-2015 school year only.	Submit to MDE via <a href="http://www.michigan.gov/meis">www.michigan.gov/meis</a> at Michigan Nutrition Data System.
<b>SELF-MONITORING REVIEWS</b> Afterschool Snack Program (2 reviews required each school year)	1 <sup>st</sup> review – Within first 4 weeks of Afterschool Snack Program. 2 <sup>nd</sup> review - Completed after January.	File completed forms at SFA.
<b>SCHOOL FOOD AUTHORITY – VERIFICATION COLLECTION REPORT (SFA-VCR)</b>	Verification starts October 1 based on number of approved applications. Verification Summary Report MUST be completed by November 15.	Complete paper copy and file copy at LEA. Submit data to MDE via SFA-VCR annually online before February 1.
<b>SELF-MONITORING REVIEWS</b> NSLP/SBP	Complete monitoring and forms for all sites by February 1 annually.	File completed forms at SFA (if required).
<b>DAILY PARTICIPATION RECORD/ EDIT CHECK</b>	Daily/prior to submitting monthly claims.	File at SFA with monthly claim materials.
<b>MENU PRODUCTION RECORDS</b>	Daily records of meal production and meal service for each meal program (production plans, standardized recipes, Child Nutrition labels or production specifications).	File completed forms at SFA.
<b>MEAL REIMBURSEMENT CLAIM</b> Claim Form SM-4012-SL	By 10 <sup>th</sup> of month following claim month.	Submit to MDE via <a href="http://www.michigan.gov/meis">www.michigan.gov/meis</a>
<b>APPLICATION/RENEWAL –</b> Summer Food Service Program (SFSP)	May 1 (each school year).	Submit to MDE via <a href="http://www.michigan.gov/meis">www.michigan.gov/meis</a>
<b>SFSP CLAIM FORM</b> SM-4012-SF	By 10 <sup>th</sup> of month following claim month.	Submit to MDE via <a href="http://www.michigan.gov/meis">www.michigan.gov/meis</a>
<b>APPLICATION/RENEWAL –</b> Summer Camp Special Milk (SCSM)	Application <i>must</i> be approved 2 weeks prior to start of camp.	Submit to MDE via <a href="http://www.michigan.gov/meis">www.michigan.gov/meis</a>
<b>SCSM CLAIM FORM</b> SM-4012-SC	By 10 <sup>th</sup> of month following claim month.	Submit to MDE via <a href="http://www.michigan.gov/meis">www.michigan.gov/meis</a>
<b>APPLICATION/RENEWAL</b> Fresh Fruit and Vegetable Program (FFVP)	Available late April with a due date of May 25. (If the 25 <sup>th</sup> falls on a weekend, due date will be the following business day.)	Submit to MDE via <a href="http://www.michigan.gov/meis">www.michigan.gov/meis</a>
<b>FFVP CLAIM</b> in MiND	By 10 <sup>th</sup> of month following claim month.	Submit to MDE via <a href="http://www.michigan.gov/meis">www.michigan.gov/meis</a>

**TITLE I CLUSTER**

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

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

- I. Federal Overview
- II. State Overview
- III. Flexibility Provisions
- IV. District Considerations
- V. Title I Staff Qualifications
- VI. Audit Considerations
- VII. Reference Materials and Personnel

## I. FEDERAL OVERVIEW

### A. Federal Agency

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

### B. Authorization

Title I, Parts A & D, No Child Left Behind Act (NCLB) of 2001, Public Law 107-110

### C. Beneficiary Eligibility

Local school districts providing supplementary services in eligible attendance areas to assist students who are failing, or most at risk of failing, to achieve state content standards in the core academic curriculum are eligible for funding. For more information, consult the Catalog of Federal Domestic Assistance (CFDA).

## II. STATE OVERVIEW

The Michigan Department of Education (MDE), Office of Field Services, is responsible for state administration of the Title I program. State activities required by the Title I law include application approval, technical assistance to school districts, onsite reviews, and program improvement assistance to low-achieving schools. School districts apply for Title I funds as part of a Consolidated Application.

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

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

<u>FORM DESCRIPTION</u>	<u>DUE DATE</u>
2014-15 CONSOLIDATED APPLICATION (electronic form in Michigan Electronic Grants System <i>Plus – MEGS+</i> )	Prior to the beginning of the fiscal obligation period

The 2014-15 Consolidated Application contains a general description of the Title I program and budget information. An updated narrative plan including academic goals and strategies, student assessments, professional development, and other areas are in the AdvancED ASSIST Portal. A 15% limit applies to the amount of carryover funds, with a provision for a waiver once every three years. The 15% limit does not apply to districts with allocations of less than \$50,000.

<u>BUDGET AMENDMENT</u>	<u>DUE DATE</u>
Use regular budget pages in 2014-15 Consolidated Application	As required, but no later than 9/30 for regular funds

A budget amendment is required when:

- A. Adding staff not itemized in the original plan or deleting staff.
- B. Adding new capital outlay items.
- C. Adding a new line item of expenditures.
- D. After determining the individual line item over-expenditures and totaling those over-expenditures, the result exceeds 10% of the budget subtotal.
- E. Requesting the full allocation (request final allocations and add carryover).
- F. De-obligating funds.

#### PROGRAM AMENDMENT

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

FINAL EXPENDITURE REPORT (FER)      11/29 for regular funds

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

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

### III. FLEXIBILITY PROVISIONS

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

#### 1. Fund Transfers

The transferred funds should be included and reported (and audited, if major) in the program for which the funds were allocated. Budget details in the Consolidated Application display transferred amounts separately from amounts budgeted for the original program. For clarification, a footnote to the Schedule of Expenditures of Federal Awards may be included to indicate by program the amount of funds transferred between ESEA programs.

- 2. In conducting an audit, auditors should determine whether any written waivers have been granted by the USED or MDE. If a waiver was granted, the waiver approval is entered as a comment in the original approved application checklist in MEGS+.

#### IV. DISTRICT CONSIDERATIONS

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

##### A. Funding Periods

1. Approval status screen confirms the beginning date.
2. Districts must have an annual fiscal obligation beginning date.
3. Districts cannot obligate funds until the applications are submitted in MEGS+. All applications must receive final approval.
4. The fiscal obligation ending date for regular funds is September 30.
5. The ending date of 9/30/14 does not allow for the subsequent school year’s (14-15) expenditures (i.e., 10/15/14 payroll). Summer school expenditures can be charged to regular funds.

##### B. Eligible Attendance Areas (determined annually) – Title I funds may be expended only in eligible attendance areas - Documentation for 2014-15 submitted on the Title I School Selection worksheet in MEGS+.

1. An eligible attendance area is a school attendance area in which the concentration of low-income children is equal to or greater than the average for the district or for a grade span. Eligibility can be determined based on factors such as Free and Reduced Lunches, Family Independence Program (FIP) information, breakfast programs, Medicaid, or a composite of such indicators. (MDE recommends that when using Free and Reduced Lunch counts, one date should be selected from the prior year that is most representative of the poverty concentrations in the schools.) Michigan participates in the Community Eligibility Provision (CEP) which allows for participating school buildings to record up to 100% of students as free and reduced (depending on their eligibility factor under the CEP option) in the Title I School Selection application in MEGS+.
2. The Free and Reduced lunch counts, as well as the total enrollment counts, must be used from the same period. Both the numerator (free/reduced count public and private) and denominator (total enrollment public and private) must contain information from the same time period.
3. All schools in the district must be included in the ranking process. This is true for specialized schools as well as regular schools (i.e., special education centers and alternative programs).
4. A district may not skip a building in rank order for Title I funding purposes with two exceptions. A district may skip a building that is not in the grade span that it is serving (i.e., high school) or Section 1113(b)(1)(D)(ii) of Title I, Part A allows an LEA to skip an eligible school attendance area or school that has a higher percentage of poverty if the area or school is receiving supplemental funds from other State or local sources that are “spent according to the requirements of Section 1114 (school wide) 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. 107-110, Section 1113 and Non-Regulatory Guidance. An electronic version of the Title I School Selection application was completed for 2014-15 and submitted in MEGS+.
5. The eligible schools must be served based on a ranked ordering (by district or by grade span) of the percentage of low-income children residing in those attendance areas. A district may designate as eligible any school attendance area in which at

least 35% of the children are from low-income families. A district may also serve a school that loses its eligibility for one additional year (grandfather provision).

- C. Allocations to Eligible Attendance Areas (determined annually) – Documentation for 2014-15 submitted on the Title I School Selection application in MEGS+.
1. School allocations are based on low-income counts; a minimum amount must be allocated to each school, starting with the highest-poverty school, until funds are exhausted. The minimum amount that must be allocated per low-income child is 125% of the amount of Title I funds received by the district for each low-income child in the district. This amount may be reduced by the amount of supplementary State or local funds, if any, being spent on programs that meet the Title I requirements.
  2. If all school attendance areas that are served have poverty percentages of at least 35%, the LEA is not required to follow the 125% rule, but must allocate funds based on low-income counts. If schools are allocated different amounts per low-income child, higher-poverty schools must receive larger amounts than lower-poverty schools. NOTE: A common misapplication is allocation by service level rather than by dollars. For example, if all Title I schools are allocated two teachers and one paraprofessional, the allocations are not likely to be equal. Higher seniority staff cost more than lower seniority staff. This must be accounted for in the allocations.
  3. The poverty-based formula does not apply to an LEA with a total enrollment of fewer than 1,000 students K-12 or with only one school per grade span.  
Reference: P.L. 107-110, Section 1113(a) (6) and Non-Regulatory Guidance.  
Also, see worksheet on Title I School Selection application in MEGS+.
- D. Parent/Staff Involvement
- E. 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 95% 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.
- F. Private School Involvement
1. Pupils who are residents of a local district's eligible attendance areas and attend a private school, regardless of where the private school is located, must be offered service on an equitable basis with the school district's eligible pupils.
  2. Private allocations are based on the same poverty formula used for public schools.
  3. Private low-income students must be identified by Title I school attendance area and allocated the same amount of funds as per low-income public school students in that attendance area. That includes set-asides for professional development, parental involvement, salary differentials, and district-level instructional programs. The homeless set-aside may be accessed for services to homeless private school students.
  4. A documented offer and acceptance or rejection must be present. If the private school rejects the offer, the public school may utilize the Title I funds for its Title I program. Reference: P.L. 107-110, Section 1120.

#### G. Student Selection

Each school must base the program of Title I services on an assessment of the educational needs of all children in the school in relation to the core academic curriculum. This assessment is required to identify children for Title I assistance who are failing, or most at risk of failing, to meet the State's performance standards in the core academic curriculum subjects. Reference: P.L. 107-110, Sections 1114 & 1115.

#### H. Title I Evaluation

1. The USED has determined that State assessment results will be used for evaluation of the Title I program.
2. The district must evaluate program effectiveness by reviewing children's progress in the core curriculum and ascertaining if each school served is meeting the State's definition of "adequate yearly progress." (last year for use of this term). The LEA may use additional measures or indicators in order to determine students' achievement of the core curriculum standards. Reference: P.L. 107-110, Section 1116.
3. Determine whether the LEA disseminated information to all schools in the LEA and to all parents of students attending those schools and made the information widely available through public means, such as the Internet and the media. The reports are in [mischooldata.com](http://mischooldata.com).
4. Schools that are identified for improvement must spend at least 10% of the school's Title I allocation to the school on professional development each of the two years immediately following their identification.
5. Districts with Title I Priority or Focus Schools must spend an amount equal to 20% of their allocations on transportation to support the transfer option and specific activities identified in the approved waiver.

#### I. 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 school wide programs, Title I funds must be used in accordance with the school's Title I school wide plan. In targeted assistance schools, Title I funds must be used to provide supplementary services to eligible students.
- b. If Title I services in a targeted assistance school are used to replace general education services, the district must provide a percentage of co-funding based on the number of children in replacement classes, if the number is greater than would be served by 1.0 full-time equivalent (FTE) teachers. Reference: P.L. 107-110, Section 1120A (b).

##### 2. Comparability

- a. To be eligible to receive Title I funds, an LEA must use State and local funds to provide services in Title I schools that are at least comparable to services provided in non-Title I schools. If the LEA serves all of its schools with Title I funds within a particular grade span, the LEA must use State and local funds to provide services that are substantially comparable in each school.

- b. Districts must provide general education services in all Title I schools that are comparable to those provided in non-Title I schools in each grade span. If all schools are served by Title I, the general education services must be comparable in each school. The district must establish procedures for determining and maintaining comparability. The district is responsible for documenting its comparability status at least once every two years.
- c. Comparability is determined by comparing the instructional staff/pupil ratios or the per-pupil expenditures for instruction staff between equivalent grade span schools within the district. The average per-pupil expenditures instructional staff/pupil ratios on average for the buildings being compared may not be more than 10% lower in the Title I or high-poverty schools. The Office of Field Services is in the process of allowing School wide Consolidation as a pilot for LEAs in select geographic areas. Some documentation requirements have been modified; currently there are six templates required to be uploaded and submitted with the Consolidated Application. Questions may be directed to 517-373-3743 to be forwarded to a regional consultant. Reference: P.L. 107-110, Section 1120A(c).
- Information about School wide Consolidation (including templates) are located under:  
[http://www.michigan.gov/mde/0,4615,7-140-6530\\_30334\\_51051-254873--,00.html](http://www.michigan.gov/mde/0,4615,7-140-6530_30334_51051-254873--,00.html)

### 3. Timekeeping

Time/salaries charged to Title I must be documented in compliance with 2 Code of Federal Regulations (CFR) Part 225, Attachment B, Item 8h. Acceptable methods for multiple cost objective staff include written schedules if they are documented by personnel activity reports (PARs) confirming that the schedules were followed (e.g., directors, secretaries, counselors). The PARs must be prepared at least monthly, be signed and dated by the employee, and account for the staff person's total activity. Time sheets and other records should be completed after the fact. Employees should never guess the amount of hours they will spend on Federal programs before work is actually performed.

Instructional staff may only use their lesson plans with contemporaneous edits to confirm their written schedules and as backup documentation to support PARs. Lesson plans are not an acceptable substitute for PARs.

Paraprofessionals may use their regular time sheets as long as they;

- a. reflect an after-the-fact distribution of their actual activity,
- b. account for the total activity for which they are compensated, showing the hours or percentages for the programs they worked on,
- c. are prepared at least monthly and coincide with one or more pay periods; and
- (d) are signed by the employee.

Federal Education Department General Administrative Regulations (EDGAR) do not allow payment of a part of a building principal's salary out of Title I, Part A unless: documentation exists for board action which shows that the position as a principal is not full-time and documentation exists which states what part of the day, specifically, is designated for Title I activity – a reasonable time when the principal

is not available as a principal to talk with students, parents, etc., because they are working on Title I activities (perhaps a separate office); and documentation exists that includes a time log of all activities charged to Title I and is maintained for single audit purposes. A stipend may be paid to a principal for Title I, Part A duties beyond the contract day/year. Time logs must be kept to ensure that only Title I activities are conducted during this time period.

School wide is a single cost objective unless a teacher's time is split between a school wide and a non-school wide building. Semi-annual certifications are required for anyone charged to Federal funds in a school wide building. Staff whose time is split between school wide and non-school wide activities must complete PARs.

2 CFR Part 225 requires that when employees are expected to work solely on a single cost objective, charges for their salaries will be supported by periodic certifications that the employees worked solely on that program for the semi-annual period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or a supervisor with first-hand knowledge of the work performed by the employee. If a supervisor has first-hand knowledge of work performed by several employees each working on a single cost objective, the supervisor can use a blanket certification that lists all of the employees, the program that they worked on and the period covered. One supervisory signature would be adequate.

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

J. To Become School wide

1. If a building has 40% or greater poverty, it is eligible to be school wide. The recent waiver allows schools that are Focus Schools with a lower poverty level to become school wide to improve academic achievement of all students.
2. The building may apply for a school wide planning grant through MDE.
3. A building must complete one year of planning with an MDE-approved provider.
4. If the building decides to convert to school wide, the program should impact all students.
5. The program should be comprehensive.
6. If the district received a school wide planning grant reviews for use of funds related to five required sessions to complete plan and hiring of required facilitator.

## V. TITLE I STAFF QUALIFICATIONS

- A. Title I teachers must meet the requirements for highly qualified teachers.
- B. Title I instructional paraprofessionals must meet one of the following requirements:
  1. Have completed at least two years of college;
  2. Have an associate's degree (or higher);

3. Have passed a formal assessment of knowledge and ability to assist in instructing reading, writing, and mathematics.
- C. The Title I staff qualifications apply to Title I-funded staff in targeted assistance schools. The qualifications apply to all instructional staff in core academic subjects in Title I school wide programs. The paraprofessional qualifications do not apply to Title I paraprofessionals whose sole duty is parental involvement or who serve as bilingual translators. The qualifications also do not apply to paraprofessionals who are personal care aides, computer technicians, or perform only clerical duties.
  - D. The MDE Office of Professional Preparation Services (OPPS) has oversight responsibility for assuring that each classroom teacher holds the appropriate certificate and endorsement for his or her assignment. OPPS monitors assignments through a comparison to the certification database. To accomplish this task, the OPPS 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 OPPS 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 Office of Management and Budget (OMB) Compliance Supplement, are to help the auditor perform compliance procedures in an efficient and effective manner in accordance with professional standards and Federal guidelines. Part 4 includes specific compliance requirements and Part 6 includes specific internal control requirements. In addition to the Federal general requirements applicable to all Federally-funded programs, areas to consider in planning procedures to test internal control structure and compliance with specific administrative requirements are as follows:

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

Note: Auditors should determine that expenditures are consistent with the approved grant application. Auditors may find it helpful to access the Consolidated Application in MEGS+ rather than requesting a paper copy from the district. Districts can give auditors read-only access to the Consolidated Application. The budget summary and detail are available. The system is

tabbed with school-level budgets listed as links at the bottom of the budget summary page for easy access. If requesting a paper copy, make sure the copy includes the school-level budget detail for each Title I school in addition to the district details.

- b. In both targeted assistance and school wide buildings, determine that expenditures are consistent with the approved application and with school wide buildings the school wide plan and with targeted assistance buildings the targeted assistance plan. These plans are available in the AdvancED ASSIST Portal.
- c. Supplanting:
  - 1. 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?
  - 2. Is the service being offered by the grant one that the district has offered in the past using local/State funds to support?
  - 3. 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?
- d. Time/salaries spent working on Title I must be documented for multiple cost objective and single cost objective staff in compliance with 2 CFR Part 225, Attachment B, Item 8h.
  - 1. Obtain a copy of the district's timekeeping procedures
  - 2. Review a sample of payroll charges to determine compliance with 2 CFR Part 225, Attachment B, Item 8h

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.

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

#### B. Eligibility and Allocation of Funds

- 1. Review the Title School Selection application in MEGS+. Trace amounts to source documents.
- 2. Review adequacy and system of determination of attendance areas having the highest concentrations of low-income families.
- 3. Review and verify that the data are supported by the books and records of the district to ensure the allocation of funds to schools for compliance with the Title I formula.

### C. Matching, Level-of-Effort, and/or Earmarking Requirements

1. There are no matching requirements.
2. Maintenance of effort is determined by MDE
3. Review documentation/procedures that exist to ensure the supplement, not supplant requirement has been met.
4. Comparability
  - a. Determine whether the district has established procedures for determining and maintaining comparability.
  - b. Determine if the district determines its comparability status every year.

Determine if the district's computation of comparability is accurate biennially. Review the 2014-15 Comparability worksheets which are posted on the OFS website: [Title I Comparability Worksheet](#) .

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

### D. Reporting Requirements

1. There are no Federal financial reports for the auditor to review. However, reports filed with the State should be tested for accuracy and completeness. Verify that reports agree with district detail records and the allocation of costs within the reports is appropriate, including the DS-4044 "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 F below.

### E. Cash Management –

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

### F. Special Tests and Provisions

1. Carryover – Determine whether an LEA with an allocation of \$50,000 or more has carried over no more than 15% of its Title I, Part A allocation, unless a waiver was granted. If a waiver was granted, the waiver approval is entered as a comment in the MEGS+ application checklist. The carryover limit applies only to the LEA's total allocation, not to individual school allocations. Carryover funds can stay with the building they were originally allocated to or they can be reallocated using the regular allocation rules.
2. 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.

3. Services to Private Schools – 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.
  4. School wide Programs – Determine if the LEA has school wide programs. If so, perform the following procedure: Determine whether the school met the eligibility requirements in the first year of implementing a school wide plan. The school's poverty percentage must be at least 40% in the first year of implementation. Determine whether the school wide plan contains all the required components. Refer to Section 1114 of Title I, Part A of P.L. 107-110. See Attachment D, School wide School Planning document.
  5. Priority and Focus 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](http://mischooldata.org).
    - b. Determine if professional development expenditures have been documented for schools identified for improvement. Schools that are identified for improvement must spend at least 10% of their Title I allocation for professional development each year following their identification. The professional development must be related to the reason the school is identified.
  6. Obligation of Grant Funds
    - a. Examine transactions recorded after the period of availability to determine if the underlying obligation was recorded in the proper period.
    - b. Test some transactions that were recorded within the period of availability to determine if the underlying obligations occurred within the period of availability.
    - c. The summer school expenditures which comply with Title I legislation are allowable as current year Title I grant expenditures.
    - d. **Regular programs end September 30 of each year.**
  7. Highly Qualified Teachers and Paraprofessionals
    - a. Review LEA procedures for hiring highly qualified teachers and paraprofessionals in programs supported with Title I funds.
    - b. Trace a sample to personnel files, for example, to source records for affected staff to determine if teachers or paraprofessionals met the criteria in 34 CFR Sections 200.55, 200.56, and 200.58, and the Michigan Definition for Identifying Highly Qualified Teachers (page 101 of this manual).
    - c. Title I and NCLB require districts to employ highly qualified teachers.
- G. Refer to the Federal Compliance Supplement for testing compliance requirements for the following areas: equipment and real property management, period of availability of Federal funds, procurement, suspension and debarment, and subrecipient monitoring.

## VII. REFERENCE MATERIALS AND PERSONNEL

### A. Reference Materials

- V. Federal Register – Monday, July 3, 1995, Department of Education, 34 CFR Parts 200, 201, 203, 205 and 212 – Helping Disadvantaged Children Meet High Standards; Final Regulations
- VI. Public Law No Child Left Behind Act of 2001, Title I, Parts A & D
- VII. Catalog of Federal Domestic Assistance – Section 84.010 – Educationally Deprived Children – local education agencies
- VIII. OMB Circular A-133 Compliance Supplement – Section 84.010
- IX. Identifying Eligible Title I Schools Non-Regulatory Guidance, USED
- X. 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.
- XI. Federal Grants Management Handbook – Grants Management Advisory Service, Thompson Publishing Group
- XII. The Michigan Definition for Identifying Highly Qualified Teachers

### B. Personnel:

Mike Radke or  
Becky Pennington  
Office of Field Services  
Michigan Department of Education  
(517) 373-4588  
Fax: (517) 335-2886  
[radkem@michigan.gov](mailto:radkem@michigan.gov)  
[penningtonb@michigan.gov](mailto:penningtonb@michigan.gov)

## **SPECIAL EDUCATION CLUSTER**

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

### **CFDA #84.173A – SPECIAL EDUCATION - PRESCHOOL**

- I. Federal Overview
- II. State Overview
- III. District Considerations
- IV. Audit Considerations
- V. Reference Materials and Personnel

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

### **ATTACHMENTS**

- A. Education Department General Administrative Rules – 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. The Michigan Department of Education (MDE) is the primary grant recipient and the state subgrants to intermediate school districts and state agencies, hereafter referred to as “grant recipients.”

### C. Objectives

Funds are used, in accordance with the priorities of the act, to help provide special education and related services, as defined by each state, needed to make a free appropriate public education available to all students with disabilities in the state.

### D. Types of Assistance

Formula grants and state competitive grants.

### E. Eligibility Requirements

Per the 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 special education funds. All recipients are required to be audited yearly. In those cases where the intermediate school district (ISD) distributes funds to local public schools and public school academies, it is the ISD’s responsibility to ensure that local school districts and public school academies comply with the OMB-A133 requirements.

### B. Accounting Criteria

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

### III. DISTRICT CONSIDERATIONS

This section includes the requirements of the federal A-133 Compliance Supplement and has been adapted by MDE.

- A. Allowable Costs – An LEA may use Federal funds under IDEA, Part B for the excess costs of providing special education and related services to children with disabilities. Special Education includes specially designed instruction, at no cost to the parent, to meet the unique needs of a child with a disability, including instruction conducted in the classroom, in the home, in hospitals and institutions and in other settings, and instruction in physical education. Related services include transportation and such developmental, corrective and other supportive services as may be required to assist a child with a disability to benefit from special education. Related services do not include a medical device that is surgically implanted or the replacement of such device. A portion of these funds, under conditions specified in the laws, may also be used by the LEA for: services and aids provided to a child with a disability that also benefit non-disabled children; for early intervening services; to establish and implement high-cost or risk-sharing funds; and for administrative case management (20 USC 1401 (26) and (29); 20 USC 1413(a) (2) and (4)).

An LEA can use not more than 15 percent of the amount of their current year Federal funds under IDEA, Part B, Sections 611 and 619 in total (less any amount by which it reduces State and local expenditures under 20 USC 1413 (a)(2)(C), in combination with other funds for early intervening services for children in kindergarten through grade 12 who have not been identified as needing special education and related services but who need additional academic and behavioral support to succeed in a general education environment (20 USC 1413 (f)). Refer to the IDEA regulations, Appendix D to Part 300 for the interaction with maintenance of effort.

#### **PRESCHOOL, INFANTS & TODDLER PROGRAMS**

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

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

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

The ISDs may contract with others for the provision of services or other activities, as approved by the Service Area Improvement Plan and budget. All contracted services must be directly related to development and/or implementation of the components mandated in IDEA, must make use of state Early On resources, and demonstrate collaboration with appropriate state level projects. Contracted services must be explained in the contract application, and budget detail provided. Changes involving contracted services that are made after the submission of this application will require prior approval by department staff.

- B. Time Certifications: See pages 27 and 28
- C. Procurement – USED procurement requirements are addressed in 34 CFR 80.36 which can be found at: <http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=%2Findex.tpl>. Subgrantees are required to follow their own procurement procedures provided that they conform to state and federal laws and standards. Subgrantees must maintain a procurement and contract administration system which ensures that procurements are in accordance to procedures and contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.

Procurement transactions must be conducted in a manner providing full and open competition. The district must have a system in place to ensure that it doesn't enter into a contract with a 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 or 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.

- D. Maintenance of Effort - The requirements found at IDEA 34 CFR §§300.203-300.205 are applicable. In general, IDEA funds cannot be used to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds or local and state funds below the level of those expenditures for the preceding fiscal year. Information related to this requirement can be found on the MDE-Office of Special Education website under Program Finance.
- E. Proportionate Share – The requirements found at IDEA 34 CFR §300.133 are applicable. Information related to this requirement can be found on the MDE – Office of Special Education website under Program Finance. (See Appendix B to Part 300 for an example of the Proportionate Share calculation.)
- F. Excess Cost – The requirements found at IDEA 34 CFR §300.16 are applicable. Information related to this requirement can be found on the MDE – Office of Special Education website under Program Finance. (See Appendix A to Part 300 for an example of the Excess Cost calculation.)
- G. Period of Availability of Federal Funds – Costs charged to each grant must be within the grant period in the grant approval letter.

- H. Financial Reporting – Review the prior year Final Expenditure Report submitted to the MDE during the current fiscal year. Verify that the figures on the report are a true and accurate representation of expenditures for each project.
- I. Cash Management
  - 1. Districts and ISDs are expected to use good business practices when disbursing federal funds to subgrantees. 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 a district is advanced more cash than is needed, the district must refund the excess federal funds.
  - 3. Payments to districts and recipients are on a reimbursement basis only.
- J. Subrecipient Monitoring – ISDs that distribute Federal funds to LEAs must monitor those LEAs including their timeliness in cash drawdowns.

#### IV. AUDIT CONSIDERATIONS

Refer to the OMB Circular A-133 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. Allowable Costs  
Test: Obtain the grant application to determine allowable costs. Sample the expenditures to determine that they are for allowable costs.

- B. Time Certification  
Test: Obtain a copy of the district's timekeeping procedures. Review a sample of payroll charges to determine compliance with 2 CFR 225, Appendix B, item 8h. (Formerly OMB Circular A-87.)

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 do not meet required documentation.

- C. Procurement  
Test: Refer to OMB Circular A-133 Compliance Supplement, Part 6 for procurement and suspension and debarment internal control requirements.

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 in compliance with 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 into a contract with a suspended or debarred party.

4. Determine that vendor invoices included details of the services provided, for whom, when, how much and any other details required by the contracts or purchase orders.
5. Determine that 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.
8. For contractual expenditures, determine that a contract exists in accordance with IRS regulations and that expenditures are allowable.

D. Maintenance of Effort (MOE)

Test: The A-133 auditors determine that the LEA spent an amount of local or local and state funds for the education of children with disabilities that is at least equal to the amount of local or local and state funds expended for this purpose by the LEA in the prior fiscal year. The electronic MOE worksheet is located at <http://www.michigan.gov/mde>, click on "MDE Offices", then "Special Education", then "Program Finance", then "LEA Maintenance of Effort (MOE)". Report cases where the LEA's local or local and state expenditure is less than the prior year and allowable exceptions do not satisfy this requirement.

E. Proportionate Share

Test: The A-133 auditor determines if this requirement is being met on either an ISD wide calculation or at the LEA level. If this requirement is being met at the LEA level, the A-133 auditor should verify that the LEA has performed the correct calculation for both the section 611 and section 619 funds separately. The LEA should demonstrate that the required amount of IDEA Part B funds based on the required calculation has been expended for this purpose in the current year or have the remaining funds set-aside for this purpose in the carryover year. The expenditures attributed to the proportionate share should not include any expenditures for carrying out child find requirements, including individual evaluations (34 CFR §300.131 (c)). In addition, expenditures for this purpose should be based on actual time and effort and not on anticipated (budgeted) amounts, supported by appropriate time and effort documentation (semi-annual certification or personnel activity report). Report when an LEA has not performed the correct calculations, where the LEA has not expended the required amount of IDEA Part B funds in the current year and have not set-aside the remaining funds to be expended in the carryover year, and where the LEA attributes expenditures based on budgeted amounts rather than actual time and effort. The same testing requirements are applicable to ISDs providing proportionate share services.

F. Excess Cost:

Test: There is no current testing for this requirement.

NOTE: At the time of this writing, the testing requirement has not been completed, therefore, it not required to be tested by the auditor. MDE – Office of Special Education will update when completed.

G. Period of Availability of Federal Funds

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

## H. Financial Reporting

### Test:

1. Test expenditures to verify that grant funds were only expended on programs listed in the approved application.
2. Verify that grants are not commingled by determining that each funding source is identified separately in the accounting records. Revenue and expenditures must be accounted for by project, funding source, and grant fiscal year.
3. Local public school subgrant recipients are limited to their federal restricted indirect rate.
4. If a public school charged equipment (\$5,000 threshold) to the grant:
  - a. Determine that the equipment is approved in advance by MDE.
  - b. Determine that equipment purchased with grant funds was properly tagged and appropriately inventoried. An inventory control log must be maintained by the public school indicating the federal funding source, date purchased, description, serial number, cost, tag number, and location of the equipment.
  - c. If the school transferred or disposed of equipment purchased with federal funds, determine if it followed the appropriate federal criteria. Summarize results and report appropriately.
5. If a public school charged items of interest less than \$5,000 (such as computers, iPads, assistive technology), determine that the items of interest purchased with grant funds were properly tagged and appropriately tracked.

## I. Cash Management

### Test:

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

## J. Subrecipient Monitoring

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

- ## K. Refer to the Federal Compliance Supplement for testing compliance requirements for the following areas: activities allowed or unallowed, equipment and real property management, and special tests and provisions.

## V. REFERENCE MATERIALS AND PERSONNEL

### A. Reference Materials

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

### B. Personnel

1. Questions regarding special education grant applications (Part B, Section 611), approvals, or specific grant requirements should be directed to the Office of Special Education, Program Finance at (517) 241-1235.
2. Questions regarding these audit procedures can be directed to MDE, Office of Special Education, Program Finance auditors:

Mr. Michael Wynn	Office: (517) 373-6488
	Cell: (517) 862-3040
Ms. Nancy Jo Serna	Office: (517) 335-0450
	Cell: (517) 977-4939.
3. Questions regarding Special Education Preschool (Part B, Section 619) and Infant and Toddlers (Part C) should be directed to the Office of Great Start/Early Childhood Education and Family Services: (517) 335-4865

## EQUIPMENT EDUCATION DEPARTMENT GENERAL ADMINISTRATIVE REGULATIONS

The following is provided as a guide for budgeting, managing, and disposing of equipment purchased with Special Education IDEA funds:

**Budgeting:** Written prior approval is required to include equipment in the Federal Special Education Grants. Equipment is defined as tangible nonexpendable personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.

**Use of Equipment:**

1. Equipment shall be used by the grantee or subgrantee in the special education program or project for which it was required as long as needed, whether or not the project or program continues to be supported by federal funds. When no longer needed for the original program or project, the equipment may be used in other special education activities currently or previously supported by a federal agency.
2. The grantee or subgrantee shall also make equipment available for use on other special education projects or programs currently or previously supported by the federal government. Providing such use will not interfere with the work on the projects or programs for which it was originally acquired. First preference for other use shall be given to other special education programs or projects supported by the awarding agency. User fees should be considered if appropriate. [EDGAR 80.32(c)].

**Disposition:** When original or replacement equipment is no longer to be used in special education projects or programs currently or previously sponsored by the federal government, disposition of the equipment shall be made as follows:

1. Equipment with a current per unit fair market value of less than \$5,000 may be retained, sold, or otherwise disposed of with no further obligation to the federal government.
2. Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold; and the federal government shall have the right to an amount calculated by multiplying the current market value or the proceeds from the sale, by the federal share of the equipment. An amount of \$100 or 10 percent of the total sales proceeds, whichever is greater, may be retained [EDGAR 80.32(e)].

**References:**

1. Property records must be maintained accurately with complete descriptions and history [EDGAR 80.32(d) (1)].
2. Physical inventory at least once every two years [EDGAR 80.32(d)(2)]
3. Security controls [EDGAR 80.32(d)(3)]
4. Maintenance [EDGAR 80.32(d)(4)]
5. Where the federal government has a right to part or all of the proceeds of the sale of equipment, selling procedures shall provide for competition to the extent practicable and result in the highest possible return [EDGAR 80.32(d)(5)].

**CAREER AND TECHNICAL EDUCATION**  
**CFDA #84.048A – BASIC GRANTS TO STATES**

**NOT A CLUSTER**

- I. Federal Overview
- II. State Overview
- III. District Considerations
- IV. Audit Considerations
- V. Reference Materials and Personnel

**ATTACHMENT**

Attachment A: Education Department General Administrative Rules – Equipment

## I. FEDERAL OVERVIEW

### A. Federal Agency

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

### B. Authorization

Carl D. Perkins Career and Technical Education Act of 2006, 20 USC 2301, *et seq.*, as amended by Public Law 109-270 (Perkins IV). 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. Objectives

Funds are used, in accordance with the priorities of the act, to provide career and technical education and related services to all students. The purpose of the act is to further develop the academic and technical skills of students, link secondary and postsecondary career and technical programs, and provide professional development and technical assistance to career and technical educators.

### 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 (Bulletin 1022). 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 Federal A-133 Compliance Supplement and has been adapted by the OCTE.

#### A. BASIC GRANTS TO STATES

##### 1. Allowable Costs

The Carl D. Perkins Career and Technical Education Act of 2006 focuses on the need to develop high skills, high wage, and high demand state-approved CTE programs that impact the economic and employment needs of the state and region.

Michigan's approved State Plan (2008-2013, as extended by the USED) specifies that the use of secondary Perkins IV funds must be used to provide services and activities to state-approved CTE programs that provide opportunities for students in grades 9-12 to pursue specific career and technical training. Programs contained in the six career pathways (health sciences; business, management, marketing and technology; engineering, manufacturing and industrial technology; arts and communications; human services; and natural resources and agrisciences) lead directly to employment and/or postsecondary opportunities.

##### 2. Activity Categories

- a. **Integration of Academics with CTE Programs:** Funds are to be used to strengthen the academic and CTE skills of CTE students through a coherent sequence of instruction (courses) in the program of study. Eligible use of funds for support of academics may include: 1) the proportion of an academic teacher salary dedicated to teaching CTE students in state-approved CTE programs; 2) costs associated with implementing the collaborative teaching model in state-approved CTE programs; and 3) academic instruction that takes place within CTE program curriculum.
- b. **Use of Technology:** Funds are to be used for development, improvement, or expansion of use of technology to provide CTE students with career and technical and academic (e.g. math and science) skills necessary for entry into technology fields, or encourage schools to partner with technology industries that provide internships and mentoring for CTE students (including programs for the improvement of math and science knowledge that are integrated with the CTE program.) Funds may not be used for equipment or infrastructure costs (e.g. hard wiring, servers, or telecommunication devices).
- c. **All Aspects of Industry:** Funds are to be used to deliver or revise curriculum that incorporates into approved CTE programs: strong experience in and comprehensive understanding of technical and occupation-specific skills, principles of technology, labor and community issues, health and safety issues, environmental issues, and opportunities for advanced education/training.
- d. **Special Populations:** Funds are to be used for the provision of activities and services to prepare CTE special population students for high skill, high wage, high demand occupations that will lead to self-sufficiency. Eligible uses of funds may

- include tutors, readers, adapted equipment, and other services needed by special populations. Funds may also be used to pay for the costs of CTE services required in an IEP with respect to ensuring equal access to CTE.
- e. **Secondary/Postsecondary CTE Linkages:** Funds are to be used to establish and strengthen the links between secondary and postsecondary CTE, including the relevant elements of the programs of study.
  - f. **Professional Development (Instruction):** Funds are to be used to provide sustained professional development for secondary teachers and other instructional staff (e.g. paraprofessionals.) Training may include strategies for academic and CTE integration, academic and CTE joint teaching strategies, research-based teaching strategies, practices to improve parental and community involvement, using data and research to improve instruction, all aspects of an industry, and CTE teacher internships at relevant businesses.
  - g. **Program Improvement/Size, Scope, and Quality:** Funds are to be used to improve, expand, and modernize state-approved CTE programs including relevant technology and curriculum development; and to provide services and activities that are of sufficient size, scope, and quality guidelines and high skill, high wage, high demand occupations that lead to postsecondary education and self-sufficiency.
  - h. **Evaluation and Assessment:** Funds are to be used to develop and implement evaluations of CTE programs, including an assessment of how the needs of special population students are being met. Other costs may include implementation of CTE standards, and other means of responding to accountability requirements.
  - i. **Professional Development (Non-Instruction):** Funds are to be used for the provision of sustained professional development for CTE administrators, counseling and guidance personnel, and other non-instructional staff. Training may include, but is not limited to: effective implementation strategies for CTE programs (instruction and assessment); methods for accessing and utilizing data to improve programs and services; and practices to improve parental and community involvement.
  - j. **Guidance and Counseling:** Funds may be expended for career guidance, academic counseling, coordination of special populations, services for special population students, and placement services for CTE students to assist with improving program completion and graduation rates, and to provide information on postsecondary education and career options.
  - k. **Parents/Business/Labor Organizations:** Funding is permissible for implementing strategies to involve parents, businesses, and labor in the design, implementation, and evaluation of CTE programs.
  - l. **Education/Business Partnerships:** Funding is available to establish and strengthen relationships between business and education partners that support sound educational curriculum and program outcomes that address high skill, high wage, and high demand careers while responding to the unique needs of the regional workforce community.
  - m. **Administration:** A maximum of 5% of the total grant expenditures is allowed for costs associated with administering the grant.
  - n. **Technical Skill Assessments:** Funds may be used for the cost of technical skill assessments for CTE students.

### 3. Definition of Participating Agency

Participating agencies are public secondary education agencies that are within the state-designated regional structure AND have a signed (dated 2008 or later) 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 Availability of Federal Funds

Costs charged to each grant must be within the grant period in the grant approval letter.

### 6. Transfer Monitoring

410 Transfer Monitoring – Fiscal agents that transfer federal funds to participating agencies as part of the regional CTE long range plan and 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 legislation of 2006. 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 IV, Section 311(a)). The examples of instances where supplanting is presumed to have occurred

that are described in Section III.G2.2 of the ED Cross-Cutting Section (84.000-20) also apply to the CTE programs.

## 10. Coordination of Services

Funds made available under Perkins IV may be used to pay for the costs of CTE services required in an individualized education program developed pursuant to Section 614(d) 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 CTE.

## 11. Time and Effort Reporting

The Appendix to 2CFR Part 225 (formerly OMB Circular A-87) requires an employee whose salary and wages are supported, in whole or in part, with Federal funds to document his/her time spent working on Federal programs in order to ensure that charges to each Federal program reflect an accurate account of the employee's time and effort devoted to that program.

### Semi-Annual Certifications

If an employee works solely on a single Federal award or cost objective, charges for the employee's salary and wages must be supported by periodic certifications that the employee worked solely on the program or cost objective for the period covered by the certification. These certifications must be:

1. Prepared at least semi-annually, and
2. Prepared after-the-fact, and
3. Signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

In an effort to reduce paperwork, USED has authorized the use of a "blanket semi-annual certification" that would identify multiple employees working on the same single cost objective. This blanket certification would be signed and dated (after-the-fact) by the supervisory official having firsthand knowledge of the work performed by the employees.

### Personnel Activity Reports (PARs)

If an employee works on multiple activities or cost objectives, a distribution of the employee's salary and wages must be supported by a personnel activity report (PAR) or equivalent documentation. The Appendix lists instances of multiple activities or cost objectives for which a PAR is required, that is, if an employee works on:

- a. More than one Federal award
- b. A Federal award and a non-Federal award
- c. An indirect cost activity and a direct cost activity
- d. Two or more indirect activities that are allocated using different allocation bases
- e. An unallowable activity and a direct or indirect cost activity

A PAR must:

- a. Reflect an after-the-fact distribution of the actual activity of the employee
- b. Account for the total activity for which each employee is compensated
- c. Be prepared at least monthly and coincide with one or more pay periods
- d. Be signed by the employee

### Cost Objective

A cost objective is defined as a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.

A “single cost objective” can be a single function or a single grant or a single activity. It is possible to work on a single cost objective even if an employee works on more than one Federal award or on a Federal award and a non-Federal award. The key to determining whether an employee is working on a single cost objective is whether the employee’s salary and wages can be supported *in full* from each of the Federal awards on which the employee is working, or from the Federal award alone if the employee’s salary is also paid with non-Federal funds.

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 do not meet required documentation. These costs should not be extrapolated but limited to the employee(s) affected.

### 12. Procurement

USED procurement requirements are addressed in 34 CFR 80.36 which can be found at: <http://frwebgate.access.gpo.gov/cgi-bin/get-cfr.cgi?TITLE=34&PART=80&SECTION=36&TYPE=PDF>. Grant Recipients are required to follow their own procurement procedures provided that they conform to state and federal laws and standards. Grant Recipients must maintain a procurement and contract administration system which ensures that procurements are in accordance to procedures and contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.

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

## IV. AUDIT CONSIDERATIONS

### A. BASIC GRANTS TO STATES

Refer to OMB Circular A-133 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.

#### 1. Allowable Costs:

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

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

**Test:** Review the ISD/LEA process for obtaining, reviewing, and acting on audit reports when the ISD/LEA transfers grant funds to local public schools. Determine that flow-through funds reported on the district's Schedule of Expenditures of Federal Awards agree with ISD/LEA records.

**Test:** Review copies of the signed assurance statements submitted with the grant application.

#### 2. Cash Management

**Test:** Determine that cash was requested as a reimbursement of funds expended. Effective December 1, 2008, payments to districts and recipients will be on a reimbursement basis only.

**Test:** Determine if the district was advanced more cash than was needed, the district refunded the excess federal funds.

#### 3. Level of Effort

**Test:** Sample expenditures and check against previous year to ensure funds are not being used to supplant other funds.

#### 4. Earmarking

**Test:** Sample expenditures for the grant to ensure that funds are used to improve secondary career and technical education programs and/or articulated secondary programs with a participating postsecondary institution.

#### 5. Period of Availability

**Test:**

a. Test expenditures to verify that grant funds were only expended on programs listed in the approved application. In the case of a 410 transfer, you will need additional supporting documentation.

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

## **6. Equipment/Real Property**

**Test:** If equipment (\$5,000 threshold) has been charged to the Basic Grant:

- a. Determine that the equipment is approved in advance by the OCTE.
- b. Determine that equipment purchased with grant funds was properly tagged and appropriately inventoried. An inventory control log must be maintained by the public school indicating the federal funding source, date purchased, description, serial number, cost, tag number, and location of the equipment.
- c. If the school transferred or disposed of equipment purchased with federal funds, determine if it followed the appropriate federal criteria. Summarize results and report appropriately.

## **7. Timekeeping**

**Test:** Obtain a copy of the district's timekeeping procedures. Review a sample of payroll charges to determine compliance with 2CFR Part 225.

## **8. Procurement**

**Test:** Refer to OMB Circular A-133 Compliance Supplement, Part 6 for procurement and suspension and debarment internal control requirements. If a payment on a contract purchase order or other procurement is selected for testing, perform the following audit procedures:

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

## V. REFERENCE MATERIALS AND PERSONNEL

### A. Reference Materials

Source of Governing Requirements – Basic Grants to States – This program is authorized by the Carl D. Perkins Career and Technical Education Act of 2006 (Perkins IV), as amended, Public Law 109-270, which is codified at 20 USC 2301 *et seq.*

1. EDGAR 34 CFR, Part 80
2. Classification of Instructional Program (CIP) Code Book, U.S. Department of Education
3. Statement of Assurances for the Appropriate Use of Funds under Carl D. Perkins

### B. Personnel

1. Questions regarding career and technical education grant applications, approval, or specific grant requirements should be directed to the OCTE, (517) 373-3373.
2. Questions regarding these audit procedures can be directed to the Office of Financial Management – (517) 373\*4591
3. Questions regarding the final expenditure report should be directed to OCTE, (517) 373-3373.

## **Educational Department General Administrative Regulations**

### **Equipment**

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

#### **Budgeting**

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

#### **Use and Management of Equipment**

1. Equipment shall be used by the grantee in the CTE program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by federal funds. When no longer needed for the original program or project, the equipment may be used in other CTE activities currently or previously supported by a federal agency.
2. The grantee shall also make equipment available for use on other CTE projects or programs currently or previously supported by the federal government, providing such use will not interfere with the work on the projects or programs for which it was originally acquired. First preference for other use shall be given to other CTE programs or projects supported by the awarding agency. User fees should be considered, if appropriate.
3. When acquiring replacement equipment, the grantee may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property, subject to the approval of the awarding agency.
4. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
5. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
6. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be 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 \$5,000 may be retained, sold, or otherwise disposed of with no further obligation to the awarding agency.
2. Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold; and the awarding agency shall have the right to an amount calculated by multiplying the current 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**

The text of the equipment requirements in EDGAR are located at:

<http://frwebgate.access.gpo.gov/cgi-bin/get-cfr.cgi?TITLE=34&PART=80&SECTION=32&TYPE=PDF>

**TITLE II, PART A**

**IMPROVING TEACHER QUALITY STATE GRANTS**

**CFDA #84.367**

- I. Federal Overview
- II. State Overview
- III. District Considerations
- IV. Audit Considerations
- V. Reference Materials and Personnel

## I. FEDERAL OVERVIEW

### A. Federal Agency

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

### B. Authorization

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

#### 1. Beneficiary Eligibility

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

## II. STATE OVERVIEW

The Michigan Department of Education (MDE), Office of Field Services (OFS), is responsible for State administration of the formula grant portion of the Title II, Part A, program. MDE activities include application approval, technical assistance to school districts, and on site review. MDE relies on the single audit to determine that Title II, Part A, funds are used only for approved activities within the correct project period and to verify reported expenditures.

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

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

1. Costs associated with recruiting and retaining highly qualified teachers, principals, and pupil services personnel (not to include salary and benefits of recruited staff).
2. Costs associated with retaining highly qualified teachers and principals in schools with low achievement through (not to include salary and benefits of recruited staff):
  - a. Teacher mentoring from exemplary teachers, principals, or superintendents (not to meet the State requirement for non-tenure teachers)
  - b. Induction and support for teachers and principals in their first three years (not to meet the State requirement for non-tenure teachers)
  - c. Incentives to teachers and principals with record of success in improving achievement of low-achieving students
3. Costs associated with (not to include salary and benefits of recruited staff) recruiting and hiring highly qualified teachers in academic subjects where there is a shortage
4. Recruit, hire and pay salaries for highly qualified teachers (after all district recruiting is fulfilled) to reduce regular and special education class size, particularly in the early grades Title II, Part A, class size reduction:
  - Identified in Needs Assessment
  - Research supports the following:
    - Only in grades K-3
    - Where adding teacher reduces class size to 17
    - Serving high-risk students

- When sustained over multiple years
  - Instructional strategies are changed
    - Impact on achievement is measurable
    - See item J under “District Considerations”
5. Costs associated with (not to include recruited teacher’s salary and benefits) training and hiring regular and special education teachers, including special education teachers to team-teach.
  6. Costs associated with (not to include recruited teacher’s salary and benefits) training and hiring teachers of special needs children and specialists in core academic subjects to individualize instruction
  7. Costs associated with (not to include recruited teacher’s salary and benefits) recruiting professionals from other fields and highly qualified paraprofessionals, and provide alternative routes to certification
  8. Costs associated with (not to include recruited teacher’s salary and benefits) providing increased opportunities in the teaching profession for minorities, individuals with disabilities, and other underrepresented individuals
  9. Provide professional development to improve knowledge of teachers, principals, and paraprofessionals in:
    - a. Core academic subjects, effective instructional strategies, and use of State standards and assessments
    - b. Instructional practices involving collaborative groups of teachers and administrators
    - c. Addressing needs of students with different learning styles and providing early and appropriate interventions
    - d. Improving student behavior in the classroom
    - e. Involving parents in their child’s education
    - f. Using data and assessments to improve teaching and learning
  10. Improve quality of teacher force through
    - a. Training to integrate technology into curriculum and instruction
    - b. Cost-effective professional development, such as use of technology and distance learning
    - c. Tenure reform
    - d. Merit pay
    - e. Testing teachers in academic subjects
  11. Provide teacher advancement initiatives emphasizing multiple career paths and pay differentiation
  12. Improve quality of principals and superintendents, such as management and instructional leadership academies

Time/salaries spent working on Title II, Part A must be documented for co-funded and 100% funded staff in compliance with 2 Code of Federal Regulations (CFR) Part 225, Attachment B, Item 8h. Refer to Part III, District Considerations, in this section, for more detail.

### III. DISTRICT CONSIDERATIONS

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

#### A. Funding Periods

1. The Consolidated Application must be submitted to receive funds.
2. Applicants must complete a budget to show how Title II, Part A funds will be used.
3. Title II, Part A, expenditures may be incurred during a 15-month program period covering July 1, 2014, through September 30, 2015, provided that an application has been submitted to MDE in substantially-approvable form. Funds that are not expended by September 30, 2015, are available for use in a carryover period extending from October 1, 2015, through June 30, 2016.

#### B. Time Certification

Time/salaries spent working on Title II, Part A must be documented for employees working on more than one cost objective or employees working on a single cost objective in compliance with 2 CFR Part 225, Attachment B, Item 8h.

##### Working on More Than One Cost Objective:

Acceptable methods for staff working on more than one cost objective include written schedules if they are documented by personnel activity reports (PARs) confirming that the schedules were followed (e.g., directors, secretaries, counselors). The PARs must be prepared at least monthly, be signed and dated by the employee, and account for the staff person’s total activity. Time sheets and other records should be completed after-the-fact. Employees should never guess the amount of hours they will spend on Federal programs before work is actually performed.

Instructional staff may only use their lesson plans with contemporaneous edits to confirm their written schedules and as backup documentation to support PARs. Lesson plans are not an acceptable substitute for PARs.

Paraprofessionals may use their regular time sheets as long as they:

1. Reflect an after-the-fact distribution of their actual activity
2. Account for the total activity for which they are compensated, showing the hours or percentages for the programs they worked on
3. Are prepared at least monthly and coincide with one or more pay periods
4. Are signed by the employee

##### Single Cost Objective

2 CFR Part 225 requires that when employees work solely on a single cost objective, charges for their salaries must be supported by periodic certifications that the employees worked solely on that program for the semi-annual period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or a supervisor with first-hand knowledge of work performed by the employee. If a supervisor has first-hand knowledge of work performed by several employees, each working on a single cost objective, the supervisor can use a blanket certification that lists all of the employees, the program that they worked on and the period covered. One supervisory signature would be adequate.

In determining whether an employee works on a single or multiple objectives, the significant factor is the number of cost objectives on which the employee *works*, not the number of sources supporting the employee's salary. For example, an employee may work 100% of the time on Title II, Part A but the employee is paid 50% from Title II, Part A and 50% from non-Federal funds. This employee works on a single cost objective (Title II, Part A) and would prepare a semi-annual certification.

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 do not meet required documentation. These costs should not be extrapolated but limited to the employee(s) affected.

### C. Procurement

USED procurement requirements are addressed in 34 CFR §80.36 which can be found at: <http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl+%2Findex.tpl>. Subgrantees are required to follow their own procurement procedures provided that they conform to State and Federal laws and standards. Subgrantees must maintain a procurement and contract administration system which ensures that procurements are in accordance to procedures and contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.

Procurement transactions must be conducted in a manner providing full and open competition. The district must have a system in place to ensure that it doesn't enter into a contract with a 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.

### D. Participation of Non-Public Schools

Non-public schools must be provided with the opportunity to participate in the Title II, Part A program on an equitable basis. Equitable participation is based on the portion of Title II, Part A funds used for professional development. The minimum amount required for professional development for non-public schools is equal to the funds available to them under Eisenhower Professional Development Program ESEA, Title II – Part B, 2001-02 Allocations: [http://www.michigan.gov/documents/MDE\\_P2\\_FS\\_02\\_Title2AllocRev4\\_11045\\_7.PDF](http://www.michigan.gov/documents/MDE_P2_FS_02_Title2AllocRev4_11045_7.PDF). Refer to Attachment A: Title II, Part A Calculation of Non-public schools' "Equitable Participation." Funds must remain in the control of the district or other public agency.

- E. Financial Reports  
Districts that receive Title II, Part A funds are required to file the “Final Expenditure Report” (Form DS-4044 or FER). Title II, Part A, is also subject to the single audit requirements that govern Federal education programs.
- F. Retention of Records  
Federal regulations require schools to retain records related to Title II, Part A for three years after the FER for the project is filed.
- G. Inventory of Materials and Equipment  
Federal regulations require local educational agencies (LEAs) to maintain a continuous inventory of the items acquired with Federal funds. Fiscal agent local and intermediate school districts should include equipment that is placed on loan at participating non-public schools.
- H. Budget Amendments  
Budget amendments are required when the school is proposing a substantial change in the project or when expenditures in a new innovative assistance program area are added. Budget amendment forms are not necessary for line item adjustments in which the total budget does not change, unless the total of the upward adjustments exceed 10% of the entire budget.
- I. Monitoring  
MDE periodically monitors the use of Title II, Part A funds by its subrecipients.
- J. Supplement, Not Supplant  
Title II, Part A funds may only be used to supplement local eligible expenditures and may not be used to supplant any funds from non-Federal sources. To determine whether a teacher is supplementary, calculate the student-to-teacher ratio without the class size reduction-funded teacher and determine if this teacher is supplemental based on the documents that exist for that building or district (e.g., collective bargaining agreements, charter agreements, board policy for class size, or in the absence of documents, the established historical class size number for a given grade span). Calculations are based on number of students in a school building, not by adding all students in a district by grade level.
- K. Consultation  
The Federal Title II legislation requires districts to consult with teachers, principals, other relevant school personnel, and parents in the planning of Title II, Part A programs.
- L. Teacher Qualifications  
All teachers hired with Title II, Part A funds to reduce class size since beginning of the 2002-03 school year must meet the requirements for highly qualified teachers.

## 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.

Refer to the OMB Circular A-133 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

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

### B. Time Certification

1. Obtain a copy of the district's timekeeping procedures.
2. Review a sample of payroll charges to determine compliance with 2 CFR Part 225, Attachment B, Item 8h.

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 do not meet required documentation. These costs should not be extrapolated but limited to the employee(s) affected.

### C. Procurement and Suspension and Debarment

Refer to OMB Circular A-133 Compliance Supplement, Part 6 for procurement and suspension and debarment internal control requirements.

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 in compliance with 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 into 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 that 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.

D. Special Reporting Requirements

1. Evaluate the adequacy of the policies and procedures established by the school to ensure that Title II, Part A funds are used to supplement, and not supplant, non-Federal funds.
2. Test the system to determine if the grantee used Federal funds to supplant non-Federal funds.

E. 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.

F. Period of Availability

1. Review starting and ending transactions against the grant award letter.
2. Review expenditures to determine whether the funds were obligated within the appropriate time frame.

G. 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.
3. Review expenditures and determine whether funds were obligated within the appropriate time frame.
4. Review a sample of personnel files for teachers hired with Title II, Part A funds to reduce class size since the first day of the 2002-03 school year meet the requirements for highly qualified teachers.
5. 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.

6. See item J under “District Considerations”.

H. Refer to the Federal Compliance Supplement for testing compliance requirements for the following areas: equipment and real property management, matching, level-of-effort, earmarking, and subrecipient monitoring.

## REFERENCE MATERIALS AND PERSONNEL

### A. Reference Materials

1. Public Law 107-110, No Child Left Behind Act of 2001, Title II, Part A
2. Title II, Part A Non-Regulatory Draft Guidance, USED
3. Catalog of Federal Domestic Assistance, Section 84.367, Improving Teacher Quality State Grants
4. OMB Circular A-133, Compliance Supplement, Section 84.367, Preparing, Training, and Recruiting High Quality Teachers and Principals

### B. Personnel

Mike Radke or  
Becky Pennington  
Office of Field Services  
Michigan Department of Education  
(517) 373-4588  
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## **MEDICAID**

### **CFDA #93.778**

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## I. DEFINITIONS

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

priorities, resources, and concerns. Medicaid funds are available to reimburse for certain health and medical services that are a part of a child's IFSP.

- **Indirect Cost Rate** (ICR) – Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and are not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. Indirect costs are normally charged to federal awards by the use of an indirect cost rate. The local educational agency (LEA)/DPS indirect cost rate must be calculated using 2 CFR, Part 225, Office of Management and Budget Circular A-87, “Indirect Cost Allocation Principles”. 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 the Michigan Department of Education using the approved methodology. The Medicaid SBS program indirect cost rate is referred to as the “Unrestricted ICR” which Medicaid has capped at 25%.
- **ISD** – (*Intermediate School District*) – A corporate body established by statute in the Michigan Revised School Code (PA 451 of 1976) that is regulated by an intermediate school board. Michigan has 56 intermediate school districts.
- **MDCH** – (*Michigan Department of Community Health*)—A department within the State of Michigan responsible for health policy and management of the state’s publicly-funded health service systems. It is also the State’s Medicaid Agency.
- **MDE** – (*Michigan Department of Education*)—A department within the State of Michigan responsible for improving, facilitating, and regulating public education in Michigan, that is administered by the State Board of Education.
- **Medicaid Eligibility Rate** – The percentage of students in the total school population, using the fall and winter pupil counts collected and published by the Michigan Center for Educational Performance and Information, who are eligible for Medicaid (i.e., Medicaid Eligible Students/Total Student Population). The rate is applied to certain activities in the Medicaid Administrative Outreach claim calculation formula, which results in an adjustment to Medicaid specific activities.
- **Medicaid Health-Related Eligibility Rate** – The percentage of the special education and Early On student population in an ISD/DPS/MSD that is Medicaid eligible and who receive health related services as documented in the Annual MDE Special Education and Early On Child Count Report. It is applied in the Medicaid expenditure report for direct health care services covered in the FFS SBS Program. ***In 2013, the ‘count’ was conducted on October 2, 2013.***
- **Medical Allowable Expenditures Report (MAER)** – An annual report that drives the updated cost reconciliation and cost settlement process. Providers are reimbursed based on the actual costs reported by the LEAs/ ISDs for the Direct Medical Staff services and Transportation costs.
- **Medical Direct Services Program (previously called Fee For Service)** (FFS) – A component of the Michigan School Based Services Program that provides reimbursement for direct medical services, specialized transportation services, personal care services and targeted case management services to Medicaid eligible students under the age of 21. All 56 Michigan Intermediate School District (ISDs), Detroit Public Schools (DPS) and the Michigan School for the Deaf (MSD) are enrolled Medicaid providers. Reimbursement for this program is based on a cost based methodology. Although claims are submitted through the invoice processing system, payments are based on submitted annual cost reports. Interim estimated payments are adjusted

each year and sent monthly to the ISDs to maintain cash flow and each year's payments are reconciled after receipt of the actual cost reports.

- **Provider/Staff Pool Listing** – A list of all personnel in the school district (both school district employees and contractors) who may perform Medicaid-covered activities for which reimbursement is allowed, and who are eligible to participate in periodic time studies. This listing is also known as the sample pool.
- **RMTS** – (*Random Moment Time Study*)—A process used to measure the work effort of a group of approved school staff who may perform Medicaid covered activities. The results are then used in a methodology that determines which costs are directly related to support of the Medicaid program. Costs are isolated and identified to calculate the amount claimed for reimbursement.
- **State Plan** – (*Medicaid State Plan*)—A formal agreement between the state and federal governments (Medicaid agencies) that details the scope of the Medicaid program in the state by listing the services offered, any applicable requirements and limitations, and the payment methodologies for those services.
- **Support Staff** – For purposes of the Medicaid SBS (Administrative Outreach Program), staff who provide assistance to the individuals identified on the provider/staff pool listing, who may have a direct reporting and/or supporting relationship (i.e., administrative or clerical personnel).

## II. BACKGROUND

The Michigan Department of Community Health (MDCH) provides Medicaid School Based Services (SBS) reimbursement to school districts that provide Medicaid covered health and health-related services.

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

1. Medical Direct Services, or “fee-for-service” (includes specialized transportation, personal care services and targeted case management services).
2. Medicaid Administrative Outreach Program (AOP)

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

### A. Authorization

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

providing application assistance and referral for eligibility determination; identifying school children who are uninsured and may qualify for Medicaid coverage.

#### B. Federal Agency

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

#### C. State Pass-Through Agency

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

#### D. Eligibility

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

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

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

#### E. Matching Requirements

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

#### F. School Based Services Providers

1. Medical Direct Services or "fee-for-service" – The 56 ISDs, DPS, and the Michigan Schools for the Deaf.
2. Medicaid Administrative Outreach – The 56 ISDs and DPS.

#### G. Medical Direct Services (Fee-for-Service)

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

**Matching Requirement:** The October 1, 2013, through September 30, 2014, fiscal year federal share of approved costs or Federal Medical Assistance Percentage (FMAP) rate for Michigan is 66.32% for most “fee-for-service” health services. The remaining 33.68% is the matching requirement provided by the Local Educational Agencies (LEAs) or ISDs. For the period of October 1, 2012 through September 30, 2013, the FMAP rate for Michigan was 66.39%

#### H. Medicaid Administrative Outreach

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

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

##### **A) Paying Back Revenue Recorded in a Prior Year**

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

##### **B) Distribution of Revenue Previously Deferred and Subject to Repayment**

- The Medicaid Administrative Outreach Program revenue should be recorded net of the amount the district is paying back to MDCH, 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 MDCH. (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 ISD and local school districts. Those eligible to be randomly selected to participate are on the “staff pool lists.” There are only certain activities reimbursed, called ‘allowable’ activities that are performed by certain individuals who are placed on the Medicaid Administrative Outreach staff pool list. Those individuals selected for the time study then complete the RMTS form and turn them in to the State RMTS contractor, who employs one individual who codes the statements made on the RMTS form. **The auditor need only be concerned with whether the total salaries, less applicable offsets, were properly paid and reported to the sub-contracted claim preparer.**

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

- Activity Code 1 - Medicaid Outreach and Public Awareness
- Activity Code 3 - Facilitating Medicaid Eligibility Determination
- Activity Code 5 - Program Planning, Policy Development and Interagency Coordination Related to Medical Services
- Activity Code 7 - Referral, Coordination, and Monitoring of Medicaid Services
- Activity Code 10 - Medicaid-Specific Training on Outreach, Eligibility and Services
- Activity Code 14 - Transportation and Translation Services in Support of Medicaid-Covered Services
- Activity Code 16 – General Administration

Unallowable Activities:

The activities that are considered **unallowable** (not reimbursable) are as follows:

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

Claiming Process:

The Medicaid Administrative Outreach claim development process is conducted by a Claims Development Contractor. Public Consulting Group (PCG) is the contractor that administers the claims development process for the contract period October 1, 2011

through September 30, 2015. School districts are required to utilize PCG during this period and share the contract cost with MDCH.

Each ISD and DPS submits cost reports on a quarterly basis (quarters ending March 31, June 30, September 30, December 31), to PCG to be used in the claim development. (The September 30<sup>th</sup> 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 MDCH for review, processing and payment for each fiscal quarter. The claim consists of the results of a quarterly random moment time study (RMTS) conducted by PCG on the approved staff pool for the quarter and the correlating allowable costs applied to the reimbursement methodology.

### III. AUDIT CONSIDERATIONS

According to Section 1903(a)(7) of the Social Security Act and the implementing regulations at 42 CFR 430.1 and 42 CFR 431.15, for the cost of any activities to be allowable and reimbursable under Medicaid, the activities must be “found necessary by the Secretary for the proper and efficient administration of the State plan.” Auditors should apply the principle of costs being necessary for the proper and efficient administration of the Medicaid State Plan in determining allowable and reimbursable costs. In addition, 2 CFR, Part 225, (OMB Circular A-87), which contains the cost principles for state, local and Indian tribal governments for the administration of federal awards, states that, “Governmental units are responsible for the efficient and effective administration of federal awards.” Under those provisions, costs must be reasonable and necessary for the operation of the governmental unit or the performance of the federal award.

OMB Circular A-133, Section 525(c) (2) provides that federal agencies may identify federal programs that are high-risk and OMB will identify such programs in the compliance supplement. The U.S. Department of Health and Human Services (DHHS) has identified the Medicaid Assistance Program as a program of higher risk. When a school district recognizes \$500,000 or more of expenditures for the Medicaid Administrative Outreach component of the SBS Program, when applying the risk-based approach for determining major and non-major programs, it would typically be considered a high risk Type A program. Local school district auditors also have the responsibility of testing the Medicaid Administrative Outreach component of the SBS Program similar to other Type A or B programs. However, they should consult with the ISD auditor to avoid duplication, if possible. This designation, however, does not preclude an auditor from determining that the Medicaid Cluster qualifies as a low-risk program (i.e., because prior audits have shown strong internal controls and compliance with Medicaid requirements).

MDE, MDCH, and MDE A-133 Referent Group will continue to work proactively to determine a consistent, statewide approach to auditing the Medicaid Administrative Outreach program.

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

A. Medical Direct Services (Fee-for-Service):  
Exempt from the Single Audit requirements.

B. 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 225., 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 225 guidance should be used for determining reasonableness.
  - c. Verify the reported amount of salaries and benefits of the school district employees (clinicians, teacher consultants, administrators, counselors, etc.) contractual employees, and support staff, to make sure that these costs are accurate. Example: verify the accuracy of the clinician payroll cost by confirming the quarterly payroll costs with the amounts reported on the federal quarterly 941s filed with the Internal Revenue Service. Budget estimates based on contracted salaries are not necessarily equal to the salaries paid during a claim period and cannot be used for AOP cost reports. The financial data reported must be based on actual detailed expenditures from local educational agency payroll systems. Payroll data must be applied using generally accepted governmental accounting standards and principles, or applicable administrative rules. The expenditures accumulated must correlate to the claiming period.
  - d. Verify that costs claimed as direct costs do not duplicate those costs reimbursed through the application of the approved indirect cost rate and that the correct indirect cost rate was used to prepare the claim. Claims for the school district’s indirect costs are allowable when the entity has an approved indirect cost rate issued by the cognizant agency and costs are claimed in accordance with the rate. With respect to school-based administrative costs, the cognizant agency is the U.S. Department of Education or its delegate. The indirect cost rate is updated annually by MDE using the approved methodology, and each district is notified of the unrestricted indirect cost rate (ICR). The Michigan Medicaid Program has capped this rate for Medicaid SBS reimbursement purposes at 25% “Medicaid Rate.”
  - e. Verify that the cost claimed on the cost report is accurate, and that offset revenue has been applied when appropriate. Duplicate payment for the same cost is unallowable. Discounts and other expenditure offsets collected from non-

governmental sources must be offset against claims for Medicaid funds. Cost reductions and/or offsets of revenue are required whenever a Medicaid **administrative activity** is claimed for reimbursement or as matching costs under another federal grant or contract. By definition, direct medical services are **not** administrative activities. The entire salary of employees on the Administrative Outreach staff list who provide direct medical services may, therefore, be reported without any offset for the reimbursement received for their medical services. Any salary earned while performing the non-administrative activity will be identified in the RMTS and the unallowable costs will be removed by a reduced allocation rather than a reduction of the cost pool.

- f. Verify that the amounts charged for materials and supplies, purchased services, training, and other costs are accurate. The financial data reported must be based on actual detailed expenditures from local educational agency financial systems. Financial system data must be applied using generally accepted governmental accounting standards and principles, or applicable administrative rules. The expenditures accumulated must correlate to the claiming period.
- g. Verify on a test basis that the cost reports are signed by the appropriate individual (i.e., chief financial officer, superintendent of the district, or their designee), and the reported costs were used to prepare the claim.
- h. Verify that the cost reports were filed within 120 calendar days after the end of the school district's reporting quarter.

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

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

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

six months. The SSAE 16 audit must be submitted within 90 days after the end of the examination period.

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

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

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

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

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

#### IV. REFERENCE MATERIALS AND PERSONNEL

##### A. Reference Materials

1. Title XIX of the Social Security Act, enacted in 1965, as amended (42 USC 1396, et. seq.)
2. Medicare Catastrophic Coverage Act, as amended in 1988
3. Individuals with Disabilities Act Amendments of 1997 (Idea 97, P.L. 105-17)
4. Single Audit Act Amendments of 1996 (USC 7501 et seq. of title 31)
5. 2 CFR, Part 225, (OMB Circular A-87), *Cost Principles for State, Local, and Indian Tribal Governments*
6. OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, issued October 14, 1994, with amendments through August 29, 1997
7. OMB Circular A-133 *Compliance Supplement*
8. OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, as amended
9. *Government Auditing Standards and Circular A-133 Audits* – AICPA Audit Guide
10. State Medicaid Plan for School Based Services
11. *Medicaid and School Health: A Technical Assistance Guide*, August 1997
12. *Medicaid Provider Manual, School Based Services Administrative Outreach Program, Claims Development*
13. *Medicaid Provider Manual, School Based Services, random Moment Time Study*
14. CMS, *Medicaid School Based Administrative Claiming Guide*, May 2003

##### B. Personnel

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

Kevin Bauer, Department Specialist  
School Based Services  
Program Policy Division  
Medical Services Administration  
Michigan Department of Community Health  
Capital Commons Center  
400 South Pine Street, P.O. Box 30479  
Lansing, Michigan 48909-7979  
(517) 241-8398  
[BauerK2@michigan.gov](mailto:BauerK2@michigan.gov).

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

Auditing questions may be referred to:

Scott Werner, Manager  
Special Audits Section, Office of Audit  
Michigan Department of Community Health  
Capital Commons Center  
400 South Pine Street, P.O. Box 30479  
Lansing, Michigan 48909-7979  
(517) 335-4081  
[WernerS4@michigan.gov](mailto:WernerS4@michigan.gov).

**AN OVERVIEW OF THE**  
**MICHIGAN DEPARTMENT OF EDUCATION**  
**GRANTS SYSTEM**

- I. Objective
- II. Overview
- III. Description of the Michigan Electronic Grants System Plus (MEGS+)
- IV. Access to MEGS and MEGS+
- V. Description of Cash Management System (CMS)
- VI. CMS System Components
- VII. Auditor Access to CMS
- VIII. Contacts

## I. OBJECTIVE

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

## II. OVERVIEW

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

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

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

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

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

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

See the MEGS+ website at <http://megs.mde.state.mi.us/megsweb/> for complete information on MEGS+, including security requirements.

## IV. ACCESS TO MEGS AND MEGS+

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

Please note that not all MDE grants are available in MEGS and MEGS+. A limited number of federal grants may be processed outside of MEGS and MEGS+. All MDE awarded federal grant approvals in MEGS+ and final expenditure reports are in CMS.

For detailed instructions for MEGS+, including login information, contact Monica Butler at (517) 335-2415. Detailed instructions for MEGS+ can be found at:

[http://megs.mde.state.mi.us/megsweb/documents/MEGS\\_Audit\\_instructions\\_20080915.pdf](http://megs.mde.state.mi.us/megsweb/documents/MEGS_Audit_instructions_20080915.pdf).

## V. DESCRIPTION OF CASH MANAGEMENT SYSTEM (CMS)

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

1. Control cash reimbursements and requests.
2. Paying recipients (interface to the Michigan Administrative and Information Network [MAIN] to trigger payments to recipients).
3. Final expenditure reporting.
4. Fiscal monitoring.

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

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

## VI. CMS SYSTEM COMPONENTS

### A. CMS Accounting Functions

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

### B. Grant Identification

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

2. CFDA Number (example 84.010) - This is a federally issued number used to identify federal grants and must be used to identify funding on the Schedule of Expenditures of Federal Awards for single audit reports. Therefore, the CFDA number is of great interest to public school staff and to independent auditors. MDE includes this number on forms that flow to public schools. **NOTE:** Programs with reference numbers starting 99.XXX are non-federal (or state funded) programs. The format is the same as CFDA numbers, but these are non-federal programs.
  3. Recipient Code - Recipient agencies are identified by a recipient code. The recipient code is a code designed to identify the sub-grantee. All Michigan public schools have five-digit codes starting with the first two digits being the county number (for example, Ingham County is 33). The third digit for public school academies is a 9 or a 7. Non-public school sub-grantees have codes longer than five digits, but still start with the appropriate two-digit county code.
  4. Grant Numbers - A federal grant award is assigned one or more six-digit alpha/numeric "grant number" code to permit tracking the funds through the grant cycle. Similarly, each state-funded grant appropriation is assigned a grant number. The relative positions of the six digits and the numbers themselves have significance to users. XXYYYY, where XX is the last two digits for the fiscal year and YYYY is the program code.
  5. Project Number - Project numbers are assigned with different schemes, depending upon the needs of the particular Program Office/Service area.
  6. The combination of Grant Number, Project Number and Recipient Code uniquely identify a particular project.
- C. Grant Award Notification (GAN) - MDE program offices send a notification letter and GAN to the school district stating all the terms and conditions of the award. The letter and the grant award notification are contained in MEGS+ for some grants.
- D. Requesting Funds - School districts and other sub-grantees are able to request funds via the internet using CMS. The system is secure and provides school districts and other sub-grantees with the project number, approved amount, amount previously paid, and the balance remaining displayed on-line. The system requires school districts and other subrecipients to enter project-to-date expenditures on-line. School districts and other subrecipients are provided the details explaining their payment via e-mail.
- E. Cash Management - The Federal Cash Management Information Act requires that neither the state nor any sub-grantee may accumulate interest earnings from drawing federal cash in advance of needs. MDE is required by the Federal Cash Management Improvement Act (CMIA) to manage federal cash so that excess balances do not accumulate in public schools' accounts. The on-line cash request form requires school districts and other subrecipients to enter project-to-date expenditures on-line to meet this requirement.
- F. Final Expenditure Report - A final expenditure report is required on each project and is due 60 days after the end of the grant. The system provides the capability for any subrecipient to report final expenditures to MDE after a project ending date or after all grant funds have been expended. The subrecipient has the capability to enter actual expenditures incurred by Bulletin 1022 function code, on-line and transmit to MDE via the Internet through the CMS. MDE program staff, as well as financial staff, has the functionality to access this

report on-line. The subrecipients authorized official must sign (on-line) to certify the expenditures.

- G. Grants Auditors Report - MDE provides this report as a service to CPA firms in confirming the amount of cash received by recipients. CMS produces this report, which lists the CFDA number, project name, project number, amount approved, current payment, cumulative payment, and balance remaining. Now available on the Office of Financial Management - Audits' webpage or at <https://mdoe.state.mi.us/cms/grantauditorreport.aspx>.
- H. Grants Management Report - This report contains a variety of basic information about the sub-grant, such as: awards based on spending plans, allocations, approved amounts, payments to date and several balances. It is for internal use of the MDE grants accounting section and MDE program staff.

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

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

## VII. AUDITOR ACCESS TO CMS

CMS has security requirements utilizing the Michigan Education Information System (MEIS) security identification framework. For access to CMS, a user must first obtain a MEIS identification number, username and password.

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

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

## VIII. CONTACTS

### A. MEGS+ Contact

Monica Butler (517) 335-2415, [butterm3@michigan.gov](mailto:butterm3@michigan.gov)  
Office of Grants Coordination and School Support  
Michigan Department of Education  
P.O. Box 30008  
Lansing, Michigan 48909

### B. CMS Contact

[CMS Help Line \(517\) 335-0534](tel:5173350534), [mde-cms@michigan.gov](mailto:mde-cms@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 MANAGEMENT AND BUDGET**

**OFFICE OF RETIREMENT SERVICES**

- I. Audit Requirements
- II. Contribution Rates
- III. MPSERS Definition of Reportable Compensation
- IV. Payments
- V. Testing Requirements
- VI. Reportable and Non-Reportable Compensation
- VII. Tax-Deferred Payment (TDP)
- VIII. Office of Retirement Services Contact Information

## 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 (MPERS) to fund employee retirement benefits. MPERS 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 MPERS, including a Defined Benefit pension plan, Defined Contribution plan, and a plan called Pension Plus which is hybrid of the two; so that the member has a traditional pension as well as a DC component with 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.

Please see contribution rates below for the 2014-2015 school year.

# ACTIVE MEMBERS

	Basic/MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus with PHF	Pension Plus to DC with PHF	Basic/MIP to DC with Premium Subsidy	Basic/MIP to DC with PHF	Basic/MIP with PHF
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## DEFINED BENEFIT CONTRIBUTIONS

### PENSION CONTRIBUTIONS

Pension Normal Cost	4.31%	3.23%	3.23%	0.00%	0.00%	0.00%	4.31%
Pension UAAL	17.40%	17.40%	17.40%	17.40%	17.40%	17.40%	17.40%
Pension Early Retirement Incentive	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
Pension Total Rate	23.07%	21.99%	21.99%	18.76%	18.76%	18.76%	23.07%

### HEALTH CONTRIBUTIONS

Health Normal Cost	.51%	.51%	0.00%	0.00%	.51%	0.00%	0.00%
Health UAAL	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%
Health Total Rate	2.71%	2.71%	2.20%	2.20%	2.71%	2.20%	2.20%
	<b>25.78%</b>	<b>24.70%</b>	<b>24.19%</b>	<b>20.96%</b>	<b>21.47%</b>	<b>20.96%</b>	<b>25.27%</b>

# ACTIVE MEMBERS

	Basic/MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus with PHF	Pension Plus to DC with PHF	Basic/MIP to DC with Premium Subsidy	Basic/MIP to DC with PHF	Basic/MIP with PHF
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## DEFERRED COMPENSATION CONTRIBUTIONS

DC Employer Contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%
	0.00%	1.00%	3.00%	5.00%	4.00%	6.00%	2.00%

<b>Retirees</b>	<b>Basic/MIP with Premium Subsidy</b>	<b>Pension Plus with Premium Subsidy</b>	<b>Pension Plus with PHF</b>	<b>Pension Plus to DC with PHF</b>	<b>Basic/MIP to DC with Premium Subsidy</b>	<b>Basic/MIP to DC with PHF</b>	<b>Basic/MIP with PHF</b>
<b>DEFINED BENEFIT CONTRIBUTIONS</b>							
<b>PENSION CONTRIBUTIONS</b>							
<b>Pension Normal Cost</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Pension UAAL</b>	0.00%	17.40%	17.40%	17.40%	17.40%	17.40%	17.40%
<b>Pension Early Retirement Incentive</b>	0.00%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
<b>Pension Total Rate</b>	0.00%	<b>18.76%</b>	<b>18.76%</b>	<b>18.76%</b>	<b>18.76%</b>	<b>18.76%</b>	<b>18.76%</b>
<b>HEALTH CONTRIBUTIONS</b>							
<b>Health Normal Cost</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Health UAAL</b>	0.00%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%
<b>Health Total Rate</b>	0.00%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%
	<b>0.00%</b>	<b>20.96%</b>	<b>20.96%</b>	<b>20.96%</b>	<b>20.96%</b>	<b>20.96%</b>	<b>20.96%</b>

<b>Retirees</b>	<b>Basic/MIP with Premium Subsidy</b>	<b>Pension Plus with Premium Subsidy</b>	<b>Pension Plus with PHF</b>	<b>Pension Plus to DC with PHF</b>	<b>Basic/MIP to DC with Premium Subsidy</b>	<b>Basic/MIP to DC with PHF</b>	<b>Basic/MIP with PHF</b>
<b>DEFERRED COMPENSATION CONTRIBUTIONS</b>							
<b>DC Employer Contributions</b>	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
<b>Personal Healthcare Fund</b>	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%
	<b>0.00%</b>	<b>1.00%</b>	<b>3.00%</b>	<b>5.00%</b>	<b>4.00%</b>	<b>6.00%</b>	<b>2.00%</b>

All MPSERS reporting units must contribute the predetermined contribution rate of their gross reportable payroll to the retirement system. The following universities each contribute varying amounts and percentages for all reportable compensation: Central Michigan, Eastern Michigan, Michigan Technological, Northern Michigan, Western Michigan, Ferris State, and Lake Superior State.

Since wages and fringe benefits are a significant portion of the school budget, it becomes extremely important to review retirement costs as part of the financial statement audit. To ensure retirement costs are accurate, it is necessary to review the compensation reported to MPSERS to ensure compensation paid is reportable for retirement purposes. As per Retirement Act 300 of 1980, as amended, the statutory definition of reportable compensation differs from the IRS statute; therefore, a definition of reportable compensation for retirement purposes is provided below.

### III. MPSERS DEFINITION OF REPORTABLE COMPENSATION

- A. Remuneration earned by a member for services performed as a public school employee. Compensation includes, on a current basis, investments made in a tax-sheltered annuity for a public school employee as remuneration for service under this Act. The remuneration shall be valued at the amount of money actually paid into the annuity. Compensation includes amounts deducted from the pay of a public school employee, including amounts deducted pursuant to the Defined Benefit Plan.
- B. Compensation reported on a DTL2 includes longevity pay regularly paid to all employees, overtime pay, vacation pay when the employee is absent from work, sick leave pay while absent from work (including FMLA paid out of a sick leave bank), holiday pay while absent from work, and items of deferred compensation exclusive of employer contributions to the retirement system. Merit pay that can be measured and documented (and is open to other employees), weekly workers' compensation, professional services leave wages (if the district is reimbursed), and cafeteria plans (flexible spending accounts only) are all considered reportable compensation. Short-term disability (STD) is also reportable compensation provided the following are met:
  - 1. The payment(s) must be for personal illness or injury as defined under the district's STD policy.
  - 2. The STD must be sponsored by the employer.
  - 3. The STD payments must have the usual payroll taxes and contributions withheld.
  - 4. Hours must be reported in the proportion the STD compensation bears to the compensation that would otherwise have been received.
- C. Compensation does not include terminal payments, payments for unused vacation or annual leave, payments for unused sick leave, bonus payments, hospitalization or life insurance premiums, other fringe benefits paid by and from the funds of employers of public school employees, early retirement incentive payments, expense payments, long-term disability payments, service credit purchased by the employer, sabbatical leave payments, super longevity payments, perfect attendance payments, awards and settlements unless approved by MPSERS, remuneration paid for the specific purpose of increasing the final average compensation, and annuities or cash payments made in lieu of excluded fringe benefits.

Reportable compensation may not include an amount over the compensation for the preceding year except increases provided by the normal salary schedule for the reporting unit. Member's wages are audited for any significant increases in salary that may not be recognized for retirement purposes. The retirement board may require a sworn affidavit from the member that final compensation does not include remuneration paid either directly or indirectly for actual or anticipated expenses.

- D. Public Act 300 of 1980 does not include a "stipend" as commonly referred to in the districts. In order for a stipend to be considered reportable compensation it must be described in detail so that ORS can make a determination if the earnings are remuneration for services rendered by the employee. If ORS considers the stipend to be reportable compensation, it cannot exceed the normal salary schedule increase unless the stipend was for additional services or duties, such as for coaches.

#### 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. Reporting is required by the earlier of the next pay period or the 5<sup>th</sup> business day of the following month whichever is sooner.
- B. All reporting units are required to make their retirement contribution payments by the 7<sup>th</sup> business day after the related pay day during this transition period. The retirement system will provide reporting units with at least one month advance notice before the transition period ends.
- C. MDE provides section 147c to revenue for reporting units for months November through August. An invoice is received from ORS for an equivalent amount that must be paid by the corresponding due date.

#### V. TESTING REQUIREMENTS

The following steps must be utilized to test the financial statements for appropriate payments to MPSERS.

- A. Ensure all covered employees are reported to MPSERS. All employees of a school district are members of MPSERS, except for full-time students employed by a district while enrolled in and attending classes at the same district or any employee under the age of 19 in a temporary, intermittent or irregular seasonal or athletic position; some employees who are working through certain training programs; and community college or university employees

who qualify for and have elected the Optional Retirement Plan. Retirees from MPSERS are reported, but no contributions are paid for retirees. Some schools attempt to classify employees as independent contractors in order to avoid paying employee benefits. This impacts reports and payments to MPSERS as well as to the Social Security Administration. When errors are found, MPSERS requires the school to correct the report and may assess interest and penalties. The Social Security Administration does assess significant fines and penalties for improper reporting.

- B. Ensure that only reportable compensation is reported to MPSERS on the member's retirement account. A detailed breakdown of reportable and non-reportable compensation is provided in Part IV below.
- C. As provided under section 3a of the Public School Employees' Retirement Act, MCL 38.1303a, only compensation increases that fall within a normal salary schedule are reportable for retirement purposes. Any increases in excess of a normal salary schedule are not reportable. In cases where a job classification has fewer than three members (superintendents, assistant superintendents, administrative assistants), ORS applies a normal salary schedule for the most nearly identical job classification in similar reporting units. To determine what constitutes a normal salary schedule for these job classifications, ORS has aggregated salary data for each classification and has calculated the annual average increases. For each of the respective job classifications, similar reporting units are grouped into one of four categories based on payroll size. For each grouping, the annual average salary increase percentage is calculated and doubled to allow a more generous and flexible deviation of 'normal.' Annual increases in compensation for a particular job classification are reportable if they are within the NSI percentages for a given year. Increases in excess of the NSI are excluded.
- D. Ensure that retirement costs for federally funded employees are paid from the federal grant.

## VI. REPORTABLE AND NON-REPORTABLE COMPENSATION

- A. Reportable Compensation
  1. Remuneration earned for services performed as a public school employee
  2. Wages earned and placed in a tax-sheltered annuity or a deferred compensation plan
  3. Longevity payments regularly paid to all employees
  4. Overtime pay
  5. Holiday pay while absent from work
  6. Vacation or annual leave pay while absent from work
  7. Sick leave pay while absent from work
  8. Weekly workers' compensation payments while absent from work
  9. Wages paid to an employee while on professional services leave or professional services released time when retirement costs are reimbursed to the district
  10. Merit pay as established by a district for the purpose of achieving specific performance objectives and open to other employees
  11. Wages earned and placed in a cafeteria plan (flexible spending accounts only)
  12. Short-term disability payments
  13. Awards and settlements if approved by MPSERS

## B. Non-Reportable Compensation

1. Payments for unused vacation or annual leave
2. Payments for unused sick leave
3. Bonus payments
4. Hospitalization and life insurance premiums or cash payments in lieu of premiums
5. Payments received directly or indirectly, for actual or anticipated expenses, such as an automobile or housing allowance
6. Fringe benefits paid by and from the funds of employers of public school employees
7. Terminal payments
8. In-kind compensation
9. Early retirement incentive payments
10. Payments made for the specific purpose of increasing the final average salary
11. Wages paid over and above the preceding year except those increases that are part of the normal salary schedule and/or received by other employees at the same school
12. Cash payments made in lieu of excluded benefits
13. Long-term disability payments
14. Service credit purchased by the employer on behalf of the employee
15. Sabbatical leave payments
16. Cafeteria plans (flexible benefit plans)
17. Super longevity
18. Payments for services as a school board member
19. Perfect attendance pay

## VII. TAX-DEFERRED PAYMENT (TDP)

The Tax-Deferred Payment (TDP) program was implemented for the purpose of allowing MPERS members the ability to purchase additional years of service credit on a tax deferred basis. The reporting unit must adopt a resolution before employees can participate in the program. Upon receipt and approval of this resolution, the Office of Retirement Services (ORS) will send payroll authorization/agreement forms, reporting instructions, and other information to the reporting unit.

## VIII. FOR ADDITIONAL INFORMATION CONTACT:

Office of Retirement Services  
P.O. Box 30171  
Lansing, Michigan 48909-7671

800-381-5111 or 517-322-5103

Or visit the ORS website at:  
<http://www.michigan.gov/ors>

## **STATE REQUIREMENTS**

- I. The State School Aid Act of 1979
- II. The Michigan School Accounting Manual – 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

## **ATTACHMENT**

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

I. THE STATE SCHOOL AID ACT OF 1979

(PA 94 of 1979, as amended, MCL 388.1601-388.1896). This is amended every year.

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

B. Section 18(1) – Application of Money Received under the Act

The act states, in part, “Except as provided in another section of this act, each district or other entity will apply the money received by the district or entity under this act to salaries and other compensation of teachers and other employees, tuition, transportation, lighting, heating, ventilation, water service, the purchase of textbooks which are designated by the board...other supplies, and any other school operating expenditures defined in Section 7. However, not more than 20% of the total amount received by a district or intermediate district under Sections 22a and 22b or intermediate district under Section 81 may be transferred by the board to either the capital projects fund or the debt retirement fund for debt service.

C. Section 18(2)and 18(3) – Budget Transparency Posting on District’s Website

The State School Aid Act requires local districts, intermediate districts and public school academies to post various financial information including the annual operating budget and subsequent amendments on the district website under a standard “Budget Transparency” icon. MDE guidance on Budget Transparency may be found at:

[http://www.michigan.gov/mde/0,4615,7-140-6530\\_6605-159882--,00.html](http://www.michigan.gov/mde/0,4615,7-140-6530_6605-159882--,00.html)

Additional information related to the level of detail necessary for a budget may be found in the *Michigan Public School Accounting Manual, Section IV, Budget Preparation and Management* available on our website at: [http://www.michigan.gov/documents/sc-iv\\_13270\\_7.pdf](http://www.michigan.gov/documents/sc-iv_13270_7.pdf)

D. Section 18 (4) – Audit Requirements

The act states, in part, “For the purpose of determining the reasonableness of expenditures and whether a violation of this act has occurred, the department will require that each district and intermediate district have an audit of the district’s or intermediate district’s financial and pupil accounting records conducted at least annually at the expense of the district or intermediate district, as applicable, by a certified public accounting 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(3) of the State School Aid Act and Single Audit Act of 1984, as amended. When these schools expend \$500,000 or more in federal funds, they are also required to meet the requirements of the Federal Single Audit Act of 1984, as amended. A school will file the audit reports with the intermediate district not later than 120 days (October 28) after the end of each school fiscal year. For fiscal year 2014/2015, the audit reports must be filed with MDE not later than November 1.

E. Section 20 – Foundation Allowance per Membership Pupil

For information regarding pupil membership issues, see the compliance supplement entitled “Pupil Membership” of this manual and also the MDE Pupil Accounting Manual.

F. Section 31a – At Risk

Provides funds for instructional programs and direct non-instructional services for at-risk pupils, and prohibits the use of funds for at-risk pupils to be used for administrative costs. It does not require submission of an application. It requires a program report by July 15 of the current fiscal year, and requires access to all program records for audit purposes and reimbursement of disallowed amounts. If the Section 31a funds are tested, the auditor should:

1. Determine if the Section 31a funds were spent only for instructional programs and direct non-instructional services for at-risk pupils. Allowable costs are limited to:
  - a. Salaries and benefits for instructional staff
  - b. Salaries and benefits for staff providing direct non-instructional services
  - c. Purchased services, supplies, and materials for instructional and direct non-instructional services
  - d. Operation, maintenance, and pupil transportation costs for programs provided outside of the regular school day or year
  - e. Costs for school lunch and breakfast programs
  - f. Capital outlay necessary for the provision of instructional and direct non-instructional services, such as computers and other instructional equipment
2. Verify carryover funds are used as outlined in #1 above.
3. Verify the information submitted in Part II of the Section 31a Program Report (EC-4731-B).

G. Section 58 – Specialized Transportation Services

If testing this, the auditor should:

1. Review the “Pupil Transportation Financial Report” (SM-4094) for accuracy and completeness. The report data must solely reflect pupil transportation expenditures.
2. Trace the report data to the supporting documentation. Determine that split-funded personnel, shared equipment, and facilities costs are appropriately prorated between federal, state, and local sources for pupil transportation.
3. Review the procedures for preparing the report and evaluate for adequacy.

H. Section 61(a)(1) – Added Cost for Career and Technical Education (CTE) Programs

The act states that, “...the allocation of funds must be based on the type of vocational-technical programs provided, the number of pupils enrolled, and the length of the training period provided, and shall not exceed 75% of the added cost of any program.” State policy requires that:

1. Ninety percent of the added cost funds allocated to local education agencies are spent in program improvement expenditure categories for state approved programs. If testing this, the auditor should determine that 90% of Section 61(a)(1) funds were spent for allowable costs:
  - a. Local Travel
  - b. Equipment Rental and Maintenance
  - c. Supplies, Materials, and Other Expenses
  - d. Career Guidance – Pupil
  - e. Student Organizations – Pupil
  - f. Career Placement and Follow-Up Survey – Pupil
  - g. Professional and Curriculum Development – Improvement of Instruction
  - h. Planning, Research, Evaluation, and Marketing – Central Services
  - i. Advisory Committees – Community Services, Other

- j. Equipment Instruction – Capital Outlay
  - k. Equipment Support – Capital Outlay
  - l. Summer Agriculture Production Salaries
  - m. Summer Coop Coordination Salaries
2. Each fiscal agent must expend local funds greater than or equal to the difference between the amounts of added cost funding received (75% of the added cost) and added cost funding at 100%. If testing this, the auditor should examine procedures/records for education agency added cost annual final expenditure report development. Each fiscal agent must also expend funds for its CTE programs that reflect a cost comparable to “regular” education programming. This is referred to as the Non-Vocational Cost of running a program. The Department uses one-sixth of the foundation allowance, i.e., one hour, as the Non-Vocational Cost per student hour. Then, this cost is multiplied by the number of reimbursed student hours to determine the total Non-Vocational Cost for the fiscal agency. Testing would require an examination of the foundation allowance financial records, cost records, and student records.
- I. Section 61(a) (2) – Career and Technical Education (CTE) Administrator Reimbursement. The act states that, “...districts and intermediate districts shall be reimbursed for local vocational administration, shared time vocational administration, and career education planning district vocational-technical administration. The definition of what constitutes administration and reimbursement shall be pursuant to guidelines adopted by the superintendent....”

State Procedures for Eligible Reimbursement:

1. **Eligible Reimbursement** – Approved regional CTE administrators and local vocational districts will be funded based on 40 percent of a maximum salary of \$45,000. Reimbursement, therefore, is limited to a maximum of \$18,000. Reimbursement will come from State Aid Added Cost Funds (Section 61[2] for vocational administration). Approved half-time administrator’s reimbursement is prorated to correspond to the percentage of time devoted to CTE functions as a CTE administrator. The exact reimbursement amount will depend upon the actual number of approved administrators.
  2. **Eligible Agencies Reporting CTE Administrative Costs** – Only school districts with approved and/or qualified administrators, who meet the requirements established by the Office of Career and Technical Preparation, will be eligible to report administrator expenditures on the Expenditure Revenue Report. Added cost funds allocated from Section 61(a) (1) may not be used to reimburse CTE administrative costs.
- J. Section 102(1) – Deficit Districts  
The act states, in part, that, “A school or intermediate district receiving money under this act will not adopt or operate under a deficit budget, and a school or intermediate district will not incur an operating deficit in a fund during a school fiscal year.” Any deficit incurred in a fund other than the general fund is netted against the general fund balance. If the result is a negative amount, the public school will be required to submit a deficit elimination plan to MDE. If it is probable that a school will incur a deficit in its general fund during the school’s fiscal year, it should notify MDE. A school reporting a general fund deficit must notify MDE

Office of State School Aid and School Finance as soon as the deficit is confirmed and not wait until the FID is filed. This notification must be in a written form and mailed to Office of State Aid and School Finance, P.O. Box 30008, Lansing, Michigan 48909. MDE will mail the school a deficit elimination plan Form DS-4511C. MDE staff will work with the public school to ensure that a realistic plan to eliminate the deficit is established. The school will be required to submit monthly budgetary control reports (DS-4848) after a deficit elimination plan is approved by MDE. If a deficit exists for more than two years or if the deficit increases after the first year the deficit is incurred, the school is subject to Subsection (5) of Section 102.

K. Section 107(14) – Commingling of Adult Education Funds

The act states, in part, that, “A district shall not commingle money received under this section or from another source for adult education purposes with any other funds of the district. A district receiving adult education funds shall establish a separate ledger account for those funds. This subsection does not prohibit a district from using general funds of the district to support an adult education or community education program.”

There is a common misconception that adult education funds can be used to fund early childhood programs **and high school alternative education programs**. The State School Aid Act does not allow this.

If Section 107 funds are tested, the auditor should:

1. Determine if the district has a separate ledger account to track adult education funds to ensure that adult education funds are only used to serve adult education participants.
2. Determine if all adult education funds, regardless of the source, are spent only for instructional programs for adult education participants, with any excess funds clearly set aside for future adult education participants.

Contact person: Diane Duthie, Director, Education and Career Success Division, Bureau of Workforce Development Agency, (517) 373-3430.

## II. THE MICHIGAN SCHOOL ACCOUNTING MANUAL – BULLETIN 1022

This manual provides information regarding laws, rules, policies, and accounting and reporting requirements for Michigan public schools. The manual is patterned after the “Financial Accounting for State and Local School Systems, 2009” which is a national standard for reporting financial data by state departments of education and public schools. The purpose of the national handbook and the accounting manual is to assure that educational fiscal data will be reported in a uniform, comparable, and comprehensive manner. Auditors should test for appropriate classification with regard to account code dimensions (fund, function, major class object code). Transactions should be recorded in accordance with Generally Accepted Accounting Principles (GAAP) and the Michigan School Accounting Manual. Questions relating to the Michigan School Accounting Manual, Bulletin 1022, may be directed to the Office of State Aid and School Finance (517) 373-3350.

### III. THE MICHIGAN ADMINISTRATIVE RULES

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

A. R 340.851 Applicability

Rule 1. All local public schools and intermediate districts, commencing July 1, 1976, shall maintain complete financial accounting records in accordance with these rules.

B. R 340.852. Use of Charts of Accounts

Rule 2. The charts of accounts prescribed and published by MDE shall be used by all local and intermediate school districts except that locally devised charts of accounts may be used when specific approval is granted by MDE. (MDE has granted no approvals to date.)

C. R 340.853. Accrual System of Accounting

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

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

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

#### **Part 16 – Board of Education, Powers and Duties Generally**

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

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

MCL 380.1215 – Accounting for moneys; fund designations

1. Operating taxes shall be accounted for under the title of “General Fund.” The state board may establish other fund designations to clarify further the expenditure classifications for which general fund monies may be used.
2. Library money shall be accounted for under the title of “Library Fund.”
3. Building and site money shall be accounted for under the title of “Building and Site Fund.”

Note: This fund has been renamed the “Capital Projects Fund.” Refer to the Michigan School Accounting Manual.

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

MCL 380.1216 – Use of money raised by tax.

Except as provided by the Revised Municipal Finance Act, 2001 PA 34, MCL 141.2101 – 141.2821, money raised by tax shall not be used for a purpose other than that for which it was raised without the consent of a majority of the school electors of the district voting on the question at an annual or special meeting or election.

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.
2. (j) Includes 380.622 (j), became effective June 29, 2012 to address the management of deposit accounts for school district funds. It is the interpretation of MDE that the purpose of these sections was to allow school districts to invest funds into CK accounts that are part of the CDARS (Certificate of Deposit Account Registry Service) network. All CDARS are to be fully insured, therefore, this section provided for investment in Certificates of Deposits in CDARS. This section does not require all general district deposit accounts to be fully insured by FDIC.
3. 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:
  - a. The board of a school district may establish and maintain one common debt retirement fund for issues of bonds of similar character.
  - b. The board of a school district, by resolution, may authorize the treasurer to combine money from more than one fund for the purpose of making an investment authorized by Subsection (1)(h).
4. Earnings of an investment shall become a part of the fund for which the investment was made. When money of more than one fund of a single district or money of more than one district are combined for an investment pool authorized by Subsection (1) (h), the money shall be accounted for separately, and the earnings from the investment shall be separately and individually computed, recorded, and credited to the fund or district, as the case may be, for which the investment was acquired.

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

Auditors should study the purchasing of public school districts to assure:

- a. Procurements by small purchases are properly documented
- b. Procurements in excess of \$20,998 receive a sealed bid, formal advertisement, and a reasonable bid specification is used
- c. Procurement base for Section 1267 pertaining to construction, renovation, repair, or remodeling is \$20,998
- d. The public school did not use a “cost plus a percentage of cost or cost plus percentage of income” method
- e. If bids were accepted which allow price adjustments for changes in the base price of a product, assure that the districts validated those adjustments using the standard(s) specified in the bid
- f. Bid specifications used by the district cannot limit the supplier companies’ operation or structure on geographic preference. Open and fair competition must be maintained.

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

### **Part 17 – Bonds and Notes**

MCL 380.1351 through 380.1372 – Bonds and Notes

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

## **V. SCHOOL BOND QUALIFICATION AND LOAN PROGRAM**

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

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

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

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

the date on which the qualified bonds for which the school borrowed from the state are due and payable.

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

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

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

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

**B. Repayment of Loans to the State:**

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

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

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

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

1. "Disagree with simply disclosing accrued interest in notes to the financial statements (no financial statement effect)."
2. "We do not believe it is appropriate to recognize accrued interest expenditures (offset by another financing source) in a flow of current financial resources operating statement. The amounts so recognized are neither increases nor decreases in expendable available financial resources. Further, this reporting results in double counting of interest, once when annually accrued and again when actually paid. Finally, under current generally accepted accounting principles, interest on general long-term debt is usually required to be reported as expenditure when payment is due. Because repayment in your situation is not based on any definitive, established due dates, but rather on the availability of whatever excess property taxes remain after satisfaction of bonded debt service, we believe interest is best recognized when payment is made."
3. "Therefore, we believe the preferable method of reporting accrued interest on school bond loans is...to report the annual accrual as a GLTDAG liability."

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

D. Use of Remaining Bond Proceeds (MCL 388.1938, Section 18):

If a school district has completed the projects approved by the school electors of the school district to be funded from proceeds of qualified bonds, a school district may use any remaining proceeds of the qualified bonds as follows:

1. To pay debt service on the qualified bonds.
2. To repay the state.
3. If, in the written opinion of the school district's bond counsel, using the remaining funds to pay debt as described above would adversely affect the tax treatment of bonds, then remaining bond proceeds sufficient to alleviate that risk may be used to pay for enhancements to the projects approved by the voters as described in the ballot language.

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

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

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

Sections 18 and 19 (MCL 141.438 and 141.439) state that an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount

appropriated by the legislative body. Additionally, the chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money for purposes inconsistent with those specified in the appropriations.

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

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

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

A. Section 141.2701 – Disposition of Money Remaining in or on Account with Debt Retirement Fund. Money remaining in a debt retirement fund from the levy of a tax or an account within a debt retirement fund from the levy of a tax after the retirement of all municipal securities payable from that fund shall be used in the following order or priority:

1. To pay other outstanding unlimited tax full-faith and credit municipal securities
2. To pay other outstanding limited tax full-faith and credit municipal securities
3. To be deposited in the general fund

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

## VIII. ECONOMIC DEVELOPMENT TAX INCENTIVE PROGRAMS

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

A. Discussion of the Issue:

State laws provide two distinct approaches to stimulate economic development through the property tax system: Tax Increment Financing (TIF) and Tax Abatements.

1. Tax Increment Financing: Tax increment financing is used by local governments to finance infrastructure improvements. It allows public projects in a designated area to be financed by diverting or “capturing” revenue derived from increases in property

value as compared with an established base valuation. An example of how this works is shown below:

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
<b>LESS:</b>	
Initial Assessed Value	\$10,000,000
<b>Captured Assessed Value</b>	<b>\$2,000,000</b>

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

**a. Downtown Development Authority (DDA) Act, PA 197 of 1975:**

The DDA Act may be used by a city, township or village in an area of the downtown of a municipality zoned and used principally for business. The purpose of a DDA is to prevent deterioration and promote economic growth within a business district by developing, adopting, and implementing development plans. The Authority may construct, rehabilitate, equip, improve, maintain, or operate any building within the downtown district for public or private use. To support these activities, the Authority may obtain revenue from several sources, including:

- Incremental tax revenue on “captured” property. Beginning in 1994, plans may only capture school taxes to repay contracts and advances entered into before August 19, 1993, and to repay obligations issued before 1995 to finance a project. (Additional conditions and exceptions apply.)
- Tax revenue generated from up to 2 mill taxing authority.
- Proceeds from revenue bonds.
- Leased or owned property rented for profit.
- Loan proceeds from the governing municipality.
- Proceeds from state and federal grants or public/private contributions.

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

The TIFA Act authorized cities to create a TIFA district, with specific boundaries, anywhere in the city, not just downtown. The TIFA is governed by a 7-13 member

board of directors appointed by the city council. The purpose of a TIFA is to halt a decline in property values and promote growth within an area designated as a TIFA district. A TIFA has broad powers to plan and implement projects within the boundaries of the TIFA district. To support its activities, a TIFA may:

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

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

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

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

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

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

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

d. **Brownfield Redevelopment Financing (BRF) Act, PA 381 of 1996:**

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

e. **Smart Zones Act, PA 248 of 2000:**

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

f. **Tax Reverted Clean Title Act, PA 260 of 2003**

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

g. **Corridor Improvement Authority Act, PA 280 of 2005:**

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

## 2, Tax Abatements:

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

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

a. **The Plant Rehabilitation and Industrial Development District Act, PA 198 or 1974:**

The legislative body of a local governmental unit (city, township or village) is authorized under PA 198 of 1974 to issue an industrial facilities exemption certificate to a replacement facility (including a restored facility), a new facility or a speculative building.

A facility issued an exemption certificate is exempt from *ad valorem* taxation but is subject to the industrial facilities tax. Industrial property eligible for an exemption certificate includes land improvements, buildings, structures, and other real property and machinery, equipment, furniture, and fixtures used in the manufacturing and processing of goods or materials. Recent legislation now includes creation and synthesis of biodiesel fuel, high technology activity, qualified start-up businesses and logistical optimization centers as types of activities that qualify for an IFT exemption. The duration of the exemption is left to the discretion of the local legislative body but may not extend beyond 12 years after the completion of the facility.

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

**b. Michigan Renaissance Zone Act, PA 376 of 1996:**

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

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

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

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

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

c. **Neighborhood Enterprise Zone Tax Abatements, PA 147 of 1992:**

This abatement provides for the development, rehabilitation of residential housing located in eligible distressed communities. In lieu of general property taxation for up to 15 year after rehabilitation or completion of a facility that is granted an exemption, certificate holders pay a specific tax known as the Neighborhood Enterprise Zone Tax. For the Neighborhood Enterprise Zone Tax, the ISD millage for in-formula districts is paid to the School Aid Fund. Applications are filed, reviewed and approved locally while the State Tax Commission is responsible for final approval.

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

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

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

d. **Michigan State Housing Development Authority (MSHDA) Act, PA 346 of 1966**

Housing projects financed with a federally-aided or authority-aided mortgage and owned by a nonprofit housing corporation, consumer housing cooperative, or a limited dividend housing corporation, receiving benefits under the MSHDA Act is exempt from ad valorem property taxation and is subject to a specific tax of up to 10% of rent, as determined by the local government. The specific tax is distributed based on ad valorem millage rates; the local school operating share is calculated using the 1993 rate less six mills and is paid to the school aid fund. All ISDs receive their share of the MSHDA specific tax.

Note the MSHDA specific tax provisions are entirely separate from MCL 211.7d that requires the State Treasurer to make a payment in lieu of tax for certain housing facilities for the elderly and disabled. The 211.7d property remains on the tax roll, and the state payments are simply distributed like a property tax. The state does not make a payment for SET, and starting in 2010, will not make a payment for school operating tax. Therefore the 211.7d property should be classified as 100% PRE, beginning in 2010.

- e. **Commercial Forest Program, MCL 324.51105 (formerly PA 94 of 1925)**  
Land enrolled in the commercial forest program is exempt from ad valorem taxation. Landowner and State each pay \$1.20 per acre. For FY 2010 and FY 2011, the state payment is prorated. The payments are distributed like IFT, except that all ISDs receive their share of the first 15 cents of landowner tax and the first 25 cents of state payment, and the local school operating share is calculated using the district's 1993 rate less six mills.
- f. **Mobile Home Trailer Coach, PA 243 of 1959, MCL 125.1041**  
Occupied trailer coaches (including mobile homes) in licensed trailer coach parks pay a \$3 per month specific tax; \$2 is paid to the school aid fund; 50 cents to the county; and 50 cents to the municipality.
- g. **DNR-Purchased Lands, MCL 324.2154**  
On land purchased by DNR after 1932, the state pays a specific tax based on the 2004 taxable value of the property (adjusted for inflation after 2008) and the local millage rates (not to exceed the 2004 rates); SET and special assessments are not paid. Property is classified as qualified agricultural property, so the state does not pay school operating mills. Beginning in 2007, the property is listed on a separate tax roll, but must still be included in districts' reported taxable values.
- h. **DNR-Tax Reverted, Recreation, and Forest Lands, MCL 324.2150**  
On lands held by DNR, except land purchased after 1932, the state pays a specific tax of \$2 per acre, one-half going to the county and one-half going to the township.
- i. **Low-grade Iron Ore Specific Tax, PA 77 of 1951.**  
Low-grade iron ore mining property pays a specific tax based on the price of ore extracted and the five-year average production. The specific tax is distributed like a property tax; with the school operating share calculated using the 1993 rate less six mills and the school operating share paid to the school aid fund. Currently two mines in Marquette County are subject to the tax. Because Marquette ISD receives no special ed. millage equalization funding under section 56 (and levies no voc. ed. millage), it receives its full share of the iron ore tax.
- j. **Tax Reverted Clean Title Act, PA 260 of 2003:**  
For five years after property is sold by a land bank fast track authority, the property remains exempt from ad valorem property tax but is subject to the eligible tax reverted property specific tax (ETRPST). One-half of the specific tax is paid to the land bank authority; the other half is paid to the taxing units based on their millage rate. The local school operating share is paid to the school aid fund. The ISD share is distributed as described in E2 below.

- k. **Commercial Rehabilitation Act, PA 210 of 2005:**  
This act offers owners of certain rehabilitated commercial facilities in certain districts property tax abatement for up to 10 years. The property must meet the required obsolescence of the act as determined and certified by the local unit assessor. A property must receive final approval from the State Tax Commission. The property taxes are based on prior year's taxable value for millage other than school related mileages. There are no tax cuts for school mileages.  
A certificate holder remits a commercial rehabilitation tax in lieu of the *ad valorem* property tax. For the commercial rehabilitation tax, the local school operating millage and ISD millage for in-formula districts are remitted to the School Aid Fund.
- l. **Obsolete Property Rehabilitation Act, PA 146 of 2000:**  
This act provides commercial and commercial housing property tax exemptions for 1 to 12 years from the *ad valorem* property tax. The property that is rehabilitated must meet obsolescence requirements as provided by the act and be located in a qualified governmental unit.  
The exemption from *ad valorem* property taxes does not include land or personal property. Certificate holders pay a specific tax known as the Obsolete Properties Tax. The value of the property before rehabilitation is frozen and is subject to the full millage rate of the local unit in which it is located. The increased value of the facility from rehabilitation is exempt from all local unit millage. The State Treasurer can grant an exemption of one-half of the local school operating millage and the SET for up to 25 certificates a year. For the obsolete properties tax, the local school operating millage and ISD millage for in-formula districts are paid to the School Aid Fund.
- m. **Personal Property Tax Waiver, PA 328 of 1998:**  
This act provides a 100 percent personal property tax exemption for specific businesses (primarily engaged in manufacturing, mining, research and development, wholesale trade or office operations) located in eligible distressed communities. The exemption is for all new personal property placed in a district established by a local unit of government which also determines the number of years granted for the exemption. The State Tax Commission is responsible for final approval. See the State Tax Commission website for approved exemptions.
- n. **Commercial Redevelopment Act, PA 255 of 1978:**  
Public Act 227 of 2008 reauthorized use of this act to provide a property tax abatement for a mixed-use development that includes high-density residential use in a qualified downtown revitalization district.
- o. **Summary of specific tax distributions affecting local school districts:**  
1) Except for IFT, obsolete properties tax, ETRPST, 211.7d, DNR-purchased lands, DNR-tax-reverted lands, and mobile home tax, the local school operating share of the specific taxes is calculated using the district's 1993 operating millage rate less six mills.  
2) The local school operating share of specific taxes is paid to the school aid fund.  
3) Local school districts keep the share of specific taxes attributable to debt, sinking fund, and recreation mills.

p. **Summary of specific tax distributions affecting ISDs:**

- 1) For IFT, NEZ, OPRA, Commercial Forest Tax, Commercial Rehabilitation Tax, Commercial Facilities Tax, ETRPST, and Iron Ore Tax only:
  - i) 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
  - ii) 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).
- 2) Otherwise, the ISD share of specific taxes is paid to the ISD.

B. **Impact of Tax Increment Financing:**

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

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

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

C. **Cautions:**

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

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

Tax levy adjustments (board of review, tribunal, etc.) and charge-backs are to be made in total against the payments made to the tax increment financing authority until those amounts equal the amount of taxes previously distributed to the tax increment financing authority. School districts concerned with the method of distribution used by their local or

county treasurer may contact the Michigan Department of Treasury, Local Government Audit Division for guidance.

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

D. Suggested Audit Procedure for Tax Increment Financing Plans:

1. Check the Form 2604 to determine if there are TIF plans (DDA, LDFA, or TIFA) operating in the district, which might be capturing school taxes. If there are no TIF plans that might be capturing school taxes from the school district, skip audit step 2a and go to audit step 2b.
2. For DDA, LDFA, TIFA:
  - a. For each of the TIF plans that might be capturing school taxes from the school district, ask the school district for:
    1. Michigan Department of Treasury Form 2604, entitled, “Tax Increment Financing Plan Report for Capture of Property Taxes and State Reimbursement Amount,” OR
    2. 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 the Michigan Department of Education via the web at <https://mdoe.state.mi.us/TaxableValue/login.aspx> (Form DS-4410-B).

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

- b. For TIF plans under the Brownfield Redevelopment Finance (BRF) Act: BRF authorities do not file Form 2604/2967. If there is a BRF authority, contact the authority or the local treasurer to determine the amount, if any, of *ad valorem* Commercial Personal and Other Non-homestead local school operating taxes captured by the BRF authority. For 2010 (FY11), the amount of Other Non-homestead captured assessed value equals the 2010 Other Non-homestead local school operating taxes captured divided by the Other Non-homestead school operating millage rate (e.g., 0.018). For commercial personal property, use the rate levied (e.g. 0.006). Add any non-

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

1. 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.
2. 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 ed 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 ed and voc. ed 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

1. "Taxable value" means the taxable value of property as determined under Section 27a of the General Property Tax Act, 1893 PA 206, MCL 211.27a (the State School Aid Act of 1979, Act 94 of 1979, Article I, 338.1606[17]).

The Office of State Aid and School Finance is responsible for generating state school aid payments, an amount in excess of \$11 billion this current fiscal year. 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 intermediate school district is paid each year. Determination of taxable value is covered in the State School Aid Act of 1979, Act 94 of 1979, Article 12, 388.1721, Sec. 121, 122, and 124, Reporting of Value. Requirements of reporting are also found in the State School Aid Act of 1979, Act 94 of 1979, Article 15, 388.1751, Sec. 151.

2. Suggested Audit Procedures
  - a. 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.
  - b. 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.
  - c. Any discrepancies should be noted in the management letter with instructions for the district to notify the county treasurer and Phil Boone, MDE.

3. Contact Persons:

Phil Boone  
Office of State Aid and School Finance  
Michigan Department of Education  
(517) 335-4059  
[BooneP2@michigan.gov](mailto:BooneP2@michigan.gov)

[Bond Construction and Sinking Funds](#)

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

Access at:

[http://www.michigan.gov/documents/mde/BondConstSinkFunds\\_455955\\_7.pdf](http://www.michigan.gov/documents/mde/BondConstSinkFunds_455955_7.pdf)

## **PUPIL MEMBERSHIP**

- I. Objectives
- II. Overview
- III. Audit Considerations
- IV. Reference Materials
- V. Contact Person

## **ATTACHMENT**

Confirmation Request Form

## I OBJECTIVES

- A. To determine that state revenue reported in the general purpose financial statements:
  - 1. Meets the measurable and available criteria for the fiscal year;
  - 2. Meets the compliance requirements related to the pupil count included in the State School Aid Act, the Pupil Accounting Manual, and other authoritative sources that could have a material effect on the general purpose financial statements; and
  - 3. Is accurately stated on the financial statements.
- B. To assess the adequacy of the district's internal controls related to its pupil membership accounting and reporting process.

## II. OVERVIEW

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

## III. AUDIT CONSIDERATIONS

The following are recommended procedures related to pupil memberships. It is expected that public accountants deviating from these procedures will document their reason.

- A. Review the State School Aid Act and other reference materials to determine the pupil membership requirements that could have a material effect on the state revenue reported in the general purpose financial statements.
- B. Obtain the pupil membership audit reports for the count date and the applicable supplemental count date from the local school district. Based on the report results, audit scope, and nature of the student population; the auditor should make a preliminary assessment of the likelihood of a material misstatement.

- C. Based on the inherent risks of the student population, identify potential areas that are high risk for material misstatement.
- D. Obtain information from the ISD auditor to assess the competency of the ISD auditor performing the audit and the scope of the audit performed for each pupil count. An optional "Confirmation Request" form is provided for your consideration. (See copy attached)  
  
**Note:** Section 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 count auditor.
- F. If risks have not been adequately addressed, determine what additional audit procedures are necessary to achieve the audit objectives. Such audit procedures could include analytical procedures, substantive procedures, and testing of controls required to assess control risk below maximum.
- G. Perform analytical procedures on the count data to determine if the revenue generated from the count meets expectations.

#### IV. REFERENCE MATERIALS

- A. Pupil Accounting Manual. This is available from the local district, ISD, or at: <http://www.michigan.gov/mde> (Enter Pupil Accounting Manual in the search box in the upper right-hand corner and click on the green "go" button.)
- B. Pupil Auditing Manual. This is available at: <http://www.michigan.gov/mdeaudit>
- C. The State School Aid Act of 1979 (amended annually). The compiled law is also available on-line at: <http://www.michiganlegislature.org>.
- D. Statement on Auditing Standards No. 55, Consideration of the Internal Control Structure in a Financial Statement Audit.
- E. Statement on Auditing Standards No. 78, Consideration of Internal Control in a Financial Statement Audit: An Amendment to SAS No. 55.
- F. Statement on Auditing Standards No. 73, Using the Work of a Specialist.

## V. CONTACT PERSON

Questions may be directed to:  
Naomi Krefman, CPA  
Assistant Director – Office of Financial Management  
(517) 335-6858  
[KrefmanN@michigan.gov](mailto:KrefmanN@michigan.gov)

## CONFIRMATION REQUEST

\_\_\_\_\_ School District

Auditing Procedures Completed by \_\_\_\_\_ ISD

Count Dates \_\_\_\_\_

**Purpose** – This form provides 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.

<u>Auditor</u>	<u>Years Experience</u>	<u>Education</u>	<u>Training (Date, Title)</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

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.

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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.

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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.

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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.

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10. Were higher risk programs and issues (Population III categories) considered in the scope of the audit?  Yes  No If no, please explain.

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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.

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12. Were any building error rates greater than 5%?  Yes  No  
If yes, describe the results of the expanded audit procedures.

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13. Were any building error rates greater than 10%?  Yes  No  
If yes, describe the actions taken.

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14. Was the most recent DS-4168 reviewed?  Yes  No

Please indicate any exceptions or shortages of days or hours.

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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.

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Results

1. Were all pupil accounting adjustments included in the pupil auditor's narrative report?  
 Yes  No If no, please explain.

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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.

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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).

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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.

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3. Were any building error rates greater than 5%?  Yes  No

If yes, describe the results of the expanded audit procedures.

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Completed by: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

## ACRONYMS

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

AICPA	-	American Institute of Certified Public Accountants
CFDA	-	Catalog of Federal Domestic Assistance
CFR	-	Code of Federal Regulations
CPA	-	Certified Public Accountant
DDA	-	Downtown Development Authority
FFP	-	Federal Financial Position
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
LDFFA	-	Local Development Financing Act
LEA	-	Local Educational Agency
MAIN	-	Michigan Administrative Information Network
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
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
SFQC	-	Schedule of Findings and Questioned Costs
TIFA	-	Tax Increment Financing Act
USDA	-	United States Department of Agriculture
USED	-	United States Department of Education
WIA	-	Workforce Investment Act

**AUTHORITATIVE LITERATURE**

AICPA Audit Guide: Audit Guide, Audits of State, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards

Catalog of Federal Domestic Assistance (CFDA)

Code of Federal Regulations (CFR)

Codification of Governmental Accounting and Financial Reporting Standards, Promulgated by Governmental Accounting Standards Board (GASB)

Cost Principles for State and Local Governments (2 CFR part 225)

Education Department General Administrative Regulations (EDGAR),  
Published by USED

Generally Accepted Accounting Principles (GAAP)

Generally Accepted Auditing Standards (GAAS)

Governmental Auditing Standards (GAS) (2007 Revision), or Yellow Book, published by General Accounting Office (Stock #020-000-00284-1)

Grants and Cooperative Agreements with State and Local Governments  
(Common Rule) (OMB Circular A-102)

Pupil Accounting Manual

Michigan Administrative Code

Michigan School Accounting Manual (Bulletin 1022)

Michigan School Auditing Manual

Michigan State School Aid Act (PA 94 of 1979, as amended)

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations

OMB Circular A-133 Compliance Supplement

Single Audit Act of 1984, Public Law 98-502, as amended by Public Law 104-156 of 1996

Statement on Auditing Standards (SAS)

The School Code of 1976 (Act 451 of 1976, as amended)

U.S. Auditing Standards, Promulgated by AICPA (AU)

### Low-Risk Audit Waiver Requests

The following guidelines were established by the United States Department of Education (USED) for the purpose of processing and analyzing requests for waiver of OMB Circular A-133 Single Audit Requirements based on Low-Risk Auditee status:

1. Entities (where the USED is the cognizant or oversight agency) seeking waivers will be requested to obtain the concurrence of their pass-through entities\*\*; i.e., the non-federal entity that provides a federal award to a subrecipient to carry out a federal program. The USED Office of Chief Financial Officer (OCFO) and the USED Office of Inspector General (OIG) will coordinate with any other federal agencies that awarded direct funds to the entity to obtain their input or comments prior to taking action on waiver requests.
2. Requests for waivers should include copies of the entity's Single Audits for the prior two fiscal years along with the written concurrence\*\* of the pass-through entities that provide \$100,000 or more in federal funding.
3. The waiver request, including any required concurrence and supporting information, must be submitted to the Deputy, Chief Financial Officer, in the OCFO. The OCFO will forward a copy of the request and the supporting information to the OIG. The OCFO will provide acknowledgment of its receipt to the requesting entity.
4. The OIG will try to review the request within 20 working days to determine whether it satisfies the criteria for low-risk auditee as defined in OMB Circular A-133 and provide a recommendation for approval or denial of the request to the OCFO.
5. The OCFO will evaluate the request for its potential impact on the Department's financial statements, if any, along with any monitoring results, comments from program offices, and the Office of the General Counsel. The OCFO will provide a response to the requesting entity within 30 working days after receiving the OIG's recommendation, with a copy to the pass-through entity.
6. The OCFO will maintain log-in records to track the receipt and ensure the timely response to waiver requests and to monitor the effectiveness of the procedures for handling the requests. Barring any other deviations from low-risk criteria, the waiver does not expire.

Please note: The USED OCFO has informed the Michigan Department of Education that requests should be made well in advance of the actual audit process. The later the request is received, the greater the chance that the approval or denial will arrive too late for use in the current audit cycle.

Requests for a waiver should be sent to the following address:

Ms. Lihong Guo  
Audit Resolution Specialist  
Office of Chief Financial Officer  
FIPAO/Post Audit Group  
550 12<sup>th</sup> Street, SW  
Room 6033  
Washington, D.C. 20202-4450

\*\*MDE's concurrence letter may be found on the link below. This letter is not an approval for a low-risk waiver; it only informs the USED that MDE does not object to a waiver being issued for a material weakness related to the school district personnel's lack of expertise or knowledge to prepare financial statements according to GAAP.

[http://www.michigan.gov/documents/mde/Low\\_Risk\\_Auditee\\_Waiver\\_Letter\\_405478\\_7.pdf](http://www.michigan.gov/documents/mde/Low_Risk_Auditee_Waiver_Letter_405478_7.pdf)

**USEFUL ONLINE RESOURCES**

AICPA	<a href="http://www.aicpa.org">www.aicpa.org</a>
Association of School Business Officials International	<a href="http://www.asbointl.org">www.asbointl.org</a>
Catalog of Federal Domestic Assistance	<a href="http://www.cfda.gov/">www.cfda.gov/</a>
Federal Audit Clearinghouse	<a href="http://harvester.census.gov/sac/">http://harvester.census.gov/sac/</a>
General Accounting Office (GAO)	<a href="http://www.gao.gov/">www.gao.gov/</a>
Governmental Accounting Standards Board	<a href="http://www.gasb.org">www.gasb.org</a>
List of Parties Excluded from Federal Procurement or Non- Procurement Programs	<a href="http://epls.arnet.gov">http://epls.arnet.gov</a>
MDE GASB 34 Guidance (Under Programs and Offices, State Aid and School Finance)	<a href="http://www.michigan.gov/mde">www.michigan.gov/mde</a>
Michigan Department of Education	<a href="http://www.michigan.gov/mde">www.michigan.gov/mde</a>
President's Council on Integrity and Efficiency (PCIE) Quality Control Review (QCR)	<a href="http://www.ignet.gov/single/qcrreview.doc">www.ignet.gov/single/qcrreview.doc</a>
US Department of Education	<a href="http://www.ed.gov">www.ed.gov</a>
US Office of Management and Budget	<a href="http://www.whitehouse.gov/OMB">www.whitehouse.gov/OMB</a>

## MDE A-133 REFERENT GROUP

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