The School District of the City of Detroit's Use of Title I, Part A Funds Under the No Child Left Behind Act of 2001

FINAL AUDIT REPORT

ED-OIG/A05H0010
July 2008

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U.S. Department of Education
Office of Inspector General

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
Chicago/Kansas City/Dallas Audit Region

July 18, 2008

Michael P. Flanagan
Superintendent of Public Instruction
Michigan Department of Education
608 West Allegan Street
P.O. Box 30008
Lansing, MI 48909

Dear Mr. Flanagan:

Enclosed is our final audit report, Control Number ED-OIG/A05H0010, entitled ***The School District of the City of Detroit's Use of Title I, Part A Funds Under the No Child Left Behind Act of 2001***. This report incorporates the comments you provided in response to the draft report. If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Department of Education official, who will consider them before taking final Departmental action on this audit:

Kerri L. Briggs
Assistant Secretary for Elementary and Secondary Education
U.S. Department of Education
400 Maryland Ave., S.W.
Room 3W315
Washington, D.C. 20202

It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

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

Sincerely,

/s/

Gary D. Whitman
Regional Inspector General
for Audit

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EXECUTIVE SUMMARY

The objectives of our audit were to determine whether (1) the School District of the City of Detroit (Detroit) returned funds received under the Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001 (NCLB), Title I, Part A (Title I, Part A), related to contracts for the 2004-2005 school year that a Detroit internal investigative report identified as unallowable; (2) expenditures related to selected Title I, Part A contracts for the 2004-2005 school year were adequately documented, reasonable, and allowable; and (3) Title I, Part A personnel and non-personnel expenditures for the 2005-2006 school year were adequately documented, reasonable, and allowable.

We determined that Detroit (1) did not return Title I, Part A funds related to contracts for the 2004-2005 school year that a Detroit internal investigative report identified as unallowable; (2) used Title I, Part A funds for expenditures related to selected Title I, Part A contracts for the 2004-2005 school year that were not adequately documented, reasonable, and allowable; and (3) used Title I, Part A funds for personnel and non-personnel expenditures for the 2005-2006 school year that were not adequately documented, reasonable, and allowable. Specifically,

- Detroit charged unallowable personnel expenditures to the Title I, Part A program ($1,025,561);
- Detroit did not always support compensation charges with adequate and timely time and effort certifications, personnel activity reports, or employee insurance cost data (a projected $49,508,642 in inadequately documented costs);
- Detroit used Title I, Part A funds for non-personnel costs that were unallowable or inadequately documented ($348,664 in unallowable costs and $2,918,249 in inadequately documented costs, totaling $3,266,913);
- Detroit used Title I, Part A funds for contract expenditures that were unallowable or inadequately documented ($14,580 in unallowable costs and $1,764,988 in inadequately documented costs, totaling $1,779,568); and
- The Michigan Department of Education (MDE) inadequately monitored the resolution of a Detroit internal investigative report.

Unduplicated unallowable costs ($1,388,805) and projected inadequately documented costs ($52,230,054) total $53,618,859.

Detroit's noncompliance occurred, in part, because MDE did not provide adequate oversight of federal grant funds distributed to Detroit. Also, Detroit did not have adequate policies and procedures in place to review Title I, Part A contracts, invoices, employee insurance benefit costs, and adjusting journal entries to ensure they were adequately documented, reasonable, and allowable.

We recommend, among other things, that the Assistant Secretary for Elementary and Secondary Education instruct MDE to require Detroit to —

- Return $1,388,805 in unallowable charges to the U.S. Department of Education (Department);
- Either provide adequate documentation to support $52,230,054 in inadequately documented expenditures or return that amount to the Department;
- Develop and implement policies and procedures to ensure that adequate and accurate time and effort certifications and personal activity reports are timely prepared; and
- Develop and implement policies and procedures to adequately review contracts, invoices, employee insurance benefit costs, and adjusting journal entries.

Additionally, we recommend that MDE track local educational agency (LEA) reviews and ensure that LEAs take appropriate corrective actions.

MDE and Detroit provided comments in two installments. MDE and Detroit disagreed in whole with the draft audit report and requested the findings be reconsidered and revised and the recommendations for repayment be withdrawn. We disagree with their position and have summarized it and included our response in the Audit Results section. MDE and Detroit also did not concur specifically with portions of each finding. These comments and the OIG Response to the finding comments are summarized at the end of each finding and in Enclosures 1 and 2. The full text of their comments is included as Enclosure 3.

MDE and Detroit also provided additional documentation they claimed refuted the expenditures questioned in our draft audit report. We considered all of the comments and reviewed all of the documentation provided in 24 exhibits. Because of the voluminous number of these exhibits, we have not included them in this report. Based on those comments and additional documentation provided, we:

- Reclassified $5,180,633 in previously unallowable personnel expenditures for the Head Start program to inadequately documented personnel expenditures. We also reclassified $1,143,644 in previously unallowable employee insurance benefits costs to inadequately documented personnel expenditures and increased the amount to $4,088,095. (See FINDING NO. 1 and FINDING NO. 2)

- Accepted $1,903,372 in previously inadequately documented non-personnel costs as adequately documented and reclassified $10,330 in previously accepted costs to inadequately documented costs. (See FINDING NO. 3)

- Accepted $5,000 in previously inadequately documented contract costs as adequately documented. (See FINDING NO. 4)

We made changes to the findings and recommended recoveries to reflect the above reclassifications in the findings and recommendations but did not substantially change the remainder of the findings.

BACKGROUND

The Elementary and Secondary Education Act of 1965, as amended by the NCLB, increases accountability for states, LEAs, and schools; school choice for parents and students; flexibility for states', LEAs', and schools' use of federal education funds; and provides an emphasis on reading. The Title I, Part A program helps LEAs and schools improve the teaching and learning of children who are failing, or most at-risk of failing, to meet challenging state academic standards. The program is administered by the Department's Office of Elementary and Secondary Education. Under the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (34 C.F.R. § 80.40), MDE is required to monitor Detroit's compliance with federal requirements.

Incorporated in 1842, Detroit is the largest public school system in Michigan. During the 2005-2006 school year, Detroit enrolled 130,718 students at 97 elementary schools, 81 kindergarten through 8th grade and middle schools, 29 high schools, 10 alternative schools, 11 special education schools, and 4 career technical and vocational centers. It employed approximately 14,960 employees. Because of declining population and students transferring to charter schools, private schools, and surrounding school districts, Detroit's enrollment has declined from 173,848 during the 1998-1999 school year. For the years ended June 30, 2005, and June 30, 2006, Detroit spent $131,134,604 and $125,896,498, respectively, in Title I, Part A grant funds. Detroit's Office of Title I and Section 31a Compliance (Title I Office) oversees its Title I, Part A program.

Detroit's *Single Audit Report, June 30, 2006,* reported an adverse opinion on Detroit's compliance with federal requirements for its Title I, Part A program. A Detroit internal investigative report identified unallowable contracts paid for with Title I funds and identified other contracts that should also be reviewed. FINDING NO. 5 concluded on the resolution of this internal investigative report and FINDING NO. 4 concluded on the allowability of expenditures related to the contracts identified in the report.

AUDIT RESULTS

Detroit (1) did not return Title I, Part A funds related to contracts for the 2004-2005 school year that a Detroit internal investigative report identified as unallowable; (2) used Title I, Part A funds for expenditures related to selected Title I, Part A contracts for the 2004-2005 school year that were not adequately documented, reasonable, and allowable; and (3) used Title I, Part A funds for personnel and non-personnel expenditures for the 2005-2006 school year that were not adequately documented, reasonable, and allowable. Specifically,

- Detroit charged unallowable personnel expenditures to the Title I, Part A program, including (1) excessive employee insurance benefits ($571,025), (2) excessive Title I Office employee compensation ($203,000), (3) excessive targeted assistance teacher compensation ($173,082), (4) disciplinary administrative leave compensation ($73,292), and (5) a duplicate compensation payment ($12,492);
- Detroit did not always support compensation charges with adequate and timely time and effort certifications, personnel activity reports, or employee insurance cost data (a projected $49,508,642 in inadequately documented costs);
- Detroit used Title I, Part A funds for non-personnel costs that were unallowable or inadequately documented ($348,664 in unallowable costs and $2,918,249 in inadequately documented costs, totaling $3,266,913);
- Detroit used Title I, Part A funds for contract expenditures that were unallowable or inadequately documented ($14,580 in unallowable costs and $1,764,988 in inadequately documented costs, totaling $1,779,568); and
- MDE inadequately monitored the resolution of a Detroit internal investigative report.

We found unduplicated unallowable costs ($1,388,805) and projected inadequately documented costs ($52,230,054) totaling $53,618,859.

MDE's and Detroit's Overall Comments to the Draft Audit Report

In response to the draft audit report, MDE and Detroit stated OIG erroneously concluded that Detroit did not properly administer Title I, Part A funds. MDE and Detroit stated the audit methodology used was seriously flawed for the following reasons:

1) It appears that the audit failed to review the voluminous documentation and accounting records supporting the Title I, Part A expenditures at issue.
2) The draft audit report erroneously relies in some sections on the amounts budgeted rather than the actual expenditures documented after-the-fact.
3) The audit failed to take into account any schoolwide flexibility, despite the fact that Detroit overwhelmingly consists of schoolwide programs.
4) The draft audit report's methodology uses extremely small sample sizes to estimate larger findings. Although Detroit has approximately 14,960 employees, the audit consistently sampled a small number of transactions to arrive at its findings for the entire school district. Small employee sample sizes for a district with as many employees as Detroit possesses are not statistically significant.

5) The audit failed to analyze harm to the Federal interest, as required, in making findings and failed to properly consider valid after-the-fact documentation.

OIG Response to MDE's and Detroit's Overall Comments to the Draft Audit Report

1) OIG carefully reviewed and considered all documentation and accounting records that Detroit provided during the audit. We reclassified or accepted some Title I, Part A costs based on documentation MDE and Detroit provided with their comments to the draft audit report that Detroit did not provide during the audit.
2) In response to the *Excessive Employee Insurance Benefits* sub-finding in FINDING NO. 1 of the draft audit report, MDE and Detroit argue OIG erroneously relied on budgeted amounts rather than the actual expenditures documented after-the-fact. During the audit, we collected cost data from Detroit's third-party benefits administrator, as recommended by Detroit, because Detroit told us it did not have the supporting documentation. The third-party benefits administrator claimed these were actual costs. In response to the draft audit report, MDE and Detroit stated this administrator provided projected insurance costs based on prior year estimates, rather than actual insurance costs. Because (1) we cannot use the budgeted cost data as MDE and Detroit advised, and (2) they have not provided any other supporting documentation for the actual costs for any of the sampled insurance benefit transactions, insurance benefits for all single cost activity employees are inadequately documented (See FINDING NO. 2, Auditee Comments and OIG Response, *Inadequately Documented Employee Insurance Benefits)*.
3) As documented in the OIG Response to FINDING NO. 1, *Excessive Targeted Assistance Teacher Compensation,* and FINDING NO. 2, *Inadequate Personal Activity Reports for Non-Workshop Duties,* we considered the schoolwide status of schools. When expending funds for students at any school, including schoolwide schools and schools that could qualify as schoolwide schools, Detroit must adequately document Title I, Part A expenditures.
4) The comment regarding the use of extremely small sample sizes relates to three sub-findings and is not valid. We used statistical sampling, with a confidence level of 90 percent and precision of less than 20 percent, to project the inadequately documented costs in FINDING NO. 2, *Inadequate Time and Effort Certifications*. Our sample sizes were sufficient within those parameters. The projection of inadequately documented insurance benefits for all single cost activity employees (see FINDING NO. 2, *Inadequately Documented Employee Insurance Benefits)* is based on Detroit providing inadequate documentation for all 30 sampled transactions. The projection of inadequately documented costs related to inadequate personal activity reports for non-workshop duties is based on a sample of 57 multiple cost activity employees (see FINDING NO. 2, Auditee Comments and OIG Response, *Inadequate Personal Activity Reports for Non-Workshop Duties)*. Detroit provided inadequate documentation for all 57 employees.
5) All findings in the report included unallowable costs or a lack of demonstrated benefit to the Title I, Part A program. We considered all documentation provided. In response to the sub-finding related to the charging of Head Start compensation costs (see FINDING NO. 2, Auditee Comments and OIG Response, *Inadequate Time and Effort Certifications or Personal Activity Reports for Compensation Charges in Adjusting Journal Entries)*, MDE and Detroit stated that the charging of these costs did not cause harm to the federal interest. However, Detroit has not shown a benefit to the Title I, Part

A program because (1) it did not provide personal activity reports or equivalent documentation, (2) it did not provide documentation to demonstrate that the identified teachers comprise the transferred compensation costs, and (3) it provided certifications that are inadequate and conflict with a statement by the Grants Accounting Supervisor that the employees were multiple cost activity employees.

FINDING NO. 1 – Detroit Charged Unallowable Personnel Costs to the Title I, Part A Program

For the 2005-2006 school year, Detroit charged unallowable personnel expenditures to the Title I, Part A program. These charges included excessive employee insurance benefits ($571,025), excessive Title I Office employee compensation ($203,000), excessive targeted assistance teacher compensation ($173,082), disciplinary administrative leave compensation ($73,292), and a duplicate compensation payment ($12,492). The unduplicated amount of unallowable personnel expenditures totaled $1,025,561.

Office of Management and Budget Circular A-87 (Revised 5/10/04) – Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87), *Attachment A, Paragraph C.1.b* states that, to be allowable under federal awards, costs must be allocable to the awards.

Excessive Employee Insurance Benefits
Detroit used Title I, Part A funds to pay employee insurance benefits for employees who worked on supplemental activities, such as workshops and after-school programs. Typically, Detroit only charges employee insurance benefits to the funding sources that pay for an employee's regular work activities. For employees whose regular job duties included only non-Title I, Part A activities, Detroit improperly charged to the Title I, Part A program $571,025 of employee insurance benefit costs and related indirect costs. These employees worked on non-Title I, Part A activities for their regular duties and also worked on Title I, Part A supplemental activities. These insurance costs should have been charged to the non-Title I, Part A funding sources that paid for the employees' regular job duties, not the Title I, Part A program that paid the salary for the employees' supplemental work duties.

OMB Circular A-87, *Attachment A, Paragraph C.1.e* states that, to be allowable under federal awards, costs charged to the awards must, among other requirements, "be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit."

Detroit's accounting system did not charge employee insurance benefits to compensation for supplemental activities. However, staff responsible for entering compensation data into the accounting system did not always properly code after-school programs and workshops as supplemental activities. Therefore, the accounting system included these activities as regular work activities and distributed a portion of the insurance benefit costs to the supplemental activities.

Excessive Title I Office Employee Compensation
Detroit charged an estimated $203,000 in excessive compensation to the Title I, Part A program by charging the entire salaries, benefits, and related indirect costs of Title I Office employees who split their time between Title I, Part A program activities and non-Title I, Part A program

activities (including the Michigan Section 31a program)[1] for 68 of 68 judgmentally selected transactions for Title I Office employees.[2] The Title I Office employees did not create contemporaneous records documenting the amount of time worked on the activities, and Detroit provided no evidence of the desired level of time and effort for these employees to dedicate to each activity. We asked several current Title I Office employees to estimate the actual proportion of time they spent on each activity. Based on their responses, we conservatively estimated that they spent approximately 90 percent of their time working on Title I, Part A activities and approximately 10 percent of their time working on non-Title I, Part A program activities, including the Michigan Section 31a program.

Detroit believed that it was appropriate to charge the full compensation of program administrators to the Title I, Part A program because it was not permitted to use Michigan Section 31a program funds for this purpose.

Excessive Targeted Assistance Teacher Compensation
Detroit charged $173,082 in excessive compensation to the Title I, Part A program for the salaries, benefits, and related indirect costs of teachers who taught ineligible children in Title I targeted assistance schools. Even though the teachers taught both Title I and non-Title I children, Detroit charged to the Title I, Part A program the entire compensation for five of five judgmentally sampled kindergarten teachers at Title I targeted assistance schools. The percentages of children who were Title I eligible in these five teachers' classes ranged from 41 to 72 percent.

NCLB, Title I, Part A, Section 1115(a), states,

> In all schools selected to receive funds under section 1113(c) that are ineligible for a schoolwide program under section 1114, or that choose not to operate such a schoolwide program, a local education agency serving such school may use funds received under this part only for programs that provide services to eligible children under subsection (b) identified as having the greatest need for special assistance.

Detroit Title I Office staff did not review an adjusting journal entry transferring the compensation of kindergarten teachers to the Title I, Part A program from the general fund at the end the 2005-2006 school year, to ensure that the costs were allowable.

Disciplinary Administrative Leave Compensation
Detroit charged $73,292 to the Title I, Part A program for the salary, benefits, and related indirect costs of an administrator who was placed on administrative leave while under

[1] The Michigan Section 31a program, which provides state funds based on the number of students in districts who meet income eligibility criteria, has some objectives similar to the Title I, Part A program. Michigan Section 31a program funds may be used for activities including instructional programs, direct non-instructional services such as medical or counseling services, breakfast programs, hearing and vision screenings, reduction of class size, adult education, and early intervention programs.
[2] Detroit charged $2,028,620 in salaries, benefits, and related indirect costs for all Title I Office employees during the 2005-2006 school year. We conservatively estimated, based on interviews with Title I Office employees, that at least 10 percent of their time was spent on non-Title I, Part A activities. We applied the 10 percent estimate to the total salaries, benefits, and related indirect costs of all Title I Office employees, because Detroit charged all compensation for the 68 sampled transactions to the Title I, Part A program.

investigation by the district. Detroit did not provide a policy for paying salaries and benefits to administrators who were on administrative leave. Detroit was not aware that it could not charge administrative leave to the Title I, Part A grant without an administrative leave policy.

OMB Circular A-87, *Attachment B, Paragraph 8.a. (1)* states that compensation must conform ". . . to the established policy of the governmental unit. . . ."

Duplicate Compensation Charge
Detroit charged a duplicate payment totaling $12,492 for salary, benefits, and related indirect costs to the Title I, Part A program during the 2005-2006 school year. Detroit entered a portion of one adjusting journal entry into its accounting system twice to transfer an employee's compensation from the Reading First program to the Title I, Part A program.

OMB Circular A-87, *Attachment A, Paragraph C.1.g* states that, to be allowable under federal awards, costs must be determined in accordance with generally accepted accounting principles.

Two accounting staff members responsible for entering adjusting journal entries into the accounting system each received the same request to transfer an employee's compensation from the Reading First program to the Title I, Part A program. Each accounting staff member entered the adjustment without knowing that the other staff member entered the same adjustment.

The total unallowable salaries, benefits, and related indirect cost is $1,032,891. Of this amount, $7,329 is duplicated between the sub-findings. The total unduplicated, unallowable cost is $1,025,561. Enclosure 2, Table C of this report identifies the duplication.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education instruct MDE to require Detroit to

1.1 Return $1,025,561 in unallowable salaries, benefits, and related indirect costs to the Department;

1.2 Determine the extent of excessive compensation charged to the Title I, Part A program for teachers at targeted assistance schools for the year ended June 30, 2006, and return these funds to the Department;

1.3 Provide training to Title I Office officials regarding the allowability of costs charged to the Title I, Part A program;

1.4 Develop and implement a policy requiring a Title I Office official to review adjusting journal entries that transfer compensation charges to the Title I, Part A program for allowability;

1.5 Develop and implement a policy requiring Detroit officials to enter proper codes in the system to identify supplemental and overtime activities as non-regular work duties;

1.6 Track the actual time that Title I Office employees work on Title I, Part A activities and only charge the Title I, Part A program for the actual time worked on these activities;

1.7 Track the percentage of eligible Title I students who teachers teach at targeted assistance schools and only compensate these teachers with Title I, Part A funds for this percentage of their work; and

1.8 Develop and implement a policy to not charge disciplinary administrative leave compensation to the Title I, Part A program.

Auditee Comments and OIG Response
As described below, MDE and Detroit disputed the majority of this finding. Based on comments to the draft report, we moved the Head Start Program Compensation sub-finding and a portion of the Excessive Employee Insurance Benefits sub-finding to FINDING NO. 2. We did not substantially change the remainder of the finding or recommendations.

<u>Excessive Employee Insurance Benefits</u>
Auditee Comments. In response to this sub-finding, MDE and Detroit provided documentation that showed insurance charges were distributed proportionally to the salary charges for employees' regular and supplemental duties and stated this cost is allowable. MDE and Detroit claimed this documentation shows Detroit properly distributed insurance charges.

OIG Response. These charges for employee insurance benefits are unallowable because none should have been distributed to the Title I, Part A program. All of the charges should have been distributed to the non-Title I, Part A fund that funded 100 percent of the employees' regular job duties. None of the charges should have been distributed to the Title I, Part A program that funded the employees' supplemental duties. Charges for employee insurance benefits should not be distributed proportionally to the salary charges for regular and supplemental duties because (1) this is not consistent with Detroit's policy and (2) paying employees for performing supplemental duties did not increase Detroit's insurance expense. Insurance charges should only be distributed proportionally to the salary charges for regular duties. Detroit's accounting system is set up to identify supplemental duties so that insurance costs are not distributed to them. Detroit used this system properly in some cases. However, in our reported cases, data entry personnel did not code supplemental duties properly, so the accounting system erroneously distributed insurance costs to the supplemental duties as if they were regular duties.

<u>Excessive Targeted Assistance Teacher Compensation</u>
Auditee Comments. MDE and Detroit stated the Title I targeted assistance schools could have qualified as schoolwide schools, even though Detroit chose to classify them as Title I targeted assistance schools. Therefore, they believe the Title I targeted assistance schools should only have to comply with the requirements of schoolwide schools which do not require schools to identify children as Title I, Part A eligible. MDE and Detroit provided documentation that shows the Title I targeted assistance schools' poverty rates and school improvement plans and claimed the plans contain "a number of required schoolwide elements."

OIG Response. The documentation does not demonstrate the targeted assistance schools were designated as, or operated as, schoolwide schools. NCLB, Title I, Part A, Section 1115 states: "In all schools selected to receive funds under section 1113(c) that are ineligible for a schoolwide program under section 1114, ***or that choose not to operate such a schoolwide program***, a local education agency serving such school may use funds received under this part only for programs that provide services to eligible children under subsection (b) identified as having the greatest need for special assistance." (Emphasis added). Without documentation that shows the schools were designated as, or operated as, schoolwide schools instead of Title I targeted assistance schools, the rules for Title I targeted assistance schools are controlling. Also, MDE and Detroit did not claim that the school improvement plans contained all of the requirements for classification as a schoolwide school, only some of them. We identified schoolwide requirements that were not included in these school improvement plans.

Disciplinary Administrative Leave Compensation

Auditee Comments. MDE and Detroit provided a sworn affidavit from Detroit's Executive Director of Employee Relations stating Detroit pays employees based upon their individual employment agreements and classification, applicable Michigan state law, as well as practices and customs. MDE and Detroit claimed that (1) the Teacher Tenure Act, Public Act No. 4, Public Acts of Michigan, 1937, as amended (Teacher Tenure Act) requires payment for disciplinary administrative leave for teachers in certain cases, and (2) Detroit consistently applied the requirements to all employees subject to disciplinary action, taking into account the employee's employment agreement and classification.

OIG Response. Detroit has not provided sufficient audit evidence showing it had an official policy for paying salaries and benefits to administrators who were on administrative leave. We consider sufficient audit evidence to be written policy and procedures or other documentary evidence, such as accounting and personnel records showing that others in a similar situation were paid in a similar manner, not a sworn affidavit from one individual. Also, the Teacher Tenure Act applies to certified teachers, not administrators. The subject employee was an administrator. In the affidavit, Detroit's Executive Director of Employee Relations stated Detroit gives all employees protections "akin to (although not identical to) those provided to certified teachers under the [Teacher Tenure Act]." Given that this Detroit official stated that Detroit does not provide identical protections to all employees, we cannot determine that Detroit had a disciplinary administrative leave policy for administrators.

FINDING NO. 2 – Detroit Did Not Always Support Compensation Charges with Adequate and Timely Time and Effort Certifications or Personal Activity Reports

For the 2005-2006 school year, Detroit charged personnel expenditures to the Title I, Part A program that were inadequately documented. Detroit did not always support the compensation of (1) single cost activity employees[3] with adequate time and effort certifications (a projected $9,119,940), (2) regular, overtime, and non-workshop supplemental duties of multiple cost activity employees[4] with personal activity reports ($12,979,760), (3) workshop duties of multiple cost activity employees with sign-in/sign-out sheets ($3,274), and (4) employees included in adjusting journal entries with adequate time and effort certifications or personal activity reports ($23,317,574). Detroit also did not support insurance benefits charges for single cost activity

[3] Single cost activity employees are employees who were paid for their regular job duties during a time and effort certification period only with Title I, Part A grant funds.

[4] Multiple cost activity employees are employees who (1) were paid with both Title I, Part A funds and non-Title I, Part A funds for their regular job duties during a certification period, or (2) were not paid with Title I, Part A funds for their regular job duties but were paid with Title I, Part A funds for their overtime, supplemental, or workshop duties during a certification period.

employees ($4,088,095). The unduplicated amount of the projected inadequately documented personnel expenditures totaled $47,546,817.

Inadequate Time and Effort Certifications

Detroit did not always timely prepare time and effort certifications for employees who worked solely on Title I, Part A activities. For 102 of 400 randomly sampled salary transactions for single cost activity employees, Detroit either did not provide a time and effort certification or provided a time and effort certification that was inadequate. The projected salaries, benefits, and related indirect costs charged for these employees were $9,119,940.[5] The following table identifies the inadequate time and effort certifications from the random sample:

Table 1 – Inadequate Time and Effort Certifications

Time and Effort Certification Category	Number of Transactions
Not Timely Prepared[6]	93
Unsigned	0
Undated	0
Signed by a supervisor who did not oversee the work performed by the employee during the certification period	1
Not provided	8
Total	**102**

Inadequate Personal Activity Reports for Non-Workshop Duties

Detroit did not provide adequate personal activity reports for multiple cost activity employees whose compensation for their regular, overtime, or supplemental (non-workshop) duties was charged to the Title I, Part A program. In place of personal activity reports, Detroit provided examples of multiple cost activity employees' daily lesson plans or time logs related to the employees' regular duties. However, the lesson plans and time logs provided did not specify the proportion of each employee's time that was spent on Title I, Part A activities. Additionally, the lesson plans and time logs were not after-the-fact certifications of actual time spent on Title I, Part A activities. In the universe of personnel transactions for the Title I, Part A program, we identified $12,979,760 of salaries, benefits, and related indirect costs charged for the regular, overtime, and supplemental (non-workshop) activities of multiple cost activity employees.

Inadequate Personal Activity Reports for Workshop Duties

For multiple cost activity employees who attended Title I, Part A funded workshops, Detroit's policy was to prepare sign-in sheets. For 20 sampled personnel transactions for workshops, Detroit provided sign-in and after-the-fact sign-out sheets for 4 transactions, sign-in sheets with

[5] From a universe of 13,948 transactions for single cost activity employees totaling $30,209,812 in salaries and related fringe benefits, we sampled 400 transactions totaling $863,512 in salaries and related fringe benefits. Of the 400 sampled transactions, 102 transactions totaling $245,464 in salaries and related fringe benefits were inadequately documented. We are 90 percent confident that the projected inadequately documented salaries and benefits is $8,587,514, plus or minus $1,327,004 (15.45 percent). We added related indirect costs totaling $532,426 to this projection using a 6.2 percent indirect cost rate to compute a total of $9,119,940 of projected inadequately documented salaries, benefits, and indirect costs.

[6] These time and effort certifications were prepared by Detroit after we requested them. They were prepared more than one year after the end of the certification period. Time and effort certifications prepared more than a year after the work was performed are not credible.

no after-the-fact sign-out record for 12 transactions, and no sign-in or sign-out record for 4 transactions. The salaries, fringe benefits, and related indirect costs charged for the 16 transactions without after-the-fact sign-out sheets were $3,274.

Inadequate Time and Effort Certifications or Personal Activity Reports for Compensation Charges in Adjusting Journal Entries

Using adjusting journal entries, Detroit transferred to the Title I, Part A program $21,824,996 in charges for the salaries and benefits of employees who were initially paid from non-Title I, Part A funding sources. The total salaries, benefits, and indirect costs charged to the Title I, Part A grant for these adjusting journal entries is $23,317,574.[7] These employees included kindergarten teachers ($11,499,897), Head Start Program teachers and assistants ($4,849,251), Michigan Early Childhood Education program teachers ($3,593,013), and substitute teachers ($1,882,835).

Detroit included charges for the compensation of kindergarten and Michigan Early Childhood Education program teachers in its Title I, Part A budget approved by MDE. Detroit identified the kindergarten teachers whose compensation was charged to the Title I, Part A program. Detroit charged the projected salaries, pension benefits, and tax benefits for these employees instead of actual compensation. After we requested time and effort certifications, one official from Detroit signed time and effort certifications for 142 of the 145 teachers included in the adjusting journal entry for kindergarten teachers. These time and effort certifications were not timely prepared. For the compensation charges for Michigan Early Childhood Education program and substitute teachers, Detroit did not identify the employees who were included in the adjusting journal entries and did not provide time and effort certifications or personal activity reports for these employees. Detroit charged a portion of the salaries, benefits, and related indirect costs of all Head Start program teachers and assistants to the Title I, Part A program in a series of 12 adjusting journal entries. While Head Start is not a Title I, Part A program, NCLB, Title I, Part A, Section 1112 (b)(1)(K) requires Detroit to include in its LEA plan a description of how it will use Title I, Part A funds for children, particularly children participating in a Head Start program. Detroit did not include Head Start in its Title I, Part A program application that was approved by MDE. Detroit also did not identify the employees whose compensation was transferred to the Title I, Part A program and did not provide personal activity reports certifying the employees worked on Title I, Part A program activities.

OMB Circular A-87, *Attachment B, Paragraph 8.h. (3)* states,

> 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 time and effort certification. These time and effort certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

OMB Circular A-87, *Attachment B, Paragraph 8.h. (4)* states, “Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by

[7] This $23,317,574 includes $21,824,996 in charges for salaries and benefits, $1,492,577 in related indirect costs, and a $1 immaterial rounding difference.

personal activity reports or equivalent documentation which meets the standards in subsection (5). . . ." Subsection (5) states,

> Personnel activity reports or equivalent documentation must meet the following standards:
>
> (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
>
> (b) They must account for the total activity for which each employee is compensated,
>
> (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
>
> (d) They must be signed by the employee.
>
> (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards. . . .

Detroit required school officials to submit semi-annual time and effort certifications to the Title I Office for single cost activity employees. However, Title I Office staff did not follow up with school officials who did not submit time and effort certifications to the Title I Office to ensure that all time and effort certifications were prepared. Detroit officials were unaware of the requirement that multiple cost activity employees must sign after-the-fact, monthly personal activity reports that account for the time spent on Title I, Part A activities. Additionally, Detroit did not have a process to review adjusting journal entries that charged personnel costs to the Title I, Part A program.

Inadequately Documented Employee Insurance Benefits
Detroit charged the Title I, Part A program for employee insurance benefit costs that were inadequately documented. For 29 of 30 randomly sampled employee insurance benefits transactions, Detroit's third-party benefits administrator reported employee insurance benefit costs that were up to $306 less than the amount Detroit charged to the Title I, Part A program for each of these transactions.[8] The third-party benefits administrator subsequently stated this cost data was projected and not actual. Because Detroit did not provide any supporting documentation for the actual costs of any of the sampled insurance benefit transactions, insurance benefits totaling $3,849,430 charged to the Title I, Part A program for all single cost activity employees were inadequately documented. The total inadequately documented insurance benefits and related indirect costs for all single cost activity employees is $4,088,095.

The combined total inadequately documented costs for all of the above is a projected $49,508,642. Of this amount, $1,961,825 is duplicated in FINDING NO. 1. The unduplicated amount is a projected $47,546,817. Enclosure 2, Table C of this report identifies the cost duplication.

[8] From a universe of 13,948 salary transactions for single cost activity employees, of which 12,839 had employee insurance benefit costs totaling $3,849,430, we sampled 30 transactions totaling $9,299 in employee insurance benefit costs. Of the 30 sampled transactions, 29 transactions had overcharges totaling $2,601.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education instruct MDE to require Detroit to

2.1 Either provide adequate documentation to support the projected $47,546,817 in inadequately documented personnel expenditures or return any portion of that amount for which it does not provide adequate documentation to the Department;

2.2 Adhere to its policy requiring single cost activity employees or their supervisors to timely sign semi-annual time and effort certifications and follow up with school officials to ensure that adequate time and effort certifications are timely submitted;

2.3 Develop and implement a policy requiring multiple cost activity employees to, at least monthly, prepare and sign after-the-fact personal activity reports, or equivalent sign-in/sign-out sheets for workshop activities, that account for the total activity for which each employee is compensated, including time spent on Title I, Part A activities;

2.4 Develop and implement a policy requiring a Title I Office official to review adjusting journal entries that transfer compensation charges to the Title I, Part A program to ensure that the compensation is supported by adequate time and effort certifications or personal activity reports; and

2.5 Develop and implement a policy requiring a Title I Office official to review employee insurance benefit charges to the Title I, Part A program to ensure that only actual employee insurance benefits are charged.

Auditee Comments and OIG Response
As described below, MDE and Detroit disputed the majority of this finding. Based on comments to the draft report, we moved the Head Start Program Compensation sub-finding and a portion of the Excessive Employee Insurance Benefits sub-finding from FINDING NO. 1 in the draft audit report to FINDING NO. 2 and have revised the finding and recommendations accordingly. We did not substantially change the remainder of the finding or recommendations.

Inadequate Time and Effort Certifications
Auditee Comments. MDE and Detroit claimed they provided credible, after-the-fact time and effort certifications that met all of the requirements of OMB Circular A-87, *Attachment B, Paragraph 8.h.(3)*. They provided numerous additional certifications that were prepared after we requested them. MDE and Detroit also cited many examples they claimed demonstrate that recipients may use after-the-fact documentation to reconstruct the time and effort they spent on federal programs.

OIG Response. The documentation does not show the certifications were prepared timely. Detroit prepared these certifications after we requested them and more than a year after the certification period ended. They were not prepared at least semi-annually, as required by OMB Circular A-87, *Attachment B, Paragraph 8.h.(3)*. Additionally, many of these certifications do not appear credible because they refer to the 20008 project code (i.e., the fiscal year 2008 Title I, Part A grant) or refer to the 20106 project code (i.e., the Title I, Part A 2006 carryover grant) as a "Special Education" program, instead of the Title I, Part A program. Also, we contacted four principals for Title I, Part A funded kindergarten teachers. All four principals stated the kindergarten teachers were not Title I, Part A employees. Later, we received untimely certifications that certified the teachers were Title I, Part A employees. This discrepancy indicates that these untimely certifications are not credible. Also, all of the examples MDE and Detroit cited are not relevant because they were dated in 1995 or earlier. OMB Circular A-87, *Attachment B, Paragraph 8.h.(3)*, which requires that certifications be prepared at least semi-annually, became effective on June 9, 2004.

Inadequate Personal Activity Reports for Non-Workshop Duties

Auditee Comments. MDE and Detroit stated Detroit did not provide personal activity reports. They claimed that (1) substitute documentation should be acceptable; (2) personal activity reports should not be necessary, because most of Detroit's schools are schoolwide schools; and (3) our alleged five employee sample size is insufficient. MDE and Detroit provided new documentation for four sampled employees.

OIG Response. We did not change this sub-finding for the following reasons:

- These documents are not equivalent to personal activity reports. The documentation included time logs or lesson plans in a format that varied from employee to employee. None of the documentation indicated the amount of time spent on Title I activities. Therefore, we cannot allocate time to the Title I, Part A program based on the documents. OMB Circular A-87, *Attachment B, paragraph 8.h.(5)* requires personal activity reports or equivalent documentation to reflect an after-the-fact distribution of the actual activity of each employee.
- The requirements for personal activity reports apply regardless of a school's schoolwide status. Also, non-regulatory guidance issued subsequent to our audit period, entitled *Non-Regulatory Guidance Title I Fiscal Issues: Maintenance of Effort; Comparability; Supplement, Not Supplant; Carryover; Consolidating Funds in Schoolwide Programs; and Grantback Requirements (February 2008)* states that if schools do not consolidate funds, then they must follow the requirements for personal activity reports. Detroit did not consolidate funds for schoolwide schools.
- We sampled 57 multiple cost activity employees (27 Title I Office and 30 non-Title I Office employees), not 5 employees. Detroit did not provide personal activity reports for any of these 57 employees but stated equivalent documentation was available. Detroit provided additional documentation for 5 of the 57 employees. However, it was not equivalent documentation because it did not reflect an after-the-fact distribution of the actual activity of each employee or facilitate allocation of time to the Title I, Part A program. Given the documentation was inadequate, we did not request similar documentation for the remaining 52.

Inadequate Time and Effort Certifications or Personal Activity Reports for Compensation Charges in Adjusting Journal Entries

Auditee Comments. MDE and Detroit stated that all Head Start students were eligible to receive Title I, Part A services. Therefore, charging these costs to the Title I, Part A program did not cause harm to the federal interest and Head Start compensation costs should be allowable. MDE and Detroit provided additional documentation, including a description of the Head Start program and documentation identifying some Head Start teachers. MDE and Detroit also stated they provided two semi-annual certifications that demonstrate the relevant employees worked 100% of their time on Title I, Part A program activities for the entire fiscal year 2005-2006, which fulfills the requirement of providing signed, semi-annual certifications per OMB Circular A-87, *Attachment B, Paragraph 8.h.(3)*.

OIG Response. The documentation provided did not consist of personal activity reports or equivalent documentation. These adjusting journal entries remain inadequately documented based on the lack of (1) personal activity reports or equivalent documentation and (2) documentation to demonstrate the identified teachers comprise the transferred compensation costs (i.e., MDE and Detroit provided no documentation that shows that these teachers' compensation matches the amounts in the adjusting journal entries). The certifications MDE and Detroit provided are inadequate because (1) they were signed in January 2008, which is over 18 months after the certification periods ended, and (2) one administrator signed for over 100 employees on one certification for each semester. OMB Circular A-87, *Attachment B, Paragraph 8.h.(3)* requires that certifications be prepared at least semi-annually by the employee or a supervisory official having first-hand knowledge of the work performed by the employee. These certifications were not prepared semi-annually and it is not reasonable for 1 individual to have first-hand knowledge of the work performed by over 100 employees more than 18 months after the certification periods ended. Also, these certifications contradict the Grants Accounting Supervisor's statement that a percentage of each employee's time was charged to the Title I, Part A program. Because these employees were all multiple cost activity employees, they should have personal activity reports supporting the allocation of their time between the Head Start and Title I, Part A programs.

<u>Inadequately Documented Employee Insurance Benefits</u>
Auditee Comments. MDE and Detroit stated that the third-party benefits administrator provided us with projected insurance costs based on prior year estimates, rather than actual insurance costs. Therefore, MDE and Detroit claimed that the cost data used for the finding is irrelevant and they should not have to repay any amounts. MDE and Detroit provided cost data for five employees and email correspondence with the third-party benefits administrator indicating that it had provided projected, rather than actual insurance costs.

OIG Response. Because MDE and Detroit stated that the third-party benefits administrator's cost data is irrelevant, MDE and Detroit have not provided any supporting documentation for the actual costs for any of the sampled insurance benefit transactions. During our audit, we collected cost data from the third-party benefits administrator as recommended by Detroit, because Detroit said that it did not have the supporting documentation. In the draft report, we questioned only the costs that Detroit charged in excess of the costs that the third-party benefits administrator previously claimed were actual costs. However, because the third-party benefits administrator has now stated that the cost data it provided was projected and not actual, we have increased the costs to include all of the insurance benefit charges for single cost activity employees and re-classified them as inadequately documented costs. MDE and Detroit correctly noted projected costs do not qualify as support for charges to Federal awards.[9] The cost data that MDE and Detroit provided for five employees is not relevant because it does not contain any actual cost data for the employees that comprised our sample described in this finding.

[9] OMB Circular A-87, *Attachment B, Paragraph 8.h (5)(e)* quoted above.

FINDING NO. 3 – Detroit Used Title I, Part A Funds for Non-Personnel Costs That Were Unallowable or Inadequately Documented

For the 2005-2006 school year, Detroit charged unallowable ($348,664) and inadequately documented ($2,918,249) non-personnel costs, totaling $3,266,913, to the Title I, Part A program.[10] Unallowable costs Detroit charged to the Title I, Part A program consisted of payments for (1) capital expenditures for general purpose equipment and improvements to buildings that MDE did not approve, (2) services provided to non-Title I schools or ineligible students, (3) invoices that exceeded the approved contract amount or paid for shipping costs that were prohibited by the contract, (4) a duplicate invoice, and (5) an invoice for which Detroit received a credit from the vendor but did not apply the credit to the Title I, Part A program.

We considered non-personnel costs to be inadequately documented if Detroit did not provide adequate documentation to support that the costs were necessary, reasonable, and allocable to the Title I, Part A program, and the documentation provided for these costs did not demonstrate any benefit to the Title I, Part A program. Inadequately documented costs consisted of payments for (1) transactions that were not supported by invoices or receipts, (2) invoices that were vague and did not include adequate documentation, (3) computers for which Detroit could not provide evidence of existence or use by Title I students, (4) gift cards for which Detroit did not provide evidence of students receiving them, (5) an invoice paid before the services would have been received with no after-the-fact documentation demonstrating benefit to the Title I, Part A program, and (6) a payment for temporary employees with duties similar to Detroit employees.

OMB Circular A-87, *Attachment A, Paragraph C.1* provides that costs must be necessary and reasonable for proper and efficient performance and administration of federal awards, be allocable to federal awards, and be adequately documented.

Detroit charged unallowable and inadequately documented non-personnel costs to the Title I, Part A program because it did not (1) ensure that it only paid for invoices that adequately demonstrated that costs were necessary, reasonable, and allocable to the Title I, Part A program or (2) require pre-approved purchase orders. Detroit officials stated that the Title I Office did not always review invoices for charges to the Title I, Part A program before the accounts payable department paid them because some vendors sent them directly to accounts payable or individual schools, which then sent them directly to accounts payable. Also, Detroit did not document (1) which invoices were approved by the Title I Office or (2) who in the Title I Office may have approved invoices that went to the Title I Office before accounts payable paid them. Having a Title I Office official who understands the application of OMB Circular A-87 requirements review all Title I, Part A program invoices and other required support and documenting this review may have prevented the payment of unallowable and inadequately documented expenditures. Detroit charged $348,664 in unallowable costs to the Title I, Part A program. Also, Detroit cannot show how $2,918,249 in inadequately documented costs benefited the Title I program.

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[10] See Enclosure 2, Table A for details about total costs (1) Detroit charged to the Title I, Part A program, (2) we reviewed, (3) we recommend for acceptance, (4) we determined to be unallowable, and (5) we determined to be inadequately documented. Unallowable and inadequately documented costs in this finding and Enclosure 2, Table B, include related indirect costs.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education require MDE to instruct Detroit to

3.1 Return $348,664 in unallowable costs to the Department;

3.2 Either provide adequate documentation to support $2,918,249 in inadequately documented non-personnel costs or return any portion of that amount for which it does not provide adequate documentation to the Department; and

3.3 Develop and implement policies and procedures that provide reasonable assurance that Title I, Part A expenditures are necessary, reasonable, allocable, and adequately documented. Specifically, Detroit should require (1) pre-approved purchase orders for all non-personnel expenditures and (2) a designated official in the Title I Office to review all invoices for evidence that the expenditures are necessary, reasonable, allocable, and adequately document benefit to the Title I, Part A program.

Auditee Comments
MDE and Detroit did not dispute the majority of the unallowable expenditures and a portion of the inadequately documented expenditures. As described in Enclosure 2, Table B, MDE and Detroit disputed two unallowable expenditure categories and five inadequately documented expenditure categories.

OIG Response
As a result of additional documentation MDE and Detroit provided, we accepted $1,903,372 in previously inadequately documented costs as adequately documented and reclassified $10,330 in previously adequately documented costs to inadequately documented costs. The finding and recommendations have been revised accordingly. Enclosure 2, Table B explains OIG's response in detail.

FINDING NO. 4 – Detroit Used Title I, Part A Funds for Contract Expenditures That Were Unallowable or Inadequately Documented[11]

For 2004-2005 school year contracts, Detroit charged to the Title I, Part A program unallowable costs ($14,580) and inadequately documented costs ($1,764,988), totaling $1,779,568.[12] Unallowable costs Detroit charged to the Title I, Part A program consisted of payments for invoices that exceeded the approved contract amount with a specific vendor. This contract did not prescribe an hourly or weekly pay rate and was for an amount not to exceed $18,000. Detroit used Title I, Part A funds to pay the vendor for non-itemized invoices totaling $31,729, which exceeded the contract's limit by $13,729. Including related indirect costs, this unallowable amount is $14,580.

[11] All expenditures included in this finding relate to expenditures with vendors in the internal investigative report described in FINDING NO. 5.
[12] See Enclosure 1, Table A for details about total costs (1) Detroit paid to selected Title I, Part A program vendors, (2) we reviewed, (3) we recommend for acceptance, (4) we determined to be unallowable, and (5) we determined to be inadequately documented. Enclosure 1, Table B includes indirect costs.

We considered contract-related costs to be inadequately documented because Detroit did not provide enough documentation to support that the costs were necessary, reasonable, and allocable to the Title I, Part A program. The documentation provided for these costs did not demonstrate any benefit to the Title I, Part A program. Inadequately documented costs, totaling $1,764,988, consisted of payments for (1) transactions not supported by invoices or receipts; (2) transactions supported only by invoices that were vague and did not include required support; (3) invoices dated before the services would have been received and for which Detroit provided no after-the-fact support that these services were received; (4) contractors with prescribed duties similar to those of Detroit employees; (5) invoices for the development of a grants management system intended to track Title I, Part A grants and other federal and non-federal grants that was not completed, and billed for a position not listed in the contract; and (6) one invoice for an unexplained initial mobilization fee paid to a vendor that was contracted to monitor Title I programs.

OMB Circular A-87, *Attachment A, Paragraph C.1* provides that costs must be necessary and reasonable for proper and efficient performance and administration of federal awards, be allocable to federal awards, and be adequately documented.

Detroit charged unallowable and inadequately documented non-personnel costs to the Title I, Part A program because the Title I Office did not adequately review contracts or invoices. Detroit's Office of Contracting and Procurement, rather than the Title I Office, reviewed Title I, Part A contracts. Detroit officials stated that the Title I Office did not always review invoices before the accounts payable department paid them because some vendors sent invoices directly to accounts payable. Detroit did not document (1) which invoices were approved by the Title I Office or (2) who in the Title I Office may have approved invoices that went to the Title I Office before accounts payable paid them. Having a Title I Office official who understands the application of OMB Circular A-87 requirements review all Title I, Part A program contracts, invoices, and other required support and documenting this review may have prevented the payment of unallowable and inadequately documented expenditures.

Detroit could have used the $14,580 in unallowable costs charged to the Title I, Part A program for effective Title I activities and has not demonstrated how it used $1,764,988 to benefit the Title I, Part A program.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education require MDE to instruct Detroit to

4.1 Return $14,580 in unallowable costs to the Department;

4.2 Either provide adequate documentation to support $1,764,988 in inadequately documented non-personnel costs or return any portion of that amount for which it does not provide adequate documentation to the Department; and

4.3 Develop and implement policies and procedures that provide reasonable assurance that Title I, Part A expenditures related to contracts are necessary, reasonable, allocable, and adequately documented. Specifically, Detroit should require a designated official in the

Title I Office to review all contracts and invoices for demonstration that the expenditures are necessary, reasonable, allocable, and adequately document benefit to the Title I, Part A program.

Auditee Comments
MDE and Detroit did not dispute the unallowable expenditures and the majority of the inadequately documented expenditures. As described in Enclosure 1, Table B, MDE and Detroit disagreed with our conclusion that Detroit paid Title I, Part A funds for certain invoices that were inadequately documented. Specifically, MDE and Detroit disagreed with our conclusions regarding payment of invoices (1) that were dated before the services would have been received, (2) that were vague and did not include adequate documentation, and (3) paid contractors for duties similar to those of Detroit employees.

OIG Response
As a result of additional documentation MDE and Detroit provided, we accepted $5,000 in previously inadequately documented costs as adequately documented. Enclosure 1, Table B explains OIG's Response in detail.

FINDING NO. 5 – MDE Inadequately Monitored the Resolution of a Detroit Internal Investigative Report

MDE did not adequately monitor the resolution of a Detroit internal investigative report that identified unallowable contracts. MDE was aware that this internal investigation reviewed Title I, Part A contracts but did not track the resolution of the report. Detroit did not provide this report to MDE or otherwise notify MDE of the unallowable contracts identified in it.

Under the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (34 C.F.R. § 80.40), MDE is required to monitor grant and sub-grant supported activities to assure compliance with federal requirements.

Detroit's General Counsel stated that because this internal investigative report was prepared for Detroit during a review by independent counsel, it was protected by Attorney Client Privilege and could not be released to MDE. During the review, MDE was notified of specific contracts and concluded whether the contracts were allowable. Detroit was unaware that it had an obligation to further advise MDE on this issue because MDE had drawn the conclusions. MDE provided no further formal communication that it disallowed the contracts and related expenditures. MDE did not have adequate procedures in place to track the resolution of the report after an MDE official who had knowledge of the review retired.

Because MDE failed to track the resolution of this internal investigative report, Title I, Part A funds used for unallowable and inadequately documented costs were not returned to the Title I, Part A program. Also, MDE did not determine if Detroit modified the internal control deficiencies that resulted in the unallowable and inadequately documented costs.

Recommendations

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

5.1 Develop procedures to track LEA reviews that identify unallowable Title I, Part A expenditures to ensure that funds are returned to the Title I, Part A program and any internal control deficiencies are corrected; and

5.2 Provide greater oversight of federal grant funds that are distributed to Detroit. (This recommendation is based on the issues identified in all findings included in the AUDIT RESULTS section of this report).

Auditee Comments

MDE did not dispute our finding and stated that it received a copy of the investigative report on September 10, 2007. In response to the recommendations, MDE stated that (1) it has effective existing procedures to identify unallowable Title I, Part A expenditures, (2) the MDE School Auditing Manual contains procedures for reporting unallowable expenses, and (3) it is in the process of strengthening its monitoring and oversight of LEAs. MDE also described some corrective actions it will take, including developing procedures to help identify internal investigations and developing a tracking process to identify and follow up on alleged fiscal irregularities until they are appropriately dismissed or resolved.

OIG Response

While MDE stated that it has effective existing procedures to identify unallowable Title I, Part A expenditures, it received a copy of the internal investigative report only after we notified it of this finding. The corrective action it described to track fiscal irregularities and strengthen monitoring and oversight of LEAs did not include any documentation to support the tracking process it plans to establish or specifically address unallowable expenditures. Therefore, we have not changed our finding or recommendations.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether (1) Detroit returned funds received under Title I, Part A related to contracts for the 2004-2005 school year that a Detroit internal investigative report identified as unallowable; (2) expenditures related to selected Title I, Part A contracts for the 2004-2005 school year were adequately documented, reasonable, and allowable; and (3) Title I, Part A personnel and non-personnel expenditures for the 2005-2006 school year were adequately documented, reasonable, and allowable.

To achieve our objectives, we performed the following procedures:

1. Reviewed significant laws and guidance, including Title I, Part A *(Improving Basic Programs Operated by Local Educational Agencies)* of NCLB; 34 C.F.R. Part 76 *(State-Administered Programs)*; 34 C.F.R. Part 80 *(Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments)*; and OMB Circular A-87 *(Cost Principles for State, Local, and Indian Tribal Governments)*, effective June 9, 2004;
2. Interviewed Detroit officials; interviewed officials at MDE and Ceridian, Detroit's third-party benefits administrator; and reviewed documents provided by Detroit to gain an understanding of Detroit's internal control over compliance with Title I, Part A provisions of NCLB, applicable regulations, and cost principles;
3. Reviewed Detroit's organizational chart;
4. Reviewed Detroit's *Title I, Part A Regular – Improving Basic Programs Budget Summary and Budget Detail for the 2005-2006 School Year Grant; Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005*; *Comprehensive Annual Financial Report, June 30, 2006*; *Federal Awards Supplemental Information, June 30, 2005*;[13] and *Single Audit Report, June 30, 2006*;
5. Reviewed accounting records pertaining to Title I, Part A funds budgeted and expended, including Detroit's general ledgers, budget and expenditure summary financial documents, non-personnel expenditure sub-ledgers for the period July 1, 2004, through June 30, 2006, and payroll sub-ledgers for the period July 1, 2005, through June 30, 2006;[14] and
6. Reviewed contracts with vendors, invoices, purchase orders, cancelled checks, time and effort certifications, pay rosters, workshop descriptions and sign in sheets, adjusting journal entry documentation, lesson plans, and fringe benefits cost data.

[13] *Federal Awards Supplemental Information, June 30, 2005,* is Detroit's single audit for the year ended June 30, 2005.

[14] We reviewed these ledgers for both regular and carryover grant funding sources. Regular grant sources are the original Title I, Part A grants covering a 15-month period. Carryover grant sources are grant funds that were not expended in their original fiscal year, but were approved by MDE to be spent in the following fiscal year.

Review of Personnel Expenditures
Detroit charged $73,211,592 in salaries and fringe benefits to the Title I, Part A program for the year ended June 30, 2006, including both regular and carryover grant sources. This amount included a net $23,234,772 in adjusting journal entries. To review these personnel expenditures, we selected the following four samples of personnel transactions:[15]

(1) The first sample was from a universe of all personnel transactions from the payroll sub-ledgers for regular Title I, Part A grant sources for the school year ended June 30, 2006. This universe did not include carryover grant funding sources. This universe included 34,553 salary transactions totaling $30,087,010 and 91,138 fringe benefit transactions totaling $11,771,082. The universe included 125,691 salary and fringe benefits transactions totaling $41,858,092. We judgmentally selected a sample of 182 salary transactions totaling $441,313. These transactions were selected to cover compensation for Title I Office staff, workshops, supplemental activities, hourly employees, regular duties of multiple cost activity employees, regular duties of single cost activity employees, and salary transactions exceeding $7,400 in one pay period. For the sampled employees, we collected pay records, including time and effort certifications, pay rosters, workshop descriptions, and sign-in sheets. The following table identifies the salary transactions in the sample.

Table 2 – Sampled Salary Transactions

Category of Employee	Number of Salary Transactions Sampled	Amount of Salary Charges for Sample Transactions
Title I Office	68	$137,123
Workshops	20	$ 3,088
Supplemental Activities	3	$ 1,071
Hourly	5	$ 4,031
Multiple Cost Activity	32	$ 47,878
Single Cost Activity	40	$ 32,083
Transactions exceeding $7,400	14	$216,039
Sampled Items	**182**	**$441,313**
Universe	**34,553**	**$30,087,010**

From this universe, we also haphazardly selected 12 fringe benefit transactions totaling $2,008 to review fringe benefits. For these transactions, we collected records for the cost of employee insurance benefits, pension, and taxes.

(2) The second sample was from a universe of salary transactions and related fringe benefits transactions[16] from the payroll sub-ledgers for both regular and carryover Title I, Part A grant sources expended during the period August 13, 2005, through June 2, 2006. This universe only included single cost activity Title I, Part A employees. This universe partially overlaps with the

[15] A personnel transaction is a charge for salary or fringe benefits for an employee for one pay period for a specific object code in the payroll sub-ledger.
[16] We selected our sample transactions from the universe of salary transactions only. We then included, in our review, all fringe benefits transactions related to the selected salary transactions. Therefore, the dollar amount of each sampled salary transaction includes the amount for the salaries and the related fringe benefits amounts.

universe in the first sample. We randomly sampled 400 salary transactions totaling $863,512, which includes salaries and related fringe benefits, from a universe of 13,948 transactions totaling $30,209,812 in salaries and related fringe benefits. For all 400 salary transactions, we reviewed available time-and-effort certifications. For the first 30 transactions, we also reviewed pay rosters and employee insurance benefit cost data to determine if Detroit charged the correct insurance benefits for each transaction.

(3) The third sample was from a universe of all salary and fringe benefits adjusting journal entries for the 2005-2006 school year. We judgmentally selected, based on transaction descriptions that did not appear to be Title I, Part A program related, 17 adjusting journal entries totaling a net $21,844,901 from a universe of 49 adjusting journal entries totaling a net $23,234,772 for the year ended June 30, 2006. This universe included both regular and carryover grant sources. We traced these transactions to adjusting journal entry documents.

(4) The fourth sample was from a universe of kindergarten teachers whose compensation for the 2005-2006 school year was charged to the Title I, Part A grant in one adjusting journal entry totaling $11,499,897 in salaries and benefits. This adjusting journal entry was 1 of the 17 sampled entries included in the third sample. We judgmentally selected 5 teachers who received a total of $408,576 in salary and fringe benefits from a universe of 145 kindergarten teachers, because these 5 employees were teachers at targeted assistance schools and paid with Title I, Part A funds. We compared the rosters of students who these teachers taught with a listing of Title I, Part A students at their schools.

<u>Review of Non-Personnel Expenditures</u>
For the 2004-2005 school year, we tested judgmentally selected non-personnel transactions with vendors that were included in the Detroit internal investigative report.[17] For those vendors that we determined had unallowable or inadequately documented costs during the 2004-2005 school year, we also reviewed all expenditures during the 2005-2006 school year. We reviewed a total of 90 judgmentally selected non-personnel transactions, totaling $1,872,787, from a universe of 148 transactions totaling $2,158,766. The transactions reviewed included 87 of 113 transactions with 11 vendors and 3 of 35 transactions for a series of Title I, Part A mini-grants from Detroit to schools.

For the 2005-2006 school year, we reviewed a total of 124 judgmentally selected non-personnel transactions, totaling $10,417,114, from a universe of 28,515 non-personnel transactions totaling $46,199,780. We also reviewed a total of 6 adjusting journal entries totaling a net negative $3,027,550 from a universe of 98 adjusting journal entries totaling a net negative $3,020,701. These 98 adjusting journal entries included both positive and negative transactions.

<u>Data Reliability</u>
To achieve our objectives, we relied, in part, on computer-processed general ledger and sub-ledger data originally obtained from Detroit's accounting system. This data contained our universe of Title I, Part A personnel and non-personnel expenditures for the 2004-2005 and 2005-2006 school years. We verified the completeness and accuracy of the data by reviewing supporting documentation to validate expenditure amounts recorded in Detroit's general ledgers

[17] This report identified unallowable contracts but did not identify the total expenditures charged to the Title I, Part A grant for each vendor. To achieve Objective 2, we identified and tested expenditures for each vendor.

and comparing sub-ledgers to the general ledgers. Expenditures were generally supported by evidence such as invoices, cancelled checks, time and effort certifications, and pay rosters. Therefore, we concluded that the computer-processed data were sufficiently reliable for the purposes of our audit.

We performed our audit work at Detroit's schools and administrative office in Detroit, Michigan, and our offices, from February through November 2007. We discussed the results of our audit with Detroit and MDE officials on November 27, 2007. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

Enclosure 1: Cost Schedules for the 2004-2005 School Year

TABLE A: Schedule of Sampled Costs Reviewed, Recommended for Acceptance, Unallowable Costs, and Inadequately Documented Costs for the 2004-2005 School Year (Excluding Indirect Costs)

Cost Category	Total Paid to Selected Vendors	Total Costs Reviewed	Costs Recommended for Acceptance	Unallowable Costs	Inadequately Documented Costs
Non-Personnel Transactions	$2,158,766	$1,872,787	$196,462	$13,729	$1,662,596

TABLE B: Total Unallowable and Inadequately Documented Costs for the 2004-2005 School Year (Including Indirect Costs)

Cost Category	Unallowable Costs	Unallowable Indirect Costs	Total Unallowable Costs	Inadequately Documented Costs	Inadequately Documented Indirect Costs	Total Inadequately Documented Costs
Non-Personnel Transactions	$13,729 (1)	$851	$14,580	$1,662,596 (2)	$102,392	$1,764,988

(1) Contrary to OMB Circular A-87, *Attachment A, Paragraph C.1*, which provides that, to be allowable, costs must be, among other things, necessary and allocable to federal awards, Detroit overpaid $13,729 to a vendor to provide consulting services. The contract with the vendor did not prescribe an hourly or weekly pay rate and was for an amount not to exceed $18,000. Detroit paid this contractor for non-itemized invoices totaling $31,729, which exceeded the contract's limit by $13,729.

(2) Contrary to OMB Circular A-87, *Attachment A, Paragraph C.1*, Detroit did not provide adequate documentation to show that these costs were necessary and reasonable for proper and efficient performance of federal awards, and allocable to federal awards.

- Transactions were not supported by invoices or receipts ($8,014).
- Transactions were supported by invoices that were vague and did not include adequate documentation ($1,048,563). Detroit paid for (1) a Teacher Toolkit Video Conferencing Project but did not provide evidence of the project or what teachers the project was for ($3,692), (2) an after school program for which it did not provide the specific dates the after school program occurred or a list of students and schools that participated in each session ($37,100), (3) payments for invoices for which Detroit did not provide Production Reports and Financial Reports required by the contract with the vendor ($148,604), and (4) a college preparatory program for which the invoices had no itemization of costs as required by the contract, including a description of the college preparatory program, an explanation of which students the

program was made available to, the dates and locations the program occurred, or the names of all students who participated ($859,167).

- Detroit paid for invoices dated before the services would have been received and provided no after-the-fact documentation that these services were received ($246,167). Detroit paid for (1) martial arts training for which it did not provide the dates of the training or a list of the students who participated ($150,000) and (2) consulting services with vague invoice descriptions that did not demonstrate benefit to the Title I, Part A program ($96,167).
- Detroit paid contractors for duties similar to those of Detroit employees ($111,713). Detroit paid for (1) assessment of Title I schools, which was similar to the duties of Title I Office program supervisors ($5,000); (2) website management for which it did not explain why its internal information technology department did not provide this service ($7,000); and (3) other consulting services, including completion of the Michigan Electronic Grants System applications and assisting with a U.S. Department of Education, Office of Inspector General audit, which were the prescribed duties of the Title I Office's Executive Director and Director ($99,713).
- Invoices paid were for the development of a case management system that was intended to track Title I grants and other federal and non-federal grants ($173,140). The vendor did not complete this system, Detroit never used the system, and some of the invoices billed for a Deputy Consultant, which was not an approved position in the contract.
- One invoice ($75,000) was for a *Start up cost for Audit Compliance Services*. The contract with this vendor did not explain why this charge was necessary or how it was computed. Therefore, Detroit did not demonstrate the reasonableness of this payment. All of the subsequent invoices with this vendor, which was hired to monitor Title I programs, were inadequately documented.

Auditee Comments and OIG Response

Title I, Part A Funds Expended for Martial Arts Training (included in the draft report as Enclosure 1, Table B, Item 2, third bullet)

Auditee Comments. MDE and Detroit stated they provided a number of documents regarding these services that demonstrate benefit to the Title I, Part A program. They provided two cancelled checks totaling $150,000, a program description, a list of all of the schools that received services, and sign-in sheets for all students who participated in the program from 2004-2006.

OIG Response. We determined we already reviewed most of the documentation provided for this sub-finding. The documentation included some sign-in sheets but did not include a list of all the schools that received services. The only new documentation provided was several sign-in sheets for December 2005, January 2006, and April 2006. These sign-in sheets adequately documented $5,000 of the expenditures for these classes. Therefore, we re-classified as adequately documented $5,000 of the $155,000 included in the draft report. Because we have no evidence of benefit to the Title I, Part A program for the remaining expenditures, $150,000 remains inadequately documented. We modified this enclosure to reflect this updated amount.

Title I, Part A Funds Expended for Accounting and Financial Services
Auditee Comments. MDE and Detroit stated that they have submitted documentation to demonstrate that EVO Accounting and Financial Services (EVO) provided a benefit to the Title I, Part program. For certain transactions, MDE and Detroit stated they provided invoices with (1) weekly status reports that explain accomplishments, new project developments, observations and recommendations, planned tasks for the subsequent week, and a weekly schedule; and (2) timesheets. MDE and Detroit stated that the weekly timesheets detail the number of hours each EVO consultant worked. They also concluded that the documentation adequately documented the expenditures relating to five specific invoices.

OIG Response. The documentation provided did not demonstrate that Detroit's Title I, Part A program benefited from the expenditures relating to the following invoices or that the charges were reasonable. MDE's and Detroit's submissions in response to our draft report provided no after-the-fact support to show that EVO's services referred to on the invoices were received, as may have been documented on the Production Reports and Financial Reports for December 2004, January 2005, and February 2005. These reports were required by the contract between Detroit and EVO. We requested these reports during our audit, but MDE and Detroit did not provide them. The charges remain inadequately documented.

Invoice for $6,712.50, dated January 3, 2005 (included in the draft report as Enclosure 1, Table B, Item 2, second bullet, number 3)
Auditee Comments. In response to our request for the employee hourly reports for the weeks covered by this invoice (the weeks ended December 17, 2004, and December 24, 2004), MDE and Detroit provided only employee hourly reports for the week ended December 31, 2004, which listed no billable hours for EVO. They did not provide the hourly reports for the weeks ended December 17, 2004, and December 24, 2004. MDE and Detroit stated that the employee hourly reports for the week ended December 31, 2004, demonstrate that (1) EVO was not previously paid for services rendered by its consultants for the weeks ended December 17 and 24, 2004; (2) EVO was not paid for 83.5 billable hours; and (3) Detroit paid this amount to compensate EVO for those billable hours.

OIG Response. MDE and Detroit did not provide support to change this portion of the sub-finding because (1) they did not provide employee hourly reports for the weeks covered by the invoice, (2) they did not provide the required Production Report and Financial Report for December 2004, and (3) the weekly client status report for December 31, 2004, is not reliable. The latter report is not reliable because it states that billable hours were 83.5 as of December 31, 2004, while the invoice bills for 89.5 hours through December 24, 2004. Thus, this invoice remains inadequately documented.

Invoice for $45,833.33, dated January 4, 2005 (included in the draft report as Enclosure 1, Table B, Item 2, third bullet, number 2)
Auditee Comments. MDE and Detroit stated Detroit did not prepay the invoice because, while the invoice specified the services were to be provided in January 2005, the invoice is dated January 4, 2005, and Detroit paid the invoice on January 13, 2005 (as demonstrated by a "Distributed" stamp and hand-written date on the invoice).

OIG Response. This invoice for EVO services through the end of January was dated before most of the services were to be provided. Detroit's contract with EVO requires EVO to bill Detroit for services rendered the previous month. Also, the documentation provided no support to change this portion of the sub-finding because the documentation (1) is vague as to the services to be rendered, (2) did not provide employee hourly reports for the weeks covered by the invoice, and (3) did not provide the required Production Report and Financial Report for January 2005. Thus, this invoice remains inadequately documented.

<u>Invoice for $45,833.33, dated February 8, 2005 (included in the draft report as Enclosure 1, Table B, Item 2, third bullet, number 2)</u>
Auditee Comments. MDE and Detroit stated Detroit did not prepay the invoice because, while the invoice specified the services were to be provided in February 2005, the invoice is dated February 8, 2005, and Detroit paid the invoice on February 10, 2005 (as demonstrated by a "Distributed" stamp and hand-written date on the invoice).

OIG Response. We do not agree that the stamp and date show when the invoice was paid. This invoice remains inadequately documented because the invoice was dated before most of the services were to be provided, and MDE and Detroit have not provided any after-the-fact support, such as the required Production Report and Financial Report for February 2005, demonstrating that services were received. Detroit's contract with EVO requires EVO to bill Detroit for services rendered the previous month.

<u>Invoice for $22,912.50, dated February 7, 2005 (included in the draft report as Enclosure 1, Table B, Item 2, fourth bullet, number 2)</u>
Auditee Comments. MDE and Detroit stated the weekly status reports and time sheets for the weeks ended January 7, January 14, January 21, January 28, and February 4, 2005, demonstrate that EVO consultants provided services to Detroit for that time period. The hourly reports for the weeks ended January 7, 14, 21, and 28, 2005, indicate the consultants worked on the plan to assist Detroit with the U.S. Department of Education, Office of Inspector General audit and reviewed for compliance documents requested during the audit. MDE and Detroit disagreed with our view that these services were similar to the duties of the Title I Director.

OIG Response. We have not changed our conclusion that Detroit's expenditures for these services are not adequately documented because (1) the identified audit services were similar to the duties of the Title I Office's Executive Director and Director; (2) the audit services identified in the hourly reports were inconsistent with the duties identified in the contract between Detroit and EVO; and (3) Detroit did not provide the required Production Report and Financial Report for January 2005, which may have shown in detail the services rendered by EVO during that month.

<u>Invoice for $5,400, dated February 23, 2005 (included in the draft report as Enclosure 1, Table B, Item 2, fourth bullet, number 2)</u>
Auditee Comments. MDE and Detroit stated the weekly status report and time sheets for the weeks ended February 11 and February 18, 2005, demonstrate that EVO consultants provided services to Detroit during that time period. The hourly reports for those weeks indicate the consultants worked on assisting Detroit with the U.S. Department of Education, Office of Inspector General audit. MDE and Detroit disagreed with our view that these services were similar to the duties of the Title I Director.

OIG Response. We have not changed our conclusion that Detroit's expenditures for these services are not adequately documented because (1) the identified audit services were similar to the duties of the Title I Office's Executive Director and Director; (2) the audit services identified in the hourly reports were inconsistent with the duties identified in the contract between Detroit and EVO; and (3) Detroit did not provide the required Production Report and Financial Report for February 2005, which may have shown in detail the services rendered by EVO during that month.

Enclosure 2: Cost Schedules for the 2005-2006 School Year

TABLE A: Schedule of Sampled Costs Reviewed, Recommended for Acceptance, Unallowable Costs, and Inadequately Documented Costs for the 2005-2006 School Year (Excluding Indirect Costs)

Cost Category	Total Charged to Title I, Part A	Total Costs Reviewed[18]	Costs Recommended for Acceptance	Unallowable Costs	Inadequately Documented Costs
Personnel Transactions	$49,976,820	$1,303,725	$861,447	$20,926	$421,353
Personnel Adjusting Journal Entries	$23,234,772	$21,844,901	$8,222	$173,563	$21,663,117
Non-Personnel Transactions	$46,199,780	$10,417,114	$7,349,980	$326,757	$2,740,377
Non-Personnel Adjusting Journal Entries	($3,020,702)	($3,027,550)	($3,027,550)	$0	$0
Totals (net)	**$116,390,670**	**$30,538,190**	**$5,192,099**	**$521,246**	**$24,824,847**

[18] Some totals in this table do not add to the exact dollar because of rounding differences. All amounts are rounded to the nearest dollar.

TABLE B: Total Unallowable and Inadequately Documented Costs for the 2005-2006 School Year (Including Indirect Costs)

Cost Category	Unallowable Costs	Unallowable Indirect Costs	Total Unallowable Costs[19]	Inadequately Documented Costs	Inadequately Documented Indirect Costs	Total Inadequately Documented Costs
Personnel Transactions[20]	$786,955	$53,033	$839,988	$22,913,957	$1,488,368	$24,402,325
Personnel Adjusting Journal Entries	$173,563	$12,011	$185,574	$21,663,117	$1,481,375	$23,144,492
Non-Personnel Transactions	$326,757 (1)	$21,906	$348,664	$2,740,377 (2)	$177,872	$2,918,249
Non-Personnel Adjusting Journal Entries	$0	$0	$0	$0	$0	$0
Totals	**$1,287,275**	**$86,950**	**$1,374,226**	**$47,317,451**	**$3,147,615**	**$50,465,066**

(1) OMB Circular A-87, *Attachment A, Paragraph C.1*, provides that, to be allowable, costs must be, among other things, necessary and allocable to federal awards.

- Detroit paid for capital expenditures for general purpose equipment and improvements to buildings that MDE did not approve ($137,780), including payments for digital copiers ($57,492) and classroom repairs and renovations ($80,288). OMB Circular A-87, *Attachment B, Paragraph 15.b* provides that capital expenditures for general purpose equipment and improvements to buildings which materially increase their value or useful life are unallowable as direct charges, except where approved in advance by the awarding agency. Detroit budgeted for these expenditures on its Consolidated Application under the category 'Purchased Services,' rather than 'Capital Outlay,' which is for equipment items with a cost of $5,000 or more per unit. Therefore, MDE was not aware that Detroit was budgeting for capital expenditures.
- Detroit paid for services to non-Title I schools or ineligible students ($100,399), including payments totaling $42,943 for reading and mathematics testing at two, non-Title I schools (Bates Academy and Renaissance High School) and payments for supplemental educational services for students not attending a Detroit school ($57,456).
- Detroit paid for invoices that exceeded the approved contract amount or paid for shipping costs that were prohibited by a contract ($86,781). This amount included an overpayment to a vendor for consulting services for $81,950, which was for the first option year of the contract with the vendor (for the period September 1, 2005, through August 31, 2006). The amount paid ($1,314,570) exceeded the approved amount in the contract ($1,232,620) by $81,950. Also, Detroit paid a vendor $4,831 for shipping.

[19] Some totals in this table do not add to the exact dollar because of rounding differences. All amounts are rounded to the nearest dollar.
[20] The costs for personnel transactions in this table include amounts applied or projected to the universe of personnel costs based on sample testing.

However, according to the contract with this vendor, the vendor could not charge for shipping expenses.

- Detroit paid for an invoice twice ($1,043). Detroit voided the check for one of the payments but did not reverse the duplicate charge to the Title I, Part A program.
- A credit was not applied to the Title I, Part A program ($755). Detroit purchased 31 computers for Blackwell Institute and received one that was damaged. The school received a credit of $755 for this damaged computer, which was no longer at the school. However, this credit was not applied to the Title I, Part A program.

Auditee Comments and OIG Response

Capital Expenditures (included in the draft report as Enclosure 2, Table B, item 1, first bullet)

Auditee Comments. MDE and Detroit concurred that MDE did not pre-approve the capital expenditures. MDE and Detroit provided a sworn affidavit from MDE's Field Services Consultant in the Office of School Improvement stating this employee reviewed documentation related to some of these expenditures after-the-fact. The employee concluded that $90,146 of these capital expenditures would have been allowable. MDE and Detroit also provided copies of invoices.

OIG Response. MDE and Detroit did not provide any new documentation and agreed that it did not approve these expenditures in advance. OMB Circular A-87, *Attachment B, Paragraph 15.b* provides that capital expenditures for general purpose equipment and improvements to buildings which materially increase their value or useful life are unallowable as direct charges, except where approved in advance by the awarding agency. Without the draft report, MDE would not have approved, or even been aware of, these capital expenditures because Detroit misclassified them as 'Purchased Services' instead of 'Capital Outlay' on its Consolidated Application.

Payments for Reading and Mathematics Testing Software (included in the draft audit report as Enclosure 2, Table B, item 1, second bullet, for $42,943)

Auditee Comments. MDE and Detroit stated the contract for testing software with Renaissance Learning, Inc. did not include Bates Academy. MDE and Detroit also provided a letter from this vendor stating Renaissance High School was originally in the contract, but its software license was transferred to Chadsey High School. MDE and Detroit stated this documentation demonstrates that the $42,943 was not for non-Title I, Part A schools and is therefore allowable.

OIG Response. $39,307 of the $42,943 involved a vendor other than Renaissance Learning, Inc., so the contract and letter MDE and Detroit described above were only relevant to $3,636 of this sub-finding. The invoice from Renaissance Learning, Inc. included both Chadsey High School and Renaissance High School, so the statement that the license was transferred to Chadsey High School is not valid. Therefore, the $3,636 paid to this vendor remains unallowable.

As part of the response to another sub-finding, MDE and Detroit provided the contract related to $39,307 of the $42,943, but this contract included no documentation, such as a list of schools, to refute this sub-finding. Both Renaissance High School and Chadsey High School were also included on the invoices from that vendor, so the statement that the license was transferred to Chadsey High School is not valid. Therefore, the $39,307 paid to that vendor remains unallowable.

(2) Contrary to OMB Circular A-87, *Attachment A, Paragraph C.1*, Detroit did not provide adequate documentation to show that these costs were necessary and reasonable for proper and efficient performance of federal awards, and allocable to federal awards.

- Transactions were not supported by invoices or receipts ($20,763).
- Invoices were vague and did not include adequate documentation ($452,170). Detroit paid $92,600 for an invoice that stated that a Project Manager, Technical Assistant, and 40 Assessment Advisors provided services from September 2005 through March 2006. The invoice listed an amount for each month, with no detail of hours worked. Detroit did not provide the contract or other evidence to explain what Title I services were provided or the hours worked. Detroit also paid $161,000 for a science program that the vendor would have provided two years prior to this payment. Detroit provided no after-the-fact support to demonstrate what services were received or what students or schools were served. Detroit also paid for two invoices totaling $164,713 for school nurses who would have provided services over two years prior to the payments. Detroit did not provide the contracts for the nurses applicable to the periods covered by the invoices and did not provide a description of the type of services provided or Consultants' Reports, which were required by the contract with the vendor for a previous year. Detroit also paid $33,857 for meals at local hotels for Title I school events but could not support the number of meals purchased.
- Detroit leased computers for which it could not provide evidence of existence or use by Title I students ($976,900). Detroit leased 1,534 desktop computers and 554 laptop computers, including installation and insurance, for $879,426. Detroit provided us with the shipping report from the vendor and shipping records from the schools that were to receive these computers. For 5 of 22 judgmentally selected schools, the number of computers listed on the vendor's shipping reports was greater than the number of computers shipped to these schools according to Detroit's shipping records. Therefore, Detroit's shipping records for these 5 schools did not support all of the computers shipped to those respective schools according to the vendor's shipping records. Also, during our visit to 1 of these schools (Cleveland High School), the school did not show us any of the 22 computers that were leased for the school, according to the vendor's shipping report. We have no assurance that (1) Detroit can physically account for $876,428 of the computers or laptops leased for $879,426 or that (2) those computers are currently being used by eligible Title I students. Detroit also paid $550,145 for computers that were supported by an invoice that did not list the number of units purchased or a per unit price. Based on another invoice for identical computers that was dated within 16 days of the invoice date, we calculated that Detroit purchased 589 computers at a per unit price of $934.24. Because Detroit provided serial numbers and locations for only 500 computers, 89 computers totaling $83,025 are unaccounted for and inadequately documented. Also, Detroit purchased 37 computers for Cleveland Middle School. Because we could not physically verify 13 of the computers at the school and because we have evidence that 12 of the 13 computers were either stolen, damaged, or were reported missing, 13 computers totaling $17,447 are inadequately documented.
- Detroit paid for supplemental educational services that were not supported by detailed attendance forms ($17,581). These forms, required by the contracts with vendors, were necessary to document students tutored, hours tutored, and dates of service.

- Detroit paid $4,028 for movies ($1,500), incentives ($314), gym mats ($790), and book bags and T-shirts ($1,423) for which it provided no evidence of benefit to the Title I, Part A program.
- Detroit paid $5,675 for gift cards for which it provided no record of whether the appropriate students received the gift cards (which were awarded for attendance and involvement in a program that encouraged students to improve academic achievement and employability skills).
- Detroit paid invoices before the services would have been received ($1,254,935) and did not provide any after-the-fact documentation demonstrating benefit to the Title I, Part A program. One invoice ($1,232,620) included pre-payment for, among other items, (1) 75 consultant days for $112,500, (2) training materials for $105,900, and (3) 448 consultant days for $672,000. Detroit only provided support for 10 consultant days paid for $15,000. For the remaining $1,217,620 of this invoice, Detroit did not provide the specific dates that the consulting services would have been provided at schools, the locations of the services, a list of the specific training materials received, or evidence that it received $105,900 in training materials. Therefore, $1,217,620 of this invoice is inadequately documented. For another invoice ($37,315), Detroit received the invoice 4 months before, and paid it 3 months before, the vendor was scheduled to provide the service. Detroit provided no after-the-fact support to demonstrate that this service was provided.
- Detroit paid for temporary employees whose duties were similar to those of Title I Office employees ($8,325). The duties of these temporary employees included monitoring and creating Title I budgets, which are similar to the duties of the Title I Director and Program Supervisors. Detroit did not explain why it hired these temporary employees or demonstrate that they provided any services beyond what the Title I Director and Program Supervisors were already paid to do.

Auditee Comments and OIG Response

Harvard Graduate School of Education Professional Program Expenses (included in the draft report as Enclosure 2, Table B, item 2, first bullet, for $37,315)

Auditee Comments. MDE and Detroit provided the invoice for this transaction which lists the per-participant charge and provided a list of the participants. MDE and Detroit stated that this documentation adequately documents the expense.

OIG Response. The invoice, dated February 20, 2006, and paid on March 16, 2006, was for services to be provided on June 25-30, 2006. Therefore, Detroit received this invoice 4 months before, and paid it 3 months before, the vendor was scheduled to provide the service. MDE and Detroit provided no after-the-fact support to demonstrate that the service was provided. Therefore, we classified this cost as having an invoice paid before the services would have been received with no after-the-fact support demonstrating benefit to the Title I, Part A program, rather than a cost not supported by an invoice. We moved this cost to Enclosure 2, Table B, item 2, seventh bullet.

Payment for Meals with Title I, Part A Funds Related to 3-Day Workshop (included in the draft report as Enclosure 2, Table B, item 2, second bullet, for $23,527)
Auditee Comments. MDE and Detroit stated they provided (1) documentation to support the number of meals purchased, including the $23,527 that was inadequately documented; and (2) workshop agendas, contemporaneous sign-in sheets for staff, and a list of the Center for School Leaders staff and Detroit central-level staff that attended.

OIG Response. MDE and Detroit provided a list of the Center for School Leaders staff and Detroit central-level staff that attended for March 9-11, 2006, and sign-in sheets for these three days. During the audit, we already received and reviewed the sign-in sheets for March 9 and March 11. The sign-in sheets for March 10 were new sign-in sheets that were completely different from the ones Detroit provided during the audit. While most of the names are different, we identified 13 names that were on both sign-in sheets. Some of the 13 names were initialed on both sheets, and others were only initialed on one sheet. MDE and Detroit did not explain why these individuals would have signed two sign-in sheets for the same day. Additionally, the initials for 6 names on the 2 sign-in sheets appear different. These discrepancies place the authenticity and credibility of both sign-in sheets for March 10 in question. Therefore, we did not accept either sign-in sheet and classified the entire amount paid for meals for March 10 as inadequately documented. Because we will no longer accept any of the sign-in sheets provided for March 10, $10,330 that we previously determined was adequately documented is now inadequately documented. In total, $33,857 is now inadequately documented. We modified this enclosure to reflect this updated amount.

Detroit provided additional sign-in sheets for March 11. However, these sign-in sheets appeared to be for a different event because they were identified with the title 'NBPTS 2005-2006 Additional Sessions' rather than 'The Challenge of Leadership. . .' title that was on the other sign-in sheets for March 10 and March 11. We also did not accept the list of the Center for School Leaders staff and Detroit central-level staff that attended because it did not include any initials. Also, one name on this list also appeared on a sign-in sheet without signed initials.

Computers Leased with Title I, Part A Funds (included in the draft report as Enclosure 2, Table B, item 2, third bullet, for $879,426)
Auditee Comments. MDE and Detroit disagreed that Detroit purchased the computers and stated that they were leased. MDE and Detroit also stated that each school's *Receipt of Equipment Form* documents that the leased computers were received by Detroit schools, and therefore, Detroit adequately documented this expense.

OIG Response. MDE and Detroit provided (1) documentation of a cancelled purchase order and a new purchase order for the leased computers, (2) the invoice, and (3) *Receipt of Equipment Forms* for 4 schools (Academy of the Americas, Bennett, Cleveland, and George Washington Carver). The only new documentation provided was the *Receipt of Equipment Forms.* We reviewed the *Receipt of Equipment Forms* for the 4 schools to determine if they matched the shipping records from the vendor. The serial numbers for computers provided for two schools (Academy of the Americas and Bennett) did not match. Only 3 of 22 computer serial numbers for Cleveland matched. However, because we were unable to view any of the computers listed on the shipping report from the vendor during our visit to Cleveland, we did not accept this documentation. Ten of 11 serial numbers matched for George Washington Carver. Because the Principal signed this form documenting that these 10 computers were at the school as of October

29, 2007, we accepted this documentation for the 10 computers. Therefore, $2,998 of the $879,426 is now adequately documented and $876,428 of the $879,426 remains inadequately documented. We modified this enclosure to reflect these updated amounts.

We modified this finding to state that Detroit leased the computers. Regardless of whether Detroit purchased or leased the computers, it should be able to account for the computers that were shipped to each school. Detroit has not demonstrated schools received computers leased with Title I, Part A funds.

<u>Title I, Part A Funds Expended for Consulting Services (included in the draft report as Enclosure 2, Table B, item 2, seventh bullet, for $1,232,620)</u>
Auditee Comments. MDE and Detroit stated they provided documentation that clearly demonstrates the $1,232,620 benefited the Title I, Part A program and stated there is no evidence that Detroit prepaid invoices. MDE and Detroit also stated they provided supplementary documents that further demonstrate the vendor provided services to Detroit that benefited the Title I, Part A program, including the *Algebraic Thinking Report for Fourth Quarter, 2005-2006;* an example of the schedule for a professional development *Algebraic Thinking Project* session; a chart of the distribution of assessment used for each *Skill Builder Assessment;* and student textbook distribution for school year 2005-2006. In addition, it provided a number of sign-in sheets for training sessions conducted by the vendor for 6th and 8th grade teachers for the following dates: August 1-5, 2005; August 8-12, 2005; July 24-28, 2006; and July 31-August 4, 2006. MDE and Detroit also stated that because this documentation describes the services provided, the goods that were delivered, and confirms the dates that training sessions occurred, it demonstrates that Detroit's Title I, Part A program received a benefit from this expenditure.

OIG Response. The documentation provided clearly indicates that Detroit paid this invoice before it would have received most of these services. The invoice was dated September 22, 2005, and Detroit paid the invoice on November 17, 2005. The invoice was for the period September 1, 2005, through August 31, 2006. The *Algebraic Thinking Report for Fourth Quarter, 2005-2006* includes an undated and unsigned report from the vendor that gives short summaries of conclusions for many schools, but provides no evidence of if or when required visitations or consultations sessions were made to these schools. While the invoice itemizes a total of 448 school visits (8 each to 56 schools), the documentation states that the vendor made at least 1,386 school visits (14 each to 99 schools). We have no evidence of when this report was written or by whom. The large discrepancy in the number of schools served and the total number of school visits and the lack of dates or signatures of any Detroit or vendor official discredits the entire vendor report. The example of the schedule for a professional development *Algebraic Thinking Project* session did not identify the year the session took place. Therefore, we cannot determine if it took place during the period covered by the invoice, and we cannot accept it as support. The chart of the distribution of assessment used for each *Skill Builder Assessment* provides no evidence of consulting days or visitation to schools, so we cannot accept it. The student textbook distribution for school year 2005-2006 is too vague to accept as support because it does not identify the specific books that would have been provided or list the cost per book. It also does not indicate that any items were actually distributed to schools and has no signatures or dates. The sign-in sheets provided for August 1-5, 2005, and August 8-12, 2005, are not relevant because they did not relate to the period covered by the invoice. The sign-in sheets provided for July 24-28, 2006, and July 31-August 4, 2006, are relevant to the period covered by the invoice and adequately document 10 consulting days provided by the vendor. For this expenditure,

$15,000 is adequately documented. Other than documentation for 10 consulting days, Detroit provided none of the specific after-the-fact documentation we requested to demonstrate it received any of the items on the invoice. Therefore, $1,217,620 of the $1,232,620 remains inadequately documented. We modified this enclosure to reflect this updated amount.

Title I, Part A Funds Expended for Math and Reading Testing (included in the draft report as Enclosure 2, Table B, item 2, second bullet, for $1,885,374)
Auditee Comments. MDE and Detroit provided contracts and contract modifications with the vendor for 2002-2007. MDE and Detroit referred to specific portions of the contract provided and stated that this documentation covers a number of different goods and services provided to Detroit and supports these expenditures for $1,885,374.

OIG Response. The contract MDE and Detroit provided demonstrated benefit to Title I, Part A schools. Therefore, we reclassified these expenditures totaling $1,885,374 as adequately documented in this enclosure.

TABLE C – Schedule of Unallowable and Inadequately Documented Personnel Cost Duplication

	Unduplicated	Duplicated	Total	Duplicated with Finding Number
PERSONNEL TRANSACTIONS				
Unallowable – Finding 1A	$571,025	$0	$571,025	
Unallowable – Finding 1B	$203,000	$0	$203,000	
Unallowable – Finding 1D	$65,962	$7,329	$73,292	1B
Total Unallowable Costs[21]	**$839,988**	**$7,329**	**$847,317**	
Inadequately Documented – Finding 2A	$8,042,577	$1,077,363	$9,119,940	2E[22]
Inadequately Documented – Finding 2B	$12,268,402	$711,358	$12,979,760	1A, 1B, and 1D[23]
Inadequately Documented – Finding 2C	$3,252	$22	$3,274	1B
Inadequately Documented – Finding 2E	$4,088,095	$0	$4,088,095	
Total Inadequately Documented Costs	**$24,402,325**	**$1,788,743**	**$26,191,069**	
Total Unallowable and Inadequately Documented Costs	**$25,242,313**	**$1,796,072**	**$27,038,385**	
PERSONNEL ADJUSTING JOURNAL ENTRIES				
Unallowable – Finding 1C	$173,082	$0	$173,082	
Unallowable – Finding 1E	$12,492	$0	$12,492	
Total Unallowable Costs	**$185,574**	**$0**	**$185,574**	
Inadequately Documented – Finding 2D	$23,144,492	$173,082	$23,317,574	1C
Total Unallowable and Inadequately Documented Costs	**$23,330,065**	**$173,082**	**$23,503,147**	

Finding 1A = Excessive Employee Insurance Benefits, page 6.
Finding 1B = Excessive Title I Office Employee Compensation, page 6.

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[21] Some totals in this table do not add to the exact dollar because of rounding differences. All amounts are rounded to the nearest dollar.
[22] We are 90 percent confident that the projected duplicated inadequately documented employee insurance benefits are $1,014,467, plus or minus $181,372 (17.88 percent). Including indirect costs of $62,897, the duplicated amount is a projected $1,077,363.
[23] Cost Duplication = $442,396 with Finding 1A only, $195,671 with Finding 1B only, $65,962 with Finding 1D only, and $7,329 with both Findings 1B and 1D.

Finding 1C = Excessive Targeted Assistance Teacher Compensation, page 7.
Finding 1D = Disciplinary Administrative Leave Compensation, page 7.
Finding 1E = Duplicate Compensation Charge, page 8.
Finding 2A = Inadequate Time and Effort Certifications, page 11.
Finding 2B = Inadequate Personal Activity Reports for Non-Workshop Duties, page 11.
Finding 2C = Inadequate Personal Activity Reports for Workshop Duties, page 11.
Finding 2D = Inadequate Time and Effort Certifications or Personal Activity Reports for Compensation Charges in Adjusting Journal Entries, page 12.
Finding 2E = Inadequately Documented Employee Insurance Benefits, Page 13.

Enclosure 3: Auditee's Comments

On March 13, 2008, MDE and Detroit provided comments to the draft report and 17 exhibits. On March 28, 2008, MDE and Detroit provided supplemental comments to the draft report and an additional 7 exhibits. We documented the comments and the supplemental comments in this enclosure. The exhibits will be made available upon request.

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

MICHAEL P. FLANAGAN
SUPERINTENDENT OF
PUBLIC INSTRUCTION

March 13, 2008

Mr. Gary Whitman
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
500 West Madison Street
Suite 1414
Chicago, IL 60661

RE: The School District of the City of Detroit's Use of Title I, Part A Funds Under the No Child Left Behind Act of 2001; Office of Inspector General Draft Audit Report (Control Number ED-OIG/A05H0010)

Dear Mr. Whitman:

Thank you for the opportunity to comment on the above referenced Office of Inspector Draft Audit Report. Because that report dealt extensively with Detroit Public Schools' (DPS) use of funds under Title I, Part A of the No Child Left Behind Act, we worked closely with DPS staff in responding to your proposed findings. I am enclosing a detailed response, which was developed collaboratively by the Michigan Department of Education (MDE) and DPS. I am also enclosing a number of exhibits referenced in our response.

We find compelling assertions involving the audit's failure to review all available provided documentation, erroneous reliance upon budgeted rather than actual expenditures, schoolwide flexibility, issues regarding small sample sizes, and a failure to analyze harm to the Federal interest. We are also deeply concerned about the educational impact that any financial disallowance would have on this very financially distressed school district. We are grateful for your cooperative approach in granting us a 5-week extension on our original response due date. Nonetheless, given the extensive nature of the findings, as well as significant recent turnover among the DPS staff, we know that there is much more relevant material to be analyzed and submitted. We request your authorization to make a subsequent supplemental response to these findings, particularly those involving documentation regarding goods and services received by DPS (primarily addressed in Findings No. 3 and 4).

608 WEST ALLEGAN STREET • P.O. BOX 30008 • LANSING, MICHIGAN 48909
www.michigan.gov/mde • (517) 373-3324

Mr. Gary Whitman
Page 2
March 13, 2008

We strongly request your reconsideration of the audit findings and recommendations.
If we can provide further information, please contact Michael Radke, Assistant Director, Office of School Improvement, at 517-373-3921.

Thank you for your consideration in this matter.

Sincerely,

/s/

Michael P. Flanagan
Superintendent of Public Instruction

Enclosure

Michigan Department of Education
Response to Draft Audit Report: ED-OIG/A05H0010

Submitted to:
Mr. Gary Whitman
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
500 West Madison Street
Suite 1414
Chicago, IL 60661

This is the response of the Michigan Department of Education ("MDE") to the U.S. Department of Education's Office of Inspector General ("OIG") Draft Audit Report ED-OIG/A05H0010 ("Draft Audit Report"), issued January 9, 2008, entitled *The School District of the City of Detroit's Use of Title I, Part A Funds Under the No Child Behind Act of 2001*. OIG reviewed Title I, Part A ("Title I-A") programs operated by the Detroit Public Schools ("DPS") for fiscal years 2004-2005 and 2005-2006. OIG erroneously concluded that DPS did not properly administer Title I-A funds expended over that time period.

MDE and DPS respectfully submit that the audit methodology used was seriously flawed for the following reasons:

1) It appears that the audit failed to review the voluminous documentation and accounting records supporting the Title I-A expenditures at issue.
2) The Draft Audit Report erroneously relies in some sections on the amounts budgeted rather than the actual expenditures documented after the fact.
3) The audit failed to take into account any schoolwide flexibility, despite the fact that DPS overwhelmingly consists of schoolwide programs.
4) The Draft Audit Report's methodology uses extremely small sample sizes to estimate larger findings. Although DPS has approximately 14,960 employees, the audit consistently sampled a small number of transactions to arrive at its findings for the entire school district. Small employee sample sizes for a district with as many employees as DPS possesses are not statistically significant.
5) The audit failed to analyze harm to the Federal interest, as required, in making findings and failed to properly consider valid after-the-fact documentation.

MDE's response below, based on each Draft Audit Report finding, addresses the overarching flaws in audit methodology, the inaccuracy of each of the rationales supplied for the finding, and supporting documentation for DPS's expenditures.

I. Finding No. 1 – Personnel Costs Charged to Title I, Part A

Head Start Program Compensation

OIG found that DPS charged salaries, benefits, and related indirect costs to its Title I-A program for Head Start program teachers and assistants through ten adjusting journal entries in the amount of $5,180,663 for school year 2005-2006. OIG stated that DPS did not identify the employees whose compensation was transferred to Title I-A and did not provide personnel activity reports for these employees to certify that they worked on Title I-A program activities. OIG cited OMB Circular A-87, Attachment A, Paragraph C.3.c, which does not allow costs allocable to a particular Federal award or cost objective to be charged to other Federal awards to overcome fund deficiencies.

In order to recover funds, there must be an analysis reflecting the value of the program services actually obtained in a determination of harm to the Federal interest. 20 U.S.C. 1234a(a)(2). The U.S. Department of Education ("USDE") may require recipients to return only an amount that is proportional to the extent of the harm its violation caused to an identifiable Federal interest associated with the program. 34 C.F.R. § 81.32(a)(1). MDE and DPS acknowledge that the accounting procedures could have been clearer. However, these DPS teachers served students who were Title I-eligible, in an educational program that is an allowable Title I program. Under the Elementary and Secondary Education Act (ESEA) Sec. 1115(b)(2)(B), a child who, at any time in the preceding two years participated in a Head Start program, is eligible for Title I-A targeted assistance services. For students attending schoolwide programs, ESEA Section 1114(a)(2) does not require schoolwide programs to identify children as Title I-A eligible or to ensure that the services provided to children are supplementary. Therefore, all DPS Head Start students for school year 2005-2006 were also eligible to received Title I-A services.

DPS has provided a Head Start program description, a calendar describing program activities, a list of DPS Head Start schools, a Head Start program student application, and a roster of all Head Start students who participated in the program.[1] DPS's Head Start program description states the following:

> To meet the identified need to provide full day service for children enrolled in Head Start, Title I funds have been allocated to compliment and extend the program service day for children eligible for both Title I and Head Start. The Title I funds support a portion of the teacher and school service assistant salaries and fringe benefits to all for the extended daily schedule and *educational services for the children most at risk of not meeting the State's challenging student achievement standards*. Head Start funds provide other salaries, fringes, and services. (Emphasis added.)

DPS ensured that all of its students met the eligibility criteria for Head Start, which also qualified them for Title I-A services under ESEA Sec. 1115(b)(2)(B). DPS's documentation supports this fact. DPS has provided a Head Start student application.[2] The application contains an "Enrollment Criteria Point System" for the purpose of identifying eligible Head Start students. The point system takes into account factors such as family income, nutrition, age, and other indicators. DPS also provided Head Start class lists for all Head Start students in each school operating a Head Start program. These lists demonstrate that each student is eligible for Head

[1] See Exhibit 1.
[2] See *Id*.

Start based upon accruing the requisite number of points under the Enrollment Criteria Point System. The lists ensure that DPS's schools that operate Head Start programs only serve eligible students, as all DPS students participating in Head Start are eligible for Title I-A. Therefore, the DPS teachers who taught Head Start students were also instructing Title I-eligible students in a Title I-A program. Because these DPS teachers were serving Title I-eligible students, there is no harm to the Federal interest in paying them from Title I-A funds.

Employee Insurance Benefits

OIG found that, based on its projection, DPS charged excessive insurance benefits to Title I-A in the amount of $1,143,944 for the 2005-2006 school year. OIG based this projection on a sample of 30 selected employees, where it found that, in 29 transactions, Title I-A was overcharged by $2,601. The State respectfully submits that OIG miscalculated the amounts DPS charged to its Title I-A program. The amounts OIG cited were based upon beginning of the year estimates by Ceridian, a private contractor used by DPS to assist with its payroll accounting. Ceridian stated that it arrived at an annual amount of insurance benefits charged to DPS based upon benefits rates calculated in June, before the charges actually occurred.[3] Therefore, OIG's finding was not based upon *actual* insurance benefit amounts charged to the Title I-A program, but on *projections* by Ceridian as to insurance benefit amounts DPS would charge based on prior year estimates.

Reporting budget estimates rather than actual expenditures violates Federal cost principles. Under OMB Circular A-87, Paragraph 8.h.(5)(e), "Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards." OIG has issued findings against grant recipients for using budget estimates. For instance, OIG issued a finding against a subgrantee for charging "personnel costs that were based on budgeted rather than actual school expenditures."[4] OIG further stated that because the charge was "based on budgeted rather than actual costs, there is no assurance that the amount was, in fact, used for allowable personnel costs."[5] In another audit, OIG cited a subgrantee for failure to track expenditures, stating that:

> [Officials] prepared the budget on a per-school basis, but they did not account for Title I expenditures for each school. Without determining how much each school actually received, we could not determine if [subgrantee] demonstrated that its schoolwide program in each school reasonably addressed the intent of the program, particularly as it related to the most disadvantaged students.[6]

Ceridian acknowledges that the amount that DPS's account is charged can change up to twice per year, as follows:

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[3] See Exhibit 2, email correspondence between [employee name deleted], a Ceridian employee, and [employee name deleted], Executive Director of the Chief Financial Officer, Detroit Public Schools.
[4] Office of Inspector General Final Audit Report, dated December 6, 2006, entitled *KIPP Foundation's Administration of the Fund for the Improvement of Education Grants* (Control Number ED-OIG/A09G0010).
[5] See *Id*.
[6] Office of Inspector General Final Audit Report, dated April 10, 2007, entitled *Hempstead Union Free School District's (Hempstead) Elementary and Secondary Education Act of 1965, as amended (ESEA),[6] Title I, Part A (Title I) Non-Salary Expenditures* (Control Number ED-OIG/A02G0007).

> 1) [W]hen we [Ceridian] receive the renewal rates from DPS that are effective on 7/1 of every year and 2) [W]hen the employee can potentially go through open enrollment and change what plan they are in. Both of these scenarios can change [the] employer amount.[7]

As Ceridian indicates, due to changes in insurance rates and employee insurance benefit choices, it is impossible to accurately predict month-by-month charges to DPS based upon a beginning of the year estimate.

Ceridian also provided a sample spreadsheet for five DPS employees, which shows both the beginning-of-the-year estimates by Ceridian and the actual charges to employee insurance benefits.[8] The Ceridian spreadsheet demonstrates that often, due to changes in insurance benefit rates and employee benefits choices, Ceridian's estimated insurance charges are not representative of actual charges to employee insurance benefits.[9]

The amounts Ceridian provided to OIG were estimates, not DPS actual charges for employee insurance benefits. Because OIG only examined Ceridian estimates, not actual DPS employee insurance benefits, it did not investigate the proper documentation. Because of this flaw in OIG's analysis, DPS should not have to repay any amounts it charged to Title I-A for employee insurance benefits.

Fringe Benefits Charges for Employee Insurance

OIG found that DPS improperly charged employee insurance benefits to Title I-A in the amount of $571,025 for employees who worked on Title I-A supplemental activities, including workshops and after-school programs, for the 2005-2006 school year. OIG provided a sample of 5 selected employees where it found improper distribution of Title I-A funds for insurance benefits.[10]

Under OMB Circular A-87, Attachment B, Paragraph 8.d.(5), the cost of fringe benefits in the form of employer contributions must be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities. Here, DPS charged Title I-A for funds expended on employee insurance benefits for employees who worked on both non-Title I-A and Title I-A activities *proportionally* to the compensation paid to each employee. For example, [employee name deleted], Employee ID 35912 (one of the employees identified in Exception Report #5), one of the sampled employees, was paid as follows for the identified pay periods:

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[7] See Exhibit 2.
[8] See *Id*.
[9] On the Ceridian sample spreadsheet, for each of the five employees listed, there are two columns each for the following categories: medical, dental and vision benefits. The first column for each category represents the estimated cost, while the second column represents the actual cost. There are discrepancies for some employees between Ceridian's estimated cost and the actual costs expended.
[10] See Exception Report #5.

Pay End Date	DPS General Fund Pay	Title I-A Pay	Total Gross Pay	DPS General Fund Insurance Cost	Title I-A Insurance Cost	Total Insurance Cost	Title I-A % of Gross Pay	Title I-A % of Insurance Cost
9/9/05	$2,736.73	$172.50	$2,909.23	$228.57	$14.40	$242.97	5.93%	5.93%

The chart immediately above demonstrates that [employee name deleted] was paid Title I-A funds for compensation and employee insurance benefits in equal proportion. DPS has provided similar data, including a spreadsheet and payroll distribution data by employee for the five sampled employees as evidence that Title I-A funds were expended in equal proportion for employee compensation and insurance benefits.[11] These documents prove that DPS expended its Title I-A funds in accordance with the Federal cost principles in OMB Circular A-87.

Title I Targeted Assistance Teacher Compensation for Golightly and Beard Schools

OIG found that DPS charged excessive compensation to Title I-A for salaries, benefits, and indirect costs of teachers who taught ineligible children in Title I-A targeted assistance schools in the amount of $173,082 for the 2005-2006 school year. OIG provided a sample of five selected kindergarten teachers from Title I-A targeted assistance schools and determined that they taught both Title I-A and non-Title I-A students. Specifically, OIG stated that the five sampled DPS teachers taught ineligible students at Golightly Educational Center ("Golightly") and Beard ("Beard").[12]

For school year 2005-2006, Golightly had a poverty rate of forty-eight percent and Beard had a poverty rate of seventy-nine percent.[13] The Title I-A schoolwide model is based on the belief that once poverty reaches a certain threshold in a school, it makes more sense to improve the whole instructional program than to provide services separately to some students. Under ESEA Sec. 1114(a)(1), a local educational agency, such as DPS, may operate schoolwide programs for schools serving an attendance area with forty percent or more of the children from low-income families. Section 1114(a)(2) does not require schoolwide programs to identify children as Title I-A eligible or to ensure that the services provided to children are supplementary. Instead, schoolwide program schools can serve all students using Federal funds. ESEA presumes that a school eligible to operate as a schoolwide program will operate as a schoolwide program. ESEA Sec. 6315(a). Title I presumes that unless a school is ineligible or "opts out" of the schoolwide program, it will operate as a schoolwide program school.

Although the Draft Audit Report treats Golightly and Beard as targeted assistance schools, they meet the qualifications of schoolwide program schools under Section 1114 and essentially function as schoolwide programs. As evidence that Golightly and Beard operated similarly to a schoolwide school, DPS has provided their school plans, which demonstrate that both schools adhere to a number of the statutory requirements for a schoolwide plan in Section 1114(b).[14]

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[11] See Exhibit 3. On the document entitled "Detroit Public Schools Payroll Distribution Data by Employee," expenditures under Project ID 0000000000 are funds drawn from DPS's General Fund, while expenditures under Project ID 0000020005 are funds drawn from DPS's Title I-A fund.
[12] See Exception Report #11.
[13] See Exhibit 4.
[14] See Exhibit 5.

Golightly's school plan includes a number of required schoolwide program elements, such as:

- The plan was developed with the input of Golightly's school staff and a school improvement team consisting of parents, community and business members, students, staff and administrators. It was developed using the five-phase school improvement model developed by DPS to ensure that all school plans are aligned and comply with Federal, state, and district requirements. The plan uses data-driven decision-making and research-based proven practice strategies in identifying the needs of the school.

- Golightly conducted a needs assessment to identify areas where improvements are necessary. The school analyzed the disaggregated Michigan Educational Assessment Program (MEAP) data, which showed improvement in reading and math skills among its students. Golightly needs to improve the experience level of non-certified and substitute teachers in regular positions, address personnel scarcity, and improve the teacher-to-student ratio. Through the school's Performance Improvement System, the school aspires to enhance the academic program while developing and expanding a diversified curriculum that facilitates the needs of all students.

- The plan identifies students at risk of not meeting student academic achievement standards through a set of risk factors, which include collecting data on students transferring into Golightly, students in temporary housing, number of suspensions per student for the year, and students changing schools in the past year. The school also relies upon teacher observations and assessment performance to identify students with difficulties. To address these needs, Golightly offers after-school enrichment activities and tutoring.

- Golightly has a number of opportunities for parental involvement. The school has a leadership team that involves parents within the school's decision-making process. Golightly also has a school committee, which represents all stakeholders, including parents, which meets monthly and discusses various strengths and weaknesses and focuses on academic student achievement.

Beard's School Improvement Plan also includes a number of the required elements, such as:

- The plan addresses the process of identifying the needs of low-achieving children through a number of different techniques. Teachers identify students with difficulties based on classroom observations, student portfolios, progress reports, parent observations, reading and mathematics assessments, and daily logs. For students identified as at risk of not meeting academic standards, there are additional measures taken, including (1) Bilingual staff to interpret for English language learners, (2) Individual Education Plans for all Prekindergarten students, (3) multi-level instruction, (4) and small group instruction for children with academic challenges.

- The plan provides for high-quality and ongoing professional development for teachers, principals through programs such as "6+1 Writing Traits," "Hampton Brown Training," and a number of bilingual education and early childhood professional development programs. Professional development also occurs through visits to other classrooms for cooperative peer observation, progress reports and evaluations, and extended learning activities.

- The plan addresses attempts to increase parental involvement through a number of activities. Beard involves parents through monthly parent meetings, home activity calendars, district parenting classes, a parent group, and parental involvement on school improvement and Title I committees. The school has a student/parent/school compact with a number of pledges by parents, Beard staff, and students. Also, Beard holds adult and community education activities, including English, GED, parenting, literacy, Omni arts and education, and Migrant Education programs. In addition, the school conducts library classes for parents.

- The plan contains activities to assist preschool children transitioning from early childhood programs to local elementary programs, including the following: (1) Pre-kindergarten teachers, parents, and students visiting kindergarten classes and meeting with teachers to receive an overview of expectations; (2) Preschoolers participate in cross-grade activities with kindergarteners; (3) Teachers introduce lessons explaining the similarities and differences in the upcoming grade; (4) Kindergartners visit the local elementary school; (5) Professional Growth and Development opportunities for teachers to attend workshops on bridging the grade levels; (5) Teachers attend collaborative learning sessions for pre-kindergarten and 1st grade learning; and (6) Linking curriculum expectations with correlations between grade levels.

This documentation demonstrates that these high-poverty schools were functioning as schoolwide programs. Therefore, they should be treated as schoolwide programs for purposes of determining whether the expenditures resulted in any harm to the Federal interest. Because funds in a schoolwide program may be used to benefit all students in a school, the Federal expenditures in this case would have been allowable had the two schools been treated as schoolwide program schools. Therefore, there is no identifiable harm to the Federal interest in this case because Golightly and Beard schools were eligible to operate as schoolwide programs and essentially functioned as schoolwide schools.

II. Finding No. 2 – Time and Effort Certifications and Personnel Activity Reports

Time and Effort Certifications for Single Cost Objective Employees

OIG found that, for a number of sampled salary transactions, DPS did not provide adequate time and effort certifications for single cost objective employees for school year 2005-2006.[15] For

[15] See Attachment to Exception Report #7.

some of the employees sampled, DPS has provided after-the-fact time and effort certifications.[16] These certifications confirm that the employee worked 100% of his or her time on a single cost objective for the relevant time period and are signed by each employee's school administrator or principal.

Under OMB Circular A-87, Attachment B, Paragraph 8.h.(3) states,

> 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 first hand knowledge of the work performed by the employee.

All of DPS's certifications meet these requirements, as each (1) certifies that the employee worked only on Title I-A activities for the relevant work period, (2) is prepared semi-annually, and (3) is signed by a supervisor with first-hand knowledge of the employee's work. For example, [employee name deleted], a teacher at Drew Middle School, has a certification that confirms that she only worked on Title I-A activities for July 1, 2005 – November 30, 2005, which was signed by [employee name deleted], the principal of Drew Middle School. All of the semi-annual certification provided by DPS similarly meet all of the requirements of OMB Circular A-87 Attachment B, Paragraph 8.h.(3).

It is well settled that recipients may use after-the-fact documentation to reconstruct the time and effort they spent on Federal programs. <u>See</u> <u>Application of the New York State Department of Education</u>, Docket No. 90-70-R (1994) ("This tribunal will also accept the after-the-fact affidavits executed by supervisors and submitted by NYSED in the case at bar."); <u>Consolidated Appeals of the Florida Department of Education</u>, Docket Nos. 29-293-88 & 33-297-88 (1990) ("The use of later affidavits... is not categorically precluded... This Panel... finds the [affidavits submitted] to be credible and useful evidence."); <u>Application of Escambia County Board of Education</u>, Docket No. 89-9-R (1989) ("The Education Appeal Board (EAB) and the Secretary of Education have indicated that after-the-fact evidence can be considered to substantiate costs disallowed in a Final Letter of Determination."); <u>Appeal of Fort Valley State College</u>, Docket No. 21(196)85 (1987) ("The EAB has in the past permitted such expenditures if, after the fact, the grantee can support them with alternative, equivalent, or contemporaneous documentation."); <u>Appeal of Government of Guam</u>, Docket No. 30(162)84 (1986) ("The Secretary agrees that where appropriate, a Panel can permit a recipient to meet its burden by constructing a time distribution formula based on credible evidence."); <u>Appeal of Albany State College</u>, Docket No. 41(173)84 (1986) ("[T]he Department of Education... has indicated its satisfaction with certain after-the-fact affidavits and has revised its demand accordingly.").

There is no limit on the types of after-the-fact documentation that can be submitted as long as the evidence is "credible." <u>Application of Escambia County Board of Education</u>, Docket No. 89-9-R (1989). <u>See also</u> <u>Appeal of Fort Valley State College</u>, Docket No. 21(196)85 (1987). When

[16] See Exhibit 6. DPS has provided semi-annual certifications for July 1, 2005 to November 30, 2005 for the following employees: [11 employee names deleted]. DPS has provided semi-annual certifications for December 31, 2005 to May 30, 2006 for the following employees: [26 employee names deleted].

reviewing affidavits, the U.S. Department of Education's Office of Administrative Law Judges (OALJ) typically looks to a variety of factors to determine if they are credible such as whether they are specific and whether the affiant had personal knowledge of the facts set out in the affidavit. See, e.g., Appeal of Indiana State Library, Docket No. 19(219)86 (1987). For example, the OALJ rejected affidavits from a supervisor that did not have actual knowledge of how the relevant employees spent their time. See Application of the New York State Department of Education, Docket No. 90-70-R (1994). The OALJ also rejected documentation that did not specifically relate to the amount of time an employee spent on a particular cost objective such as travel logs. See, e.g., Application of Escambia County Board of Education, Docket No. 89-9-R (1989). The OALJ has, however, repeatedly accepted affidavits from supervisors with first hand knowledge of an employee's activities, especially when such affidavits are supported by job descriptions, work evaluations and payroll records supporting the statements made in the affidavit. See Application of New York State Education Department, Docket No. 91-81-R (1995); Application of the New York State Department of Education, Docket No. 90-70-R (1994); Consolidated Appeals of the Florida Department of Education, Docket Nos. 29-293-88 & 33-297-88 (1990).

DPS's after-the-fact, semi-annual certifications constitute an accurate, credible representation of relevant single cost objective employees' time for a number of reasons. First, because the sampled DPS employees worked on a sole cost objective, Title I-A, for school year 2005-2006, there is little risk of confusion regarding work activities. An administrator or principal, without a significant amount of research, could determine which employees worked on a single cost objective for relevant time periods. Second, because each of the semi-annual certifications was signed by an administrator or principal, DPS has demonstrated that its staff is certain that each of the sampled employees was a single cost objective employee. Because of the credibility of these certifications, DPS has proven that its Title I-A expenditures for these employees have been adequately documented.

Personnel Activity Reports for Multiple Cost Objective Employees

OIG found that DPS did not provide adequate personnel activity reports for multiple cost objective employees whose compensation was charged in part to Title I-A funds for school year 2005-2006. OIG identified $12,979,760 in salaries, benefits, and related indirect costs charged for multiple cost objective employees without adequate documentation. OIG sampled five multiple cost objective employees, [five employee names deleted], in making its finding.[17] DPS provided after-the-fact documentation of each employee's activities, including daily lesson plans, counseling logs, activity sheets, and weekly logs to demonstrate activities performed by these employees. OIG stated that these lesson plans were not after-the-fact reports of actual time spent on Title I-A activities.

While DPS did not provide personnel activity reports, it did provide after-the-fact documentation of the actual activities performed by the sampled DPS employees. As noted above, it is well-settled that recipients may use after-the-fact documentation to reconstruct the time and effort they spent on federal programs. Each sampled DPS employee has provided documentation to demonstrate the activities performed by each employee, as follows:

[17] See Exception Report #6.

1) [employee name deleted]

For school year 2005-2006, [employee name deleted] was a guidance counselor at Mark Twain School & Academy ("Mark Twain") whose compensation was paid fifty percent from Title I-A funds and fifty percent from Michigan Section 31a funds. DPS has provided weekly logs of her activities for the entire 2005-2006 school year, from September 5, 2005 to June 12, 2006.[18] Because these activity logs were created contemporaneously to the activities [employee name deleted] undertook, with her first-hand knowledge, they should be considered an accurate, credible representation of her time.

For school year 2005-2006, Mark Twain operated a schoolwide program. Therefore, under ESEA Section 1114(a)(2), in serving students for that school year, Mark Twain staff was not required to identify children as Title I-A eligible or to ensure that the services provided to children were supplementary. Instead, Mark Twain staff was allowed to serve all students using Federal funds. In her capacity as a guidance counselor paid with Title I-A funds, [employee name deleted] could serve all students within the school. Therefore, in this case, there is no harm to the federal interest because [employee name deleted]'s activities are allocable to Title I-A purposes.

2) [employee name deleted]

For school year 2005-2006, [employee name deleted] was the Project Director for the Head Start program within DPS's central office whose compensation was paid twenty percent from Title I-A funds and eighty percent from Head Start funds. DPS has provided weekly logs of her activities for the entire 2005-2006 school year, from July 4, 2005 to June 30, 2006.[19] Because these activity logs were created contemporaneously to the activities [employee name deleted] undertook, with her first-hand knowledge, they should be considered an accurate, credible representation of her time. [employee name deleted] is paid from both Title I-A and Head Start funds. The activity logs created by [employee name deleted] denoted which activities were allocable to Title I-A and Head Start purposes. While OIG stated that the documentation submitted by DPS did not specify what proportion of each employee's time was expended on Title I-A activities, [employee name deleted]'s weekly logs demonstrate that she consistently worked on Head Start and Title I-A activities every day. Therefore, her salary was properly charged to those two programs. As a result, in this case, there is no harm to the federal interest because [employee name deleted]'s activities were allocable to Title I-A purposes.

3) [employee name deleted]

For school year 2005-2006, [employee name deleted] was a mathematics teacher at Robinson Middle School ("Robinson") whose compensation was paid thirty percent from Title I-A funds and seventy percent from Michigan Section 31a funds. DPS has provided a calculation of her time distribution and samples of her lesson plans from different points within the 2005-2006 school year.[20] As the documentation states, middle school teachers, such as [employee name deleted], follow the same schedule every day, so these lesson plans are representative of her activity on a day-to-day basis. Therefore, because [employee name deleted] taught the same six

[18] See Exhibit 7.
[19] See Exhibit 8.
[20] See Exhibit 9.

block periods noted on the calculation of her time distribution, her Title I-A and Michigan Section 31a activities were static throughout the school year. [Employee name deleted]'s lesson plans were created contemporaneously to her activities, with her first-hand knowledge, such that they should be considered an accurate, credible representation of her time.

For school year 2005-2006, Robinson operated a schoolwide program. Therefore, under ESEA Section 1114(a)(2), in serving students for that school year, Robinson staff was not required to identify children as Title I-A eligible or to ensure that the services provided to children were supplementary. Instead, staff was allowed to serve all students using Federal funds. In her capacity as a mathematics teacher, paid with Title I-A funds, [employee name deleted] could serve all students within the school. Therefore, in this case, there is no harm to the federal interest because [employee name deleted]'s activities are allocable to Title I-A purposes.

4) [employee name deleted]

For school year 2005-2006, [employee name deleted] was a school service assistant at Clippert Academy Magnet School ("Clippert") whose compensation was paid fifty percent from Title I-A funds and fifty percent from Michigan Section 31a funds. DPS has provided daily logs of her activities for the entire 2005-2006 school year, from September 12, 2005 to June 15, 2006.[21] [Employee name deleted] provided daily information regarding her activities and the students she served. Because these activity logs were created contemporaneously to the activities [employee name deleted] undertook, with her first-hand knowledge, they should be considered an accurate, credible representation of her time.

For school year 2005-2006, Clippert operated a schoolwide program. Therefore, under ESEA Section 1114(a)(2), in serving students for that school year, Clippert staff was not required to identify children as Title I-A eligible or to ensure that the services provided to children were supplementary. Instead, Clippert staff was allowed to serve all students using Federal funds. In her capacity as a school service assistant, paid with Title I-A funds, [employee name deleted] could serve all students within the school. Therefore, in this case, there is no harm to the federal interest because [employee name deleted]'s activities are allocable to Title I-A purposes.

5) [employee name deleted]

For school year 2005-2006, [employee name deleted] was a mathematics instructional specialist at Louis Pasteur Elementary School ("Louis Pasteur") whose compensation was paid fifty percent from Title I-A funds and fifty percent from Michigan Section 31a funds. DPS has provided a sample week, January 17-21, 2005, explaining [employee name deleted]'s time distribution.[22] [Employee name deleted] followed the same schedule every day, so these time distribution records are representative of his activity on a day-to-day basis for the entire school year. [Employee name deleted]'s records were created contemporaneously to his activities, with his first-hand knowledge, such that they should be considered an accurate, credible representation of his time spent.

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[21] See *Id*.
[22] See Exhibit 10.

For school year 2005-2006, Louis Pasteur operated a schoolwide program. Therefore, under ESEA Section 1114(a)(2), in serving students for that school year, Louis Pasteur staff was not required to identify children as Title I-A eligible or to ensure that the services provided to children were supplementary. Instead, staff was allowed to serve all students using Federal funds. In his capacity as a mathematics instructional specialist, paid with Title I-A funds, [employee name deleted] could serve all students within the school. Therefore, in this case, there is no harm to the federal interest because [employee name deleted]'s activities are allocable to Title I-A purposes.

III. Finding No. 3 – Title I, Part A Funds for Non-Personnel Costs

Payments for Reading and Mathematics Testing Software

OIG found that DPS paid for reading and mathematics testing software for non-Title I-A schools, Bates Academy and Renaissance High School, with Title I-A funds in the amount of $42,943 in school year 2005-2006. DPS has provided the contract for testing software with Renaissance Learning, Inc.[23] The contract indicates that Bates Academy was not one of the DPS schools that received services from Renaissance Learning.

DPS has also provided a letter from Renaissance Learning indicating that Renaissance High School was originally on the contract, but that the software licenses were removed and transferred to Chadsey High School, effective December 1, 2005.[24] DPS also provided an in-house memorandum addressing this issue with the same explanation.

This documentation demonstrates that DPS did not expend funds for the purchase of software for non-Title I-A schools. Therefore, DPS should not be required to return $42,943 for this expenditure.

Harvard Graduate School of Education Professional Program Expenses

OIG found that DPS had transactions unsupported by invoices or receipts, including an expense for a professional education program at Harvard Graduate School of Education. Specifically, OIG stated that it received only a purchase order for this expense.[25] DPS has provided a detailed invoice of the expense.[26] The invoice, for $37,315, explains the per participant charge, $2,195, for seventeen total DPS participants. DPS also provided a list of staff who attended the program, which occurred June 25-30, 2006. These documents demonstrate that DPS has adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

Payment for Meals with Title I, Part A Funds Related to 3-Day Workshop

OIG found that DPS paid $23,527 for meals at local hotels for Title I-A school events but could not support the number of meals purchased. In fact, DPS has documentation to support the number of meals purchased. The Holiday Inn Fairlane-Dearborn quoted DPS a price for a three-

[23] See Exhibit 11.
[24] See *Id*.
[25] See Attachment to Exception Report #8.
[26] See Exhibit 12.

day workshop that took place March 9-11, 2006.[27] Based on an estimate of the number of Center for School Leaders staff members, DPS central level staff members, and DPS school personnel attending the workshops, DPS estimated that it would need 400 breakfast/lunch and dinner meals for March 9th, 300 breakfast/lunch and dinner meals for March 10th, and 250 breakfast/lunch meals for March 11th. DPS has also provided agenda for the workshop and contemporaneous sign-in sheets for staff who attended the workshops. For instance, sign-in sheets demonstrate that 352 DPS school personnel attended the workshops on March 9, 2006, in addition to 15 Center for School Leaders staff members and 24 DPS central-level staff members. Therefore, this documentation proves that DPS can support the number of meals purchased and the number of workshop attendees.

Computers Leased with Title I, Part A Funds

OIG found that DPS paid for computers for which it could it could not provide evidence of existence or use by Title I-eligible students. Specifically, OIG stated that DPS purchased 1,534 computers and 554 laptops for $979,898, including installation and insurance, and that for five of the schools receiving computers, the number of computers listed on the vendors' shipping report was greater than the number of computers shipped to those schools.

While OIG states that DPS *purchased* computers, in fact, DPS respectfully submits that it entered into a lease agreement with Dell, Inc. for 2005-2008, to lease computers. DPS did not buy computers from Dell; it issued a purchase order to buy computers, which was cancelled. DPS has provided a number of documents as evidence. In an in-house memorandum, dated December 21, 2005, [employee name deleted], DPS's Chief Academic Officer, Division of Leadership and Educational Accountability, explained the timeline for how DPS entered into a leasing agreement with Dell[28]:

> Our office [DPS] was given additional funding to purchase more technology for the 2005-2006 school year. We decided to use the funds to purchase 533 desktops, 100 printers and 250 noteboooks. Soon after we issued the purchase order, we learned that the Michigan Department of Education would be assessing all eighth graders on the newly released Technology Standards and Expectations during this school year… After investigating how our office could provide more technology to these schools and further our District's curriculum initiatives, Dell offered a leasing agreement which would allow us to proactively provide additional equipment and immediate professional development.
>
> [DPS entered into a] lease agreement which will provide an additional 1000 desktops, 300 notebooks, 200 printers and $300,000 to assist our Division with technology-related issues that are current obstacles (building wiring, professional development, additional equipment, software or however our Division deems necessary). Dell will also insure our equipment during this three-year period. After the three years, each school will be allowed to purchase each piece of equipment for $1.00.

DPS provided memoranda explaining that purchase order no. 625495, the original purchase order for 533 desktop computers, was cancelled. DPS also provided internal documentation

[27] See Exhibit 13.
[28] See Exhibit 14.

demonstrating that the purchase order, issued 10/31/2005, was cancelled on 1/6/2006.[29] The lease agreement with Dell, which has also been provided, shows that DPS paid $989,099.23.

Because OIG mischaracterized DPS's arrangement with Dell as a purchase rather than a lease, it is unclear to which computers it is referring. For schools receiving leased computers, each has a "Receipt of Equipment Form," with model and serial numbers for all computers received.[30] These are evidence that DPS has documentation that the leased computers were received by DPS schools, which were all Title I-eligible schools.[31] Therefore, because DPS has demonstrated that it entered into a lease with Dell and that its schools received the leased computers, it expended its Title I-A funds properly.

Title I, Part A Funds Expended for Consulting Services

OIG found that DPS misspent Title I-A funds on consulting services to National Training Network for its Algebraic Thinking Project in the amount of $1,232,620 for school year 2005-2006. Specifically, OIG stated that DPS prepaid invoices, failed to provide after-the-fact support demonstrating a benefit to the Title I-A program, and failed to provide specific dates or locations where the services were provided.

DPS has provided a number of documents in response. In an email, [employee name deleted] of DPS confirms that National Network conducted training sessions on June 27-July 1, 2005, August 1-5, 2005 and August 8-12, 2005.[32] DPS has also provided the Algebraic Thinking Report for Fourth Quarter, 2005-2006, which details the activities National Training Network engaged in.[33] According to the report, in addition to the on-site visits noted above,

> Monthly classroom visits started on October 17, 2005 and continued throughout the school year. A minimum of 14 visits were made to each school this year. The majority of coaching time spent in schools consisted of modeling lessons and lesson preparation.

The Algebraic Thinking Report also provides descriptions of services provided at 99 DPS elementary and middle schools. For each school, the report describes implementation of the program and the teachers National Training Network served. This document clearly demonstrates the benefit DPS's Title I-A program received from National Training Network's services.

DPS has also provided National Training Network's proposal for the Algebraic Thinking Project and the contract between DPS and National Training Network.[34] The Algebraic Thinking Project proposal details the scope and implementation of the project, as well as its alignment with successful program standards and the program's benefits for students and teachers. The contract contains a payment schedule that specifies that DPS was to pay National Training Network an initial payment for training, material, expenses and books, followed by payments for

[29] See *Id*.
[30] See Exhibit 15. Because of the large number of leased computers, DPS has provided Receipt of Equipment Form from a few of its schools as examples of its process for inventorying its computers.
[31] See Exhibit 4.
[32] See Exhibit 16.
[33] See *Id*.
[34] See *Id*.

follow-up training, supervision, and observation every two months until the end of the contract. There is no provision in the contract stating that DPS was to prepay National Training Network for its services. There is no evidence that it prepaid invoices. In fact, because DPS has adequately documented its expenditures for these services, they are allowable under the cost principles in OMB Circular A-87.

Title I, Part A Funds Expended for Math and Reading Testing

OIG found that DPS misspent Title I-A funds on math and reading testing in the amount of $1,885,374 for school year 2005-2006. Specifically, OIG stated that DPS "did not provide the contract or other evidence to explain what schools should have been covered by the invoices and what the per-student cost should have been."[35] OIG notes that per-student cost ranges from $2.32 to $12.43. This finding relates to goods and services provided by Measured Progress Inc. to DPS.[36] Measured Progress has provided its testing services and products to DPS since 2002. Therefore, DPS has provided the all of the contracts and contract modifications from 2002-2007.[37]

OIG questioned the per-student costs paid by DPS to Measured Progress for its services. In fact, as the contracts demonstrate, Measured Progress provides a number of different goods and services to DPS at different per-student and per-unit prices. Depending on the year, the contracts specify between thirty-five and thirty-nine goods and services provided by Measured Progress. For instance, as noted in the 2005-2006 contract, the per-unit price for a "Consumable Test Booklet, Grades 1&2" was $1.28, while a "Consumable Large Print Tests, Grades 1&2" costs $2.40. Because of the different products provided by Measured Progress, there is not a finite per-student cost for every student or per-unit cost for every item purchased. This documentation proves that DPS can support the good and services it paid to Measured Progress. Therefore, because DPS has adequately documented its expenditures for these services, they are allowable under the cost principles in OMB Circular A-87.

IV. Finding No. 5 – MDE Monitoring and Oversight of DPS

OIG found that MDE did not adequately monitor DPS's administration of its Title I-A program, including the resolution of a DPS internal investigative report that identified unallowable contracts. OIG recommended that MDE develop procedures to track local educational agency (LEA) reviews that identify unallowable Title I-A expenditures and internal control deficiencies and that MDE provide greater oversight of federal grant funds that are distributed to DPS. MDE respectfully submits that it does have effective existing procedures to identify unallowable Title I-A expenditures by LEAs. MDE received a copy of the above mentioned DPS internal investigate report on September 10, 2007. Based on that report and its own evaluation, MDE is also in the process of strengthening its monitoring and oversight of LEAs.

Currently, the MDE School Auditing Manual contains procedures for reporting unallowable expenses.[38] The manual, under General Audit Issues, Section A, Reports, II. B. 3. *Reports on Findings of Suspected Fraud and or Embezzlement*, requires the following:

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[35] See Draft Audit Report, p. 24.
[36] See Attachment to Exception Report #8.
[37] See Exhibit 17.
[38] The MDE School Auditing Manual is available at: www.Michigan.gov/mdeaudit.

> During the course of an engagement, the independent CPA should be constantly aware of the possibility of fraud and or embezzlement. SAS 54, 82, and 99 should be followed where applicable. If the possibility of any fiscal fraud, defalcation, misfeasance, nonfeasance, or malfeasance comes to the auditor's attention, the school should make an "oral report" immediately to [employee name and phone number deleted] Director of the Michigan Department of Education, Office of Audits. This oral report should be promptly followed up by a written report to the Director disclosing the CPA's findings. If the school fails to report, then the CPA is required to report the information to the Department…

MDE is also implementing the following measures to strengthen its monitoring and oversight of LEAs:

1) The MDE School Auditing Manual, General Audit Issues, Section A, Reports, II. B. 3. *Reports on Findings of Suspected Fraud and or Embezzlement,* will be revised as follows (the edits are italicized):

> During the course of an engagement, the independent CPA should be constantly aware of the possibility of fraud and or embezzlement. SAS 54, 82, and 99 should be followed where applicable. If the possibility of any fiscal fraud, defalcation, misfeasance, nonfeasance, or malfeasance comes to the auditor's attention, the school should make an "oral report" immediately to [employee name and phone number deleted] Director of the Michigan Department of Education, Office of Audits. *This oral report should be followed up by a written report to the 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 to the Director within two weeks, then the CPA is required to report the information to the Department…*

2) MDE will also take the following actions:

- MDE will establish a tracking process to identify alleged fiscal irregularities in a district and follow up on them until MDE is satisfied that they have been appropriately dismissed or resolved.

- MDE will notify any district of suspected fiscal irregularities that come to the attention of MDE independently, giving the district two weeks to conduct an initial investigation and report results of the initial investigation. The district will conduct a complete investigation and report it to MDE promptly.

- MDE may impose financial penalties consistent with Section 162 of the State School Aid Act or 34 CFR Part 80.45 and escalate penalties until MDE receives a copy of the internal investigation report.

- MDE will include an article on the proper reporting of suspected fraud, embezzlement or other fiscal irregularities in its 2007-2008 accounting and auditing alert.

- MDE will provide training to the Michigan Association of CPAs, the Michigan School Business Officials and other appropriate organizations on this section of the Michigan school auditing manual.

- MDE will amend federal fund application assurances to require reporting of suspected fiscal irregularities.

- MDE will include in on-site monitoring visits, a question to identify any internal investigations that may reveal fiscal irregularities in accordance with the Michigan school auditing manual.

V. Conclusion

In closing, MDE and DPS respectfully disagree in whole with the Draft Audit Report findings and request that the findings be reconsidered, revised, and that the recommendations for repayment be withdrawn before the issuance of a final audit report. The serious flaws in audit methodology led to obvious errors in the Draft Audit Report and bring question to the management of the audit as a whole, such that the findings and recommendations should be reviewed and withdrawn.

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

MICHIGAN Department of Education

JENNIFER M.
GRANHOLM
GOVERNOR

MICHAEL P. FLANAGAN
SUPERINTENDENT OF
PUBLIC INSTRUCTION

March 28, 2008

Mr. Gary Whitman
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
500 West Madison Street
Suite 1414
Chicago, IL 60661

RE: The School District of the City of Detroit's Use of Title I, Part A Funds Under the No Child Left Behind Act of 2001; Office of Inspector General Draft Audit Report (Control Number ED-OIG/A05H0010)

Dear Mr. Whitman:

Thank you for the opportunity to submit supplemental documents and comments on the above referenced Office of Inspector Draft Audit Report. Because that report dealt extensively with Detroit Public Schools' (DPS) use of funds under Title I, Part A of the No Child Left Behind Act, we worked closely with DPS staff in responding to your proposed findings. I am enclosing a detailed supplemental response, which was developed collaboratively by Michigan Department of Education (MDE) and DPS. I am also enclosing a number of exhibits referenced in our response.

We are grateful for your cooperative approach in granting us an extension for further submission of documents. Based upon our initial response to the Draft Audit Report and this supplemental response, we strongly request your reconsideration of the audit findings and recommendations.

Thank you for your consideration in this matter.

Sincerely,

/s/

Michael P. Flanagan
Superintendent of Public Instruction

608 WEST ALLEGAN STREET • P.O. BOX 30008 • LANSING, MICHIGAN 48909
www.michigan.gov/mde • (517) 373-3324

Michigan Department of Education
Supplemental Response to Draft Audit Report: ED-OIG/A05H0010

Submitted to:
Mr. Gary Whitman
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
500 West Madison Street
Suite 1414
Chicago, IL 60661

This is the supplemental response of the Michigan Department of Education ("MDE") to the U.S. Department of Education's Office of Inspector General ("OIG") Draft Audit Report ED-OIG/A05H0010 ("Draft Audit Report"), issued January 9, 2008, entitled *The School District of the City of Detroit's Use of Title I, Part A Funds Under the No Child Behind Act of 2001*. OIG reviewed Title I, Part A ("Title I-A") programs operated by the Detroit Public Schools ("DPS") for fiscal years 2004-2005 and 2005-2006. Originally, OIG allowed MDE until March 14, 2008 to respond to the Draft Audit Report. MDE submitted a response on March 14, 2008, in which it requested additional time from OIG to provide more comments and documentation. OIG has allowed MDE until March 28, 2008 to provide additional documentation in its response. MDE's supplemental response below, based on the Draft Audit Report findings, addresses the overarching flaws in audit methodology, the inaccuracy of each of the rationales supplied for the finding, and provides additional supporting documentation for DPS's expenditures.

I. Finding No. 1 – Personnel Costs Charged to Title I, Part A

Head Start Program Compensation

OIG found that DPS charged salaries, benefits, and related indirect costs to its Title I-A program for Head Start program teachers and assistants through ten adjusting journal entries in the amount of $5,180,663 for school year 2005-2006. OIG stated that DPS did not identify the employees whose compensation was transferred to Title I-A and did not provide personnel activity reports for these employees to certify that they worked on Title I-A program activities. DPS responded and provided documents in its March 14, 2008 response to the Draft Audit.

DPS has provided supplementary documents that further address the time and effort of the employees paid with Title I-A funds.[1] These documents include two signed, semi-annual payroll certifications, one for July 1, 2005-December 31, 2005 and the other for January 1, 2006-June 30, 2006. The certifications demonstrate that the relevant employees worked 100% of their time on Title I-A program activities for the entire fiscal year 2005-2006. The documents also fulfill DPS's requirement to provide signed, semi-annual certifications for single cost objective

[1] See Exhibit 1.

employees under OMB Circular A-87, Attachment B, Paragraph 8.h.(3). Because DPS has adequately documented its salary expenditures, they are allowable under the cost principles in OMB Circular A-87.

Disciplinary Administrative Leave Compensation

OIG found that DPS charged salary, benefits, and related indirect costs of an employee to its Title I-A program in the amount of $73,292. That employee was placed on administrative leave while receiving that amount. OIG stated that this expenditure violated OMB Circular A-87, Attachment B, Paragraph 8.a.(1), which requires that compensation conform to the established policy of the governmental unit.

In a sworn affidavit, [employee name deleted], DPS's Executive Director of Employee Relations, stated that DPS pays employees based upon their individual employment agreements and classification, applicable Michigan state law, as well as practices and customs.[2] DPS accords procedural protections to all employees on a district-wide basis under the Teacher Tenure Act, Public Act No. 4, Public Acts of Michigan, 1937, as amended. The Teacher Tenure Act requires that a teacher's salary must continue during suspension, except in cases in which the employee is suspended or terminated for certain listed offenses or unless the teacher's classification does not require paid leave. According to [employee name deleted], DPS consistently applied the applicable laws, rules, regulations district-wide practices and procedures during the 2005-2006 school year for all employees subject to disciplinary action, also taking into account the employee's individual employment agreement and classification. Accordingly, DPS paid the employee at issue during the time period he was placed on administrative leave.

Under OMB Circular A-87, Paragraph 8.a.(2), compensation for individual employees must be made in accordance with a governmental unit's laws and rules and meet its merit system or other requirements required by Federal law, where applicable. In this instance, DPS's practice followed Michigan's state law, as well as the rules established under employees' employment agreements and classification. Therefore, DPS's expenditure was consistent with the applicable cost principles in OMB Circular A-87 and was allowable.

II. Finding No. 3 – Title I, Part A Funds for Non-Personnel Costs

Capital Expenditures

OIG found that DPS misspent Title I-A funds on capital expenditures for general purpose equipment and improvements to buildings, including payments for digital copiers in the amount of $57,492 and classroom repairs and renovations in the amount of $80,288 for school year 2005-2006 without MDE's approval. OIG stated that DPS violated OMB Circular A-87, Attachment B, Paragraph 15.b, which provides that capital expenditures for general purpose equipment and improvements to buildings which increase their value or useful life are

[2] See Exhibit 2.

unallowable as direct charges, except where approved in advance by the awarding agency (in this case, MDE).

DPS acknowledges that it did not seek approval from the proper MDE personnel before making these capital expenditures with Title I-A funds. However, after the fact, DPS provided records of its capital expenditures ($129,300.00) to MDE's Field Services Consultant in the Office of School Improvement, [employee name deleted]. [Employee name deleted] is responsible for reviewing and approving Consolidated Applications which include these types of capital expenditures. After reviewing DPS's documentation regarding these expenditures, [employee name deleted], in a sworn affidavit, stated that the expenditures, with the exception of $39,154.00, would have been allowable by MDE.[3] Therefore, Title I-A funds expended by DPS in the amount of $90,146.00 were allowable. Please note that DPS will need additional time to provide detailed documentation of the expenditure of $39,154.00 to renovate a laboratory, in order to allow MDE's field service representative to determine if the expenditures would have been approved as allowable.

In order to recover funds, there must be an analysis reflecting the value of the program services actually obtained in a determination of harm to the Federal interest. 20 U.S.C. 1234a(a)(2). The U.S. Department of Education ("USDE") may require recipients to return only an amount that is proportional to the extent of the harm its violation caused to an identifiable Federal interest associated with the program. 34 C.F.R. § 81.32(a)(1). MDE and DPS acknowledge that the required pre-approval process for these capital expenditures was not followed. However, DPS did expend $90,146.00 on allowable Title I-A costs; therefore, there is no harm to the federal interest for that amount expended and MDE should not be required to repay that amount.

Title I, Part A Funds Expended for Consulting Services

OIG found that DPS misspent Title I-A funds on consulting services to National Training Network (NTN) for its Algebraic Thinking Project in the amount of $1,232,620 for school year 2005-2006. Specifically, OIG stated that DPS prepaid invoices, failed to provide after-the-fact support demonstrating a benefit to the Title I-A program, and failed to provide specific dates or locations where the services were provided. DPS provided documents in its March 14, 2008 response to the Draft Audit Report.

DPS has provided a number of supplementary documents that further demonstrate that NTN provided services to DPS that benefited the Title I-A program.[4] These documents include an example of the schedule for a professional development Algebraic Thinking Project session, a chart of the distribution of assessment used for each "Skill Builder Assessment," and student textbook distribution for school year 2005-2006. In addition, DPS provided a number of sign-in sheets for training sessions conducted by NTN for 6th and 8th grade teachers (including some special education training) for the following dates: August 1-5, 2005, August 8-12, 2005, July 24-28, 2006, and July 31-August 4, 2006.

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[3] See Exhibit 3.
[4] See Exhibit 4.

Because this documentation describes the services provided, the goods that were delivered, and confirms the dates that training sessions occurred, it demonstrates that DPS's Title I-A program received a benefit from NTN's Algebraic Thinking Project. The documents also fulfill DPS's requirement to document expenditures adequately. Therefore, because DPS has adequately documented its expenditures for these services, they are allowable under the cost principles in OMB Circular A-87.

III. Finding No. 4 – Title I, Part A Funds for Contract Expenditures

Title I, Part A Funds Expended for Martial Arts/Conflict Resolution Classes

OIG found that DPS paid Title I-A funds to Alkebu-Lan Village (ALV) for martial arts and conflict resolution training without providing a list of students who participated in the amount of $155,000.[5] DPS has provided a number of documents regarding these services. The documents include two cancelled checks, totaling $150,000, a program description, a list of all of the schools that received services, and sign-in sheets for all students who participated in the program from 2004-2006.[6] This documentation demonstrates that DPS's expenditure for martial arts services benefited its Title I-A program. Therefore, because DPS has adequately documented its expenditures for these services, they are allowable under the cost principles in OMB Circular A-87.

Title I, Part A Funds Expended for Accounting and Financial Services

OIG found that DPS expended Title I-A funds for accounting and financial services with vague invoices. Specifically, OIG cited DPS for invoices paid for services rendered by EVO Accounting and Financial Services (EVO) for school year 2004-2005 in the following amounts: $45,833.33, $6,712.50, $22,912.50, $45,833.33, and $5,400.00.[7]

DPS has provided documentation to demonstrate that its Title I-A program received a benefit from EVO.[8] OIG found that all of the invoices paid by DPS were vague. DPS has provided the invoices with weekly client status reports and timesheets. The weekly client reports detail the following:

- Accomplishments for the time period;
- New project developments;
- EVO observations and recommendations;
- Planned tasks for the subsequent week; and
- Weekly schedule.

The weekly time sheets, by employee, detail the number of hours each EVO employee worked for the relevant time period. This documentation demonstrates that the work performed by EVO is documented and benefits DPS's Title I-A program.

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[5] See Attachment to Exception Report #9.
[6] See Exhibits 5, 6.
[7] See Attachment to Exception Report #9.
[8] See Exhibit 7.

In addition to OIG's finding that each invoice was vague, OIG provided a specific explanation for the reason it disallowed DPS's expenditure. DPS responds to each finding as follows:

- OIG disallowed DPS's payment of an invoice for $45,833.33, dated January 4, 2005, stating that it was dated before the services were provided. In fact, the invoice specified that the services were to be provided in January 2005, such that DPS did not prepay the invoice. DPS paid the invoice on January 13, 2005 (as demonstrated by the "Distributed" stamp on the invoice).
- OIG disallowed DPS's payment of an invoice for $6,712.50, dated January 3, 2005. DPS paid the invoice on January 13, 2005 (as demonstrated by the "Distributed" stamp on the invoice). The weekly status report and time sheets for the week ending December 31, 2004 demonstrate that EVO was not previously paid for services rendered by employees [two employee names deleted] for the weeks ending December 17 and 24, 2004. The weekly status report and time sheet indicate that EVO was not paid for 83.5 billable hours. Therefore, DPS paid this amount to compensate EVO for those billable hours
- OIG disallowed DPS's payment of an invoice for $22,912.50, dated February 7, 2005. DPS paid the invoice on February 10, 2005 (as demonstrated by the "Distributed" stamp on the invoice). The weekly status report and time sheets for the weeks ending January 7, January 14, January 21, January 28, and February 4, 2005 demonstrate that EVO employees [two employee names deleted] provided their consulting services to DPS for that time period. OIG stated that "this expenditure is not reasonable because the duties are duplicative of the duties of the Director." DPS respectfully disagrees. DPS's programmatic staff determined that it was necessary and reasonable for EVO to provide consulting services on strengthening audit strategies, internal controls, policies and procedures. It is within DPS's local prerogative to determine the most economic and efficient manner in carrying out its Title I-A program, including hiring contractors. It is improper for USDE to infringe on DPS's local decision-making.
- OIG disallowed DPS's payment of an invoice for $45,833.33, dated February 8, 2005, stating that it was dated before the services were provided. In fact, the invoice specified that the services were to be provided in February 2005, such that DPS did not prepay the invoice. DPS paid the invoice on February 10, 2005 (as demonstrated by the "Distributed" stamp on the invoice).
- OIG disallowed DPS's payment of an invoice for $5,400.00, dated February 23, 2005. DPS paid the invoice on March 2, 2005 (as demonstrated by the "Distributed" stamp on the invoice). The weekly status report and time sheets for the weeks ending February 11 and February 18, 2005 demonstrate that EVO employees [two employee names deleted] provided their consulting services to DPS for that time period. OIG again stated that "this expenditure is not reasonable because the duties are duplicative of the duties of the Director." DPS again respectfully disagrees. DPS's programmatic staff determined that it

was necessary and reasonable for EVO to provide consulting services on strengthening audit strategies, internal controls, policies and procedures. It is within DPS's local prerogative to determine the most economic and efficient manner in carrying out its Title I-A program, including hiring contractors. It is improper for USDE to infringe on DPS's local decision-making.

IV. Conclusion

In closing, MDE and DPS respectfully disagree in whole with the Draft Audit Report findings and request that the findings be reconsidered, revised, and that the recommendations for repayment be withdrawn before the issuance of a final audit report. The serious flaws in audit methodology led to obvious errors in the Draft Audit Report and bring question to the management of the audit as a whole, such that the findings and recommendations should be reviewed and withdrawn.