UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
Chicago/Kansas City Audit Region

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Control Number
ED-OIG/A05R0001

Brian Whiston
State Superintendent
Michigan Department of Education
608 West Allegan Street
Lansing, MI 48909

Dear Mr. Whiston:

This final audit report, "Detroit Public Schools Community District: Status of Corrective Actions on Previously Reported Title I-Relevant Control Weaknesses," presents the results of our audit. The objective of our audit was to determine whether Detroit Public Schools Community District (DPSCD) had taken actions that provide reasonable assurance that previously reported audit findings will not reoccur. We limited our audit to evaluating actions taken in response to findings and recommendations relevant to Title I, Part A, of the Elementary and Secondary Education Act of 1965, as amended by the Every Student Succeeds Act (Title I), that were disclosed in reports on audits of Detroit Public Schools issued from January 1, 2008, through December 31, 2016.[1] We evaluated the status of the actions taken as of February 2017.

We concluded that DPSCD had not taken actions sufficient to provide reasonable assurance that previously reported audit findings will not reoccur. As of February 2017, DPSCD had made progress towards implementing such policies and procedures. However, DPSCD had not effectively implemented all of the procedures that its predecessor, Detroit Public Schools, designed to provide reasonable assurance that previously reported findings of unallowable and inadequately documented costs would not reoccur.[2] Specifically, DPSCD had not effectively implemented procedures for approving and documenting personnel, employee travel, and consultant services costs. We recommend that the Assistant Secretary for Elementary and Secondary Education of the U.S. Department of Education (Department) require that the Michigan Department of Education (Michigan) instruct DPSCD to strengthen its policies, procedures, and processes for approving and documenting personnel costs, approving for payment and documenting the costs incurred for employee travel, and approving for payment and documenting the costs incurred for services provided by consultants. We also recommend that the Assistant Secretary for Elementary and Secondary Education of the Department require

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[1] We audited DPSCD rather than Detroit Public Schools because, effective July 1, 2016, DPSCD was the local educational agency receiving and administering Federal Title I funds.
[2] On December 30, 2016, the transition manager for DPSCD issued an order confirming the continuation of previously issued orders, policies, and procedures. As of February 2017, all the previously issued orders, policies, and procedures in effect at Detroit Public Schools were in effect at DPSCD.

that Michigan ensure DPSCD effectively implements the strengthened policies, procedures, and processes.

Michigan Comments

In its comments on the draft of this report, Michigan stated that it agreed with the 3 findings and 10 corresponding recommendations and explained how it and DPSCD plan to implement the recommendations (see Attachment 2). Michigan stated that it will instruct DPSCD to strengthen policies and procedures for all grant-related functions, including documenting personnel costs, approving and documenting employee travel costs, and approving and documenting consultant costs. Additionally, according to Michigan, DPSCD will

- review pension contribution rates and notify the employees responsible for entering pension contribution rate changes in the financial system when changes are needed,

- determine the total amount that it overcharged Title I funds for pension contributions for all pension plans not included in the sample selected by the Office of Inspector General (OIG) and return any applicable overpayments to Michigan, and

- train employees on the requirements for processing budget transfer requests and processing and approving payments to consultants.

OIG Response

We summarized Michigan's comments after each finding. After considering comments on the draft of this report, we added information to the Background section to explain that Michigan and DPSCD entered into a memorandum of agreement that will remain in effect until October 2021. We also clarified our description of the district's restructuring (see Financial Emergency and District Restructuring).

Additionally, we modified our first recommendation for Finding No. 1 to emphasize the need for DPSCD to update its policies and procedures for handling changes in pension contribution rates. Finally, we modified our third recommendation for Finding No. 1. Rather than recommending that DPSCD be required to return funds, we are now recommending that Michigan instruct DPSCD to submit the results of its pension contribution rate review to the Department for a determination on whether any Federal funds must be returned.

BACKGROUND

The Elementary and Secondary Education Act of 1965, as amended by the Every Student Succeeds Act, authorizes the Title I program. The purpose of the Title I program is to provide all children the opportunity to receive a fair, equitable, and high-quality education and to close educational achievement gaps. Title I authorizes the Department to provide grants to local educational agencies through State educational agencies. Title I is the largest Federal grant program for elementary and secondary education, providing more than $14.4 billion annually to supplement State and local funding for low-achieving children, especially those who are economically disadvantaged.

Prior Findings and Required Corrective Actions

On July 18, 2008, the OIG issued a report on its audit of Detroit Public Schools' use of Title I funds during school years 2004–2005 and 2005–2006. The OIG found that the district used almost $54 million in Title I funds for (1) contract costs that were unallowable or inadequately documented ($1,779,568); (2) personnel costs that were unallowable ($1,025,561); (3) personnel costs that were not supported by adequate and timely time and effort certifications, personnel activity reports, or employee insurance cost data ($47,546,817); and (4) nonpersonnel costs that were unallowable or inadequately documented ($3,266,913). In August 2008, in part because of the significance of the audit findings, Michigan designated Detroit Public Schools as high risk and required the district to work with it to address systemic control weaknesses highlighted in the audit report.

On March 27, 2013, the Department issued a determination letter stating that Detroit Public Schools had taken steps to address the audit findings and recommendations. The district

- created a procurement checklist listing the steps to be completed in the procurement process and documentation that must be maintained when creating a contract or purchase order,

- revised its time and effort policies and procedures to ensure that time and effort certifications and personnel activity reports are retained, and

- provided employees training on allowable uses of funds.

In September 2013, the Department sent a letter to Michigan stating that no further actions on the part of Michigan or Detroit Public Schools were required. On November 18, 2013, Michigan removed its high-risk designation and entered into a memorandum of agreement, in effect until November 18, 2018, continuing the required quarterly reviews of Detroit Public Schools' implementation of its revised policies and procedures. The November 2013 memorandum of agreement also required bimonthly calls and semiannual meetings between officials of Detroit Public Schools and Michigan. During fiscal years 2012, 2013, and 2015, the quarterly reviews disclosed findings of incorrect or missing time and effort documentation or overpayments to contractors. These findings were not identified in the quarterly reviews completed in fiscal years 2014 and 2016.

According to Michigan, on October 21, 2016, it and DPSCD entered into a new memorandum of agreement, superseding the November 2013 memorandum of agreement. The new memorandum of agreement will be in effect until October 2021 and requires DPSCD to annually update key policies and procedures, resolve grant-related monitoring findings, and demonstrate a 3-year pattern of single audit opinions showing no adverse opinions, disqualified opinions, and reduced qualified opinions on all Federal programs. It also requires six monitoring calls and two in-person meetings each year, with the most recent in-person meeting having occurred on September 27, 2017.

Single audits for fiscal years 2009 through 2015 disclosed weaknesses in Detroit Public Schools' internal control over the Title I program similar to the findings disclosed in the 2008 OIG audit report.[3] According to 2 Code of Federal Regulations (C.F.R.) § 200.511, recipients of Federal awards must follow up and take corrective action on all reported audit findings.[4] Table 1 summarizes the findings reported in the 2008 OIG audit report and the single audit reports. In addition, Table 1 shows the corrective actions that Detroit Public Schools was supposed to complete to resolve the reported weaknesses in internal control.

Table 1. Audit Report Findings and Corrective Actions

Finding	Recommended Corrective Actions (Report Source)
Unallowable and inadequately documented personnel costs	o Develop policies to ensure that (1) supplemental and overtime activities are recorded as nonregular work duties; (2) Title I is only charged for the actual time employees spent working on Title I activities; (3) employees (or their supervisors) working on a single cost activity timely sign and submit semiannual certifications; (4) employees working on multiple cost activities prepare and sign after-the-fact personnel activity reports, at least monthly; and (5) insurance benefit charges to Title I are accurate (OIG: 2008). o Modify procedures to ensure expenditures charged to Federal programs are accurate, properly approved, and documented (single audit: 2009, 2010, 2011, 2012, 2013, 2014). o Modify procedures to ensure that severance payments and payments for unused leave are not charged as direct costs to Federal programs (single audit: 2011, 2013, 2014). o Implement procedures to ensure that Federal reimbursement requests include only costs that have been incurred and paid, unless a waiver has been granted in advance (single audit: 2015).
Unallowable and inadequately documented nonpersonnel costs	o Develop policies and procedures that provide reasonable assurance that Title I expenditures are necessary, reasonable, allocable, and adequately documented (OIG: 2008). o Develop procedures to ensure compliance with requirements for Federal awards (single audit: 2009). o Implement procedures to ensure that contracts meeting the State's threshold allow for full and open competition and documentation supporting full and open competition is retained in the contract file (single audit: 2010). o Implement procedures to ensure that contracts are fully executed before purchase orders are authorized and invoices under the contract are paid (single audit: 2011).
Payments to excluded parties	o Before entering into contracts with vendors, implement procedures to ensure that vendors are not suspended or debarred (single audit: 2010, 2011, 2015).

[3] A recipient that spends Federal awards of $750,000 or more during its fiscal year is required to have a single or program-specific audit conducted for that year (2 C.F.R. § 200.501). Before December 26, 2014, the threshold requiring an annual audit pursuant to Office of Management and Budget Circular A-133 was $500,000.
[4] All regulatory citations are to the 2016 volumes.

Financial Emergency and District Restructuring

Incorporated in 1842, the School District of the City of Detroit, also known as Detroit Public Schools, is located in Detroit, Michigan. On January 26, 2009, the governor of the State of Michigan determined that a financial emergency existed and appointed an emergency manager for the district. The emergency manager was provided with authority over all financial, operational, and academic matters of Detroit Public Schools as were necessary to address the financial emergency.

For fiscal year 2016 (July 1, 2015, through June 30, 2016), Michigan disbursed almost $101 million in Title I funds to Detroit Public Schools. In June 2016, the Michigan State legislature passed a law to restructure the district into two local educational agencies. Effective July 1, 2016, Detroit Public Schools exists only as a revenue-collecting entity that, using additional property tax collections and based on current interest rates, will pay off the district's debt by 2049. The Michigan State legislature created DPSCD to operate schools using $617 million in new State funds.

The governor of the State of Michigan designated the emergency manager of Detroit Public Schools as the transition manager for DPSCD. On December 31, 2016, the transition manager turned over control of DPSCD to a newly elected school board. On May 23, 2017, the school board hired a new superintendent to lead DPSCD.

AUDIT RESULTS

We concluded that DPSCD had not taken actions sufficient to provide reasonable assurance that previously reported audit findings will not reoccur. We evaluated the status of actions taken as of February 2017 and found that DPSCD had made progress towards implementing policies and procedures that were redesigned to provide reasonable assurance that previously reported audit findings would not reoccur. The redesigned personnel policies described the time and effort reporting and approving processes, included examples of the documents that employees must complete to receive compensation, and included instructions for completing required documents. The redesigned nonpersonnel policies also described steps that employees must complete when creating a purchase order or entering into a contract and the documentation (such as an approved requisition and proof that the vendor has not been suspended or debarred) required to demonstrate that the procedures were followed.

Although these redesigned policies and procedures were logical, understandable, and, if followed, should have been sufficient to minimize the risk of previously reported audit findings reoccurring, DPSCD had not effectively implemented all of them. Specifically, DPSCD had not effectively implemented procedures for approving and documenting personnel, employee travel, and consultant services costs.

FINDING NO. 1 – DPSCD Did Not Effectively Implement Procedures for Approving and Documenting Personnel Costs

DPSCD did not always ensure that it (1) used the correct pension benefit contribution rates, (2) documented supervisory approval of all Title I employees' timesheets before processing salary payments, and (3) accurately and timely processed corrections to Title I employees' pay. DPSCD's use of incorrect pension benefit contribution rates resulted in improper Title I payments for pension contributions from October 1, 2015, through June 2, 2017 ($128,557 from October 1, 2016, through June 2, 2017; unknown amount from October 1, 2015, through September 30, 2016). Additionally, DPSCD's process for approving salaried employees' timesheets increased the risk that salaried employees could receive pay for which they were not entitled. Finally, by not ensuring that corrections to employees' pay were accurately and timely processed, DPSCD increased the risk that employees could receive more or less pay than they were entitled.

<u>Incorrect Pension Benefit Contribution Rates Used</u>
Annually, DPSCD manually entered the State-defined, employer-paid pension benefit contribution rates used by DPSCD's financial system to calculate pension contribution amounts. However, DPSCD did not establish a policy to have the rates reviewed to ensure that the changes were accurately entered in the financial system at the beginning of the fiscal year.

We judgmentally selected 15 of the 3,004 employees whose salaries DPSCD charged to the Title I program from July 1, 2016, through December 31, 2016. Collectively, these 15 employees participated in 7 of the 20 available pension plans. DPSCD used the incorrect pension contribution rate for 9 of the 15 employees. For seven of the nine employees, DPSCD used the 25.78 percent rate effective for fiscal year 2016 instead of the 24.94 percent rate effective for fiscal year 2017.[5] For one of the nine employees, DPSCD used the 24.70 percent rate effective for fiscal year 2015 instead of the 24.56 percent and 24.31 percent rates effective for fiscal years 2016 and 2017, respectively. For one of the nine employees, DPSCD used the 24.19 percent rate effective for fiscal year 2015 instead of the 24.56 percent rate effective for fiscal year 2016.

After we notified DPSCD that it used incorrect pension benefit contribution rates, DPSCD reviewed the rates it used from October 1, 2016, through June 2, 2017, for all employees enrolled in the seven plans included in our sample. DPSCD concluded that it used incorrect rates for all employees enrolled in five of the seven pension plans, resulting in $128,557 in improper Title I payments for pension contributions covering 1,696 employees whose salaries were charged to the Title I program from October 1, 2016, through June 2, 2017. DPSCD provided us with records showing that it corrected the rates in the financial system and returned to the Title I program the $128,557 in improper payments for the five pension plans.

We identified one additional pension plan for which DPSCD used an incorrect pension contribution rate from October 1, 2015, through October 6, 2016. Although we notified DPSCD of the error, DPSCD did not correct the rates and return the improper payments to the Title I program. According to the executive director of compliance, DPSCD could not adjust any

[5] The State of Michigan's fiscal year is October 1 through September 30. On October 1 of every year, the State of Michigan provided DPSCD with the employer-paid pension benefit contribution rates for each plan.

payments made before October 1, 2016, because the prior grant year was closed. However, according to 2 C.F.R. § 200.344, the closeout of a Federal award does not affect the right of the Federal awarding agency to disallow costs and recover funds on the basis of a later audit or other review or the obligation of the non-Federal entity to return any funds due as a result of later refunds, corrections, or other transactions.

Payroll Approval and Processing Procedures Not Effectively and Timely Implemented

DPSCD did not effectively and timely implement payroll approval and processing procedures. We judgmentally selected 15 of the 3,004 employees whose salaries DPSCD charged to the Title I program from July 1, 2016, through December 31, 2016. We found that DPSCD allowed one employee to approve his own timesheet and did not accurately and timely process payroll corrections for two employees.

We asked DPSCD why an employee was allowed to approve his own timesheet for payroll processing and learned that, in May 2014, DPSCD transitioned from a manual to an automated timesheet approval process. As of August 10, 2017, the automated process did not include a step requiring supervisory approval of timesheets for 22 employees (3 assigned to the district office and 19 working at schools as academic engagement personnel) of the 3,004 employees whose salaries DPSCD was charging to the Title I program. Instead, DPSCD's automated timesheet approval process allowed these 22 employees (including 1 in our sample of 15 employees) to approve their own timesheets for payment processing.

Additionally, DPSCD did not accurately and timely process payroll corrections for 2 of the 15 employees in our sample.

- DPSCD paid one substitute teacher for 2 days (September 1 and 2, 2016) even though schools were closed to students on those days. On September 28, 2016, DPSCD created a correction of time report to change the substitute teacher's status to leave without pay for the 2 days. However, the pay rate used for the pay period ended September 9, 2016, was wrong, resulting in an overpayment of $750. After we informed DPSCD of the error, DPSCD informed the employee (on August 18, 2017), that it would begin deducting the amount of the overpayment from the employee's paychecks.

- DPSCD did not enter in the payroll system 40 hours that one employee worked for the pay period that ended October 7, 2016. On November 11, 2016, DPSCD created a correction of time report to pay the employee for the 40 hours. However, the corrected paycheck showed that DPSCD paid the employee for only 32 hours. After we brought the 8-hour error to DPSCD's attention, DPSCD provided additional documentation showing that it paid the employee for the additional 8 hours in April 2017 (almost 6 months later) but only after a payroll audit disclosed the error.

As a result of not effectively, accurately, and timely implementing policies and procedures for payroll approval and processing, DPSCD increased the risk that employees could receive more or less pay from Title I funds than they were entitled to receive.

Recipients Should Ensure Costs Are Reasonable and Adequate Safeguards Are Established
According to 2 C.F.R. §§ 200.403 and 200.430, to be allowable under Federal awards, costs must be necessary and reasonable for the performance of the Federal award, be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-Federal entity, and be adequately documented. Additionally, charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must

- be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- be incorporated into the official records of the non-Federal entity;
- reasonably reflect the total activity for which the employee is compensated by the non-Federal entity (not exceeding 100 percent of compensated activities);
- encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis;
- comply with the established accounting policies and practices of the non-Federal entity; and
- support the distribution of the employee's salary or wages among specific activities or cost objectives, if applicable.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education require that Michigan instruct DPSCD to—

1.1 Update its policies and procedures to ensure that any changes to pension benefit contribution rates are timely and accurately entered in the financial system.

1.2 Calculate the amount that it overcharged Title I funds from October 1, 2015, through October 6, 2016, for the one (of seven) other pension plan for which it used an incorrect contribution rate and return that amount to the Department.

1.3 Review Title I payments for pension contributions made from October 1, 2015, through June 2, 2017, for the 13 pension plans not included in our sample and submit the results of that review to the Department for a determination on whether any Federal funds must be returned.

1.4 Update its policies and procedures and information system controls to ensure that supervisory approval for all employees' timesheets is documented before the employees are paid.

1.5 Ensure that payroll processing errors are detected timelier and those corrections are accurately processed.

Michigan Comments

Michigan agreed with the finding and recommendations. Michigan stated that, in January 2018, DPSCD's executive director of finance conducted a review to ensure that the pension contribution rates entered in DPSCD's financial system were accurate. At the beginning of each new fiscal year, DPSCD plans to review pension contribution rates and notify the employees responsible for entering the pension contribution rate changes in the financial system when changes are needed.

Michigan also stated that, by March 31, 2018, DPSCD will

- determine the total amount that it overcharged Title I funds for pension contributions from October 1, 2015, through October 6, 2016, and return that amount to Michigan;

- review the pension contribution rates charged from October 1, 2015, through June 2, 2017, for the 13 plans not included in the OIG's sample and return any overpayments to Michigan; and

- develop and obtain school board approval for new payroll policies and implement the new policies by June 30, 2018.

Additionally, effective January 12, 2018, DPSCD no longer allows employees to approve their own timesheets. Finally, in November 2017, DPSCD established an internal help desk to monitor and respond to employee concerns about payroll.[6] On a weekly basis, DPSCD's chief financial officer will review outstanding issues to ensure timely responses to employee concerns.

OIG Response

We modified recommendation 1.1 to emphasize the need for DPSCD to update its policies and procedures for handling changes in pension contribution rates. We also modified recommendation 1.3. Rather than recommending that DPSCD be required to return funds, we are now recommending that Michigan instruct DPSCD to submit the results of its pension contribution rate review to the Department for a determination on whether any Federal funds must be returned.

FINDING NO. 2 – DPSCD Did Not Effectively Implement Procedures for Approving and Documenting Employee Travel Costs

DPSCD paid employee travel expenses without always ensuring that the costs were necessary, reasonable, and adequately documented. We reviewed 15 nonpersonnel expenditures, including 3 for employees' travel costs, that DPSCD charged to the Title I program from July 1, 2016, through December 31, 2016. We found that DPSCD paid travel expenses in excess of allowable per diem rates and without confirming the validity of travel agency invoice charges. As a result,

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[6] On February 15, 2018, Michigan provided an email clarifying its written comments on Finding No. 1. In the email, Michigan stated that the internal help desk was created to respond to employee concerns about payroll in November 2017, not November 2018.

DPSCD increased the risk that it would charge the Title I program for travel costs that were not needed for the performance of the Title I program.

Travel Expenses in Excess of Per Diem

DPSCD paid travel expenses that were in excess of the established maximum allowable per diem rates without retaining written justifications for exceeding the maximum allowable rates.

- During November 2016, the maximum allowable lodging rate for Long Beach, California, was $175 per night; however, DPSCD paid the conference provider $229 (excluding taxes) per night for each of 4 nights (one traveler).

- During November 2016, the maximum allowable meals and incidental rate for Las Vegas, Nevada, for the first and last day of travel was $48 per day; however, DPSCD paid one traveler $64 per day for the first and last day of travel. In addition, in the documentation provided to justify the meals and incidental expenses, DPSCD included an email from the travel agency indicating that lodging expenses for the traveler were $223.75 (including taxes) per night. However, for November 2016, the maximum allowable lodging rate for Las Vegas, Nevada, was $102 per night (excluding taxes).

DPSCD stated that it was allowed to incur lodging expenses in excess of the maximum allowable rate, when necessary, because Federal Travel Regulation (FTR) § 301-11.303 permits actual expense reimbursement up to 300 percent of the maximum allowable rate when travelers cannot obtain lodging at the allowable rate.[7] However, DPSCD did not require a written justification or retain evidence of supervisory approval for the employee to incur lodging costs in excess of the maximum allowable lodging rate. Additionally, the executive director of compliance for DPSCD stated that DPSCD's policy was to pay meals and incidental expenses for the first and last calendar day of travel at a rate of 75 percent of allowable rate; however, the policy was not properly reflected in DPSCD's procurement and logistics procedures.

Validity of Travel Agency Invoice Charges Not Verified Before Payment

DPSCD paid for travel expenses billed on an invoice from its travel agency without verifying that the expenses were accurate or requiring the travel agency to itemize the expenses. DPSCD paid an invoice that showed a total cost of $1,357 for airfare, lodging, and ground transportation for one employee traveling to Orlando, Florida, for 4 nights. DPSCD created a requisition and purchase order for the $1,357 but neither document listed the costs for the individual portions of the trip or the amount of fees charged by the travel agency. Instead of requiring the travel agency to provide a detailed invoice and receipts to support all expenses billed on the invoice associated with the trip, DPSCD relied on an email from the travel agency that stated airfare was $520, lodging was $657, and ground transportation was $180. DPSCD retained a hotel receipt obtained by the traveler but the receipt showed a total cost of $509 (including taxes), $148 less than the amount shown on the invoice from the travel agency. DPSCD did not retain receipts for airfare and ground transportation but a ground transportation provider in the area had a published round-trip rate of only $33, $147 less than the amount shown on the invoice from the travel agency. After we asked about the lack of an itemized invoice, the executive director of

[7] Because DPSCD did not have its own policy establishing maximum lodging allowance rates, DPSCD was required to apply the rates established by the U.S. General Services Administration (2 C.F.R. § 200.474).

compliance for DPSCD stated that the $180 billed for ground transportation included $50 for baggage fees and an undisclosed amount for travel agency fees. Also, the executive director of finance for DPSCD contacted the travel agency, and the travel agency stated that it charged a fee for booking the hotel but did not disclose the amount of the fee.

Recipients Should Ensure Costs Are Necessary and Reasonable
Because DPSCD did not have documents describing its policy regarding travel costs, it should have used the rates and amounts established for travel by Federal employees (2 C.F.R. § 200.474(d)). To be allowable under Federal awards, costs, among other requirements, must be necessary and reasonable for the performance of the Federal award, be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-Federal entity, and be adequately documented (2 C.F.R. § 200.403). Additionally, requests for authorization for reimbursement under actual expenses that exceed established maximum rates should be made in advance of travel, be authorized and approved by a designated official (FTR §§301-11.301 through 301-11.302), and be approved only when (1) costs have escalated because of special events (such as sporting events, conventions, and natural or manmade disasters) or (2) lodging and meal expenses within prescribed allowances cannot be obtained nearby and costs to commute to and from the nearby location consume most or all of the savings achieved from occupying less expensive lodging (FTR §§ 301-11.300).

According to DPSCD's "Approval Process for Grant Funded Travel Requests," meals and incidental expenses are calculated using Federal per diem allowances. According to "Meals and Incidental Expenses (M&IE) Breakdown," issued by the U.S. General Services Administration, the first and last calendar day of travel is calculated at 75 percent of the full day rate.

Also, "Detroit Public Schools High Risk Policies and Procedures, Allowable Use of Funds/Cost Principles," section 1.3, states that proper documentation must be maintained to provide evidence to monitors, auditors, and other oversight entities of how the funds were spent. "Detroit Public Schools, Department of State and Federal Programs, Desktop Procedure for Requisition Approvals" states that requisitions should be sufficiently detailed and include, among other things, description of activity and unit costs and rates.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education require that Michigan instruct DPSCD to—

2.1 Retain written justifications and preapprovals for incurring lodging expenses in excess of maximum allowable rates.

2.2 Revise its procurement and logistics policies and procedures to clearly describe requirements for incurring travel expenses in excess of maximum allowable rates and calculating meals and incidental expenses for the first and last days of travel.

2.3 Require invoices to itemize all costs, including travel agency fees, and ensure that the invoices are adequately supported before paying for them.

Michigan Comments

Michigan agreed with the finding and recommendations. Michigan stated that, by March 31, 2018, DPSCD's school board expects to approve new travel policies. By June 30, 2018, DPSCD's finance department will implement guidelines based on the new policies. Additionally, DPSCD intends to select a new travel agent by March 1, 2018.

OIG Response

Although Michigan agreed to instruct DPSCD to develop and implement new policies and guidelines, Michigan still needs to ensure that the new policies and guidelines (1) require employees to retain written justifications and preapprovals for incurring lodging expense in excess of maximum allowable rates, (2) specify that only invoices that are itemized and adequately supported should be approved for payment, and (3) describe the requirements for incurring travel expenses in excess of maximum allowable rates and calculating meals and incidental expenses for the first and last days of travel.

FINDING NO. 3 – DPSCD Did Not Effectively Implement Procedures for Documenting and Approving Costs for Consultants

DPSCD did not ensure that the purchase order covering its parent action leader program was updated after the program budget was revised.[8] Additionally, DPSCD did not ensure that work logs for parent action leaders and parent and community engagement monitors included the signatures of the consultants and evidence of supervisory review. As a result of not updating the purchase order when the budget was revised, DPSCD risked spending $37,200 more in Title I funds than budgeted for the program. By not ensuring that work logs were signed and approved, DPSCD risked paying consultants for hours that they did not actually work.

<u>Purchase Order Not Updated</u>

DPSCD's requisition and purchase order covering the parent action leader program showed that DPSCD planned to spend $223,200 in Title I funds to pay for the program. However, DPSCD's approved budget showed that DPSCD planned to use only $186,000 in Title I funds for the program. According to the executive director of compliance for DPSCD, the purchase order for the parent action leader program was not updated when the budget was revised because employees did not follow proper procedures. According to DPSCD's procurement policy, when a requisition is finalized, the amount of funds is encumbered for the purpose described on the requisition; therefore, the encumbrance prevents DPSCD from spending more than budgeted for a particular program.

<u>Work Logs Did Not Always Include Required Signatures</u>

DPSCD did not always ensure that work logs for parent action leaders and parent and community engagement monitors included the required signatures (for example, signatures of the consultants and their supervisors).

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[8] DPSCD paid members of the school community to serve as parent action leaders. Parent action leaders assisted schools and parents with parental engagement activities and provided parents with information on school activities. DPSCD contracted with consultants to serve as parent and community engagement monitors. Parent and community engagement monitors provided training to parent action leaders and school personnel, assisted parent action leaders with monthly reporting and other duties, and distributed information and resources.

- A parent and community engagement monitor did not review one parent action leader's work logs for 3 of the 4 weeks of September 2016, and the spaces reserved for both the parent action leader and supervisor or principal signatures on the logs for October 2016 contained typed names instead of signatures.

- The signature spaces on one parent action leader's work log for November 2016 contained typed names instead of signatures.

- One parent and community engagement monitor's work logs for October 2016 did not contain the signatures of either the monitor or the supervisor, and the parent and community engagement monitor used the wrong form (a parent action leader work log rather than a parent and community engagement monitor work log) to record the hours worked.

- One parent and community engagement monitor's work logs for November 2016 included only the typed name of the monitor (rather than a signature) and did not include the supervisor's signature.

<u>Recipients Should Ensure Costs Are Allowable and Adequately Documented</u>
To be allowable under Federal awards, costs, among other requirements, must be necessary and reasonable for the performance of the Federal award, be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-Federal entity, and be adequately documented (2 C.F.R. § 200.403). According to DPSCD policy, all costs must be consistent with approved program plans and budgets, including the district's consolidated application to Michigan, and school-level plans, such as schoolwide plans or Federal school improvement plans ("Detroit Public Schools High-Risk Policies and Procedures, Allowable Use of Funds/Cost Principles," section 1.3).

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education require that Michigan instruct DPSCD to ensure that employees—

3.1 Timely adjust purchase orders when budgets are revised.

3.2 Ensure that consultant work logs are complete and include evidence of supervisory approval before approving consultant invoices for payment.

Michigan Comments

Michigan agreed with the finding and recommendations and will instruct DPSCD to train administrative personnel on the requirements for processing budget transfer requests and processing and approving consultants' invoices.

OIG Response

Although Michigan agreed to instruct DPSCD to train administrative personnel on requirements for processing budget transfer requests and approving consultants' invoices, Michigan still should ensure that the training is sufficiently designed to prevent these and similar types of findings from reoccurring.

OTHER MATTER

DPSCD paid an invoice for the hours worked by an outside consultant on an educational program. However, the number of hours billed on the invoice exceeded the number of hours shown on supporting documentation. As a result, DPSCD paid the outside consultant about $1,600 more than it should have, including about $400 that it charged to the Title I program. This matter has been referred to the DPSCD Inspector General.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether DPSCD had taken actions that provide reasonable assurance that previously reported audit findings will not reoccur. We limited our audit to actions taken in response to Title I-relevant findings and recommendations reported in a 2008 OIG audit report ("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," control number A05H0010) and reports on required single audits for fiscal year 2009 through fiscal year 2015. We did not assess DPSCD's compliance with any other Federal requirements. We evaluated the status of the actions as of February 2017.

To achieve our audit objective, we identified the actions that Detroit Public Schools was required to take by obtaining and reviewing (1) the 2008 OIG audit report, (2) single audit reports for fiscal year 2009 through fiscal year 2015, and (3) the program determination letter describing the actions that the Department required Detroit Public Schools to take to resolve the 2008 OIG audit report.

To gain an understanding of the actions that Detroit Public Schools took, we interviewed Department, Michigan, and DPSCD officials. To gain an understanding of the law, regulations, and policies that were relevant to the actions taken in the areas of allowable uses of funds, debarment and suspension, draw down of grant funds, procurement, and time and effort reporting, we reviewed Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended by the Every Student Succeeds Act; 2 C.F.R. Part 200; 34 C.F.R. Part 76; Office of Management and Budget Circular No. A-133 ("Audits of States, Local Governments, and Non-Profit Organizations"); the State of Michigan's "The Revised School Code;" and "Detroit Public

Schools High Risk Policies and Procedures," "Approval Process for Grant Funded Travel Request," and "Office of Procurement and Logistics Policy Manual."

To confirm that the policies and procedures that Detroit Public Schools designed were implemented and functioning as intended at DPSCD, we (1) judgmentally selected personnel expenditures for 15 of the 3,004 employees; (2) judgmentally selected 15 of the 535 nonpersonnel expenditures; and (3) haphazardly selected 10 of the 60 contract files (see Sampling Methodology). We then reviewed the following documentation:

- time and effort certifications, timesheets, employee pay rates, and employer-paid pension benefit plan contribution rates for the salaries and benefits paid for the 15 employees;

- requisitions, invoices, contracts, and approved purchase orders for the 15 nonpersonnel expenditures; and

- records indicating that DPSCD verified that vendors were not suspended or debarred before awarding the contracts.

In addition, we observed the director of procurement for DPSCD ensuring that one vendor was not suspended or debarred and placing the required documentation in the contract file.

Data Reliability

To achieve our objective, we relied, in part, on expenditure data that DPSCD provided. We assessed the reliability of the computer-processed data by looking for duplicate entries, missing data, values outside a designated range, or values outside valid periods. We also compared the data to supporting documentation, such as time sheets, purchase orders, invoices, and statements showing the disbursement dates and amounts of Title I funds that DPSCD received from Michigan. Based on these analyses and comparisons, we concluded that the DPSCD-provided expenditure data were sufficiently reliable for the purpose of our audit.

Sampling Methodology

We judgmentally selected two samples of expenditures that DPSCD charged to the Title I program from July 1, 2016, through December 31, 2016, and haphazardly selected one sample of files for contracts that DPSCD entered into from July 1, 2016, through December 31, 2016.[9] Because we judgmentally or haphazardly selected the samples, our sampling results might not be representative of the universes and, therefore, cannot be projected to the universes.

<u>Personnel Expenditures Charged to the Title I Program</u>
We judgmentally selected 15 of the 3,004 employees whose salaries DPSCD charged to the Title I program from July 1, 2016, to December 31, 2016. For each of the 15 employees, we judgmentally selected one pay period for which to review documentation supporting the

[9] Random selection is where each item in the population has an equal chance of selection and is carried out by systemic process to choose items to examine. Haphazard selection means that a person picks items from the population trying to emulate randomness but no defined systemic process is used.

expenditures. The employees and corresponding pay periods selected accounted for $39,289 of the $22,104,576 in salaries and benefits that DPSCD charged to the Title I program for the 6-month period. Our selection of employees and pay periods ensured that our sample included (1) the highest salary line items recorded in DPSCD's Title I fund and DPSCD's consolidated fund (a portion of which is Title I-relevant) for each pay group,[10] (2) salaries for categories of employees that were cited as unallowable or inadequately documented in previously issued audit reports, and (3) employees who appeared to have received duplicate payments.

Nonpersonnel Expenditures Charged to the Title I Program
We judgmentally selected 15 of the 535 nonpersonnel expenditures that DPSCD charged to the Title I program from July 1, 2016, through December 31, 2016. The expenditures selected accounted for $35,534 of the $525,520 in nonpersonnel expenditures that DPSCD charged to the Title I program for the 6-month period. Our selection ensured that our sample included the types of expenditures, including conference registrations, travel allowances, outside consultants, purchased services, refreshments, and technology, that were questioned in previously issued audit reports.

Contract Files
We haphazardly selected 10 of the 60 files containing documentation for contracts that DPSCD approved from July 1, 2016, to December 31, 2016. We reviewed the files to determine only whether they contained documentation proving that employees checked vendor suspension or debarment statuses before the contract was approved. We did not determine whether the associated contract costs were allowable or adequately documented.

We conducted this audit from January through September 2017 in Detroit, Michigan, and at our office in Chicago, Illinois. We discussed the results of our audit with Michigan and DPSCD officials on October 18, 2017.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determination of corrective actions to be taken, including the recovery of funds, will be made by the appropriate Department of Education officials in accordance with the General Education Provisions Act.

[10] DPSCD established six pay groups based on how often it paid employees.

If you have any additional comments or information that you believe might 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:

Jason Botel
Principal Deputy Assistant Secretary
Office of Elementary and Secondary Education
400 Maryland Ave., SW
Washington, DC 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 calendar 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.

We appreciate the cooperation and assistance extended by Michigan and DPSCD employees during our audit. If you have any questions or require additional information, please do not hesitate to contact me or Jonathan Enslen, Assistant Regional Inspector General for Audit, at 312-730-1620.

Sincerely,

/s/

Gary D. Whitman
Regional Inspector General for Audit

Attachments

Attachment 1

Acronyms, Abbreviations, and Short Forms Used in This Report

C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
DPSCD	Detroit Public Schools Community District
FTR	Federal Travel Regulation
Michigan	Michigan Department of Education
OIG	Office of Inspector General
Title I	Title I, Part A, of the Elementary and Secondary Education Act of 1965, as amended by the Every Student Succeeds Act

Attachment 2: Michigan's Comments on the Draft Report

Michigan provided the following comments on the draft of this report on January 19, 2018. In addition, Michigan attached a memorandum of agreement between it and DPSCD that became effective on October 21, 2016. We will provide the memorandum of agreement on request.

Attachment 2

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

BRIAN J. WHISTON
SUPERINTENDENT

January 19, 2018

Mr. Gary D. Whitman
Regional Inspector General for Audit
United States Department of Education
Office of Inspector General

Re: Control Number ED-OIG/A05R0001

Dear Mr. Whitman:

This response is to your letter of December 22, 2017, concerning the draft audit report, "Detroit Public Schools Community District: Status of Corrective Actions on Previously Reported Title I-Relevant Control Weaknesses."

The Michigan Department of Education (MDE) agrees with both United States Department of Education (USDOE) recommendations contained in the draft audit report. First, that MDE should instruct the Detroit Public Schools Community District (DPSCD) to strengthen its policies, procedures, and processes for all business and grant-related functions including (1) improving and documenting personnel costs, (2) approving for payment and documenting the costs incurred for employee travel, and (3) approving payment and documenting the costs incurred for services provided by consultants. Second, that MDE ensure the DPSCD effectively implements the strengthened policies, procedures, and processes.

In your letter, you reference the November 18, 2013, memorandum of agreement (MOA) signed between MDE and Detroit Public Schools. This memorandum has been superseded by a memorandum of agreement between MDE and DPSCD effective October 21, 2016 (see attachment). While the purpose of the two agreements is the same, the updated MOA has ten specific implementation goals/tasks, several of which address the USDOE Office of Inspector General (OIG) recommendations. In addition to specifying the need to implement and annually update key policies and procedures, there are goals on resolving grant-related monitoring findings and demonstrating a three-year pattern on single audit opinions

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showing no adverse opinions, disqualified opinions, and reduced qualified opinions on all federal programs.

As agreed under the current MOA, MDE and DPSCD will continue to hold six monitoring conference calls per year. In addition, two face-to-face meetings are held each year. The latest in-person meeting was held September 27, 2017, at DPSCD district offices in Detroit with high-level representatives from DPSCD, MDE, and USDOE. MDE staff will continue to work with DPSCD to monitor all the activities and tasks outlined in the MOA.

After years of changing leadership, the selection of Dr. Nikolai Vitti as Superintendent, in conjunction with a stable executive organization and a functioning school board, gives DPSCD the opportunity to build an organization that will establish controls and implement strong policies, procedures, and processes. MDE will work with DPSCD to provide more than reasonable assurance that previously reported findings will not reoccur.

Regarding the audit results detailed in the draft audit report, MDE staff have reviewed the specific findings and recommendation with DPSCD. During the audit process, DPSCD staff had the opportunity to provide support and documentation. DPSCD responses for each recommendation is provided below.

Finding No. 1 – **DPSCD Did Not Effectively Implement Procedures for Approving and Documenting Personnel Costs**. MDE agrees with the finding and the specific recommendations.

Recommendations

1.1 Annually review all employer-paid pension benefit contribution rate changes for accuracy.

DPSCD agrees with this recommendation. In January 2018, the Executive Director of Finance conducted an internal review to ensure pension contribution rates matched state requirements. This process will take place annually prior to the launch of a new fiscal year, to ensure any updated rates are loaded into PeopleSoft.

In addition, the Chief Financial Officer (CFO) and Executive Director of Finance monitor the Office of Retirement Services communications for updates on changes to pension contributions. As those changes are communicated, that information is relayed to IT staff to make the appropriate changes.

1.2 Calculate the amount that it overcharged Title I funds for pension costs from October 1, 2015, through October 6, 2016, and return that amount to MDE.

DPSCD agrees. By March 31, 2018, DPSCD staff will determine the total amount of Title I funds, if any, that were overcharged for pension contributions between October 1, 2015, and October 6, 2016. Any overcharges will be returned to MDE.

1.3 Review Title I payments for pension contributions made from October 1, 2015, through June 2, 2017, for the 13 pension plans not included in our sample and return any applicable overpayments to MDE.

DPSCD agrees. No later than March 31, 2018, DPSCD staff will review the 13 plans not included in the sample between October 1, 2015, and June 2, 2017, to determine any potential overpayments due to inaccurate pension contribution rates. Any applicable overpayments will be returned to MDE.

1.4 Update its policies and procedures and information system controls to ensure that supervisory approval for all employees' timesheets is documented before the employees are paid.

DPSCD agrees. The DPSCD school board is in the process of adopting board policies for the new district. Finance policies related to payroll are scheduled to be approved by March 31, 2018. The finance department will develop guidelines based on those new policies which will be implemented by June 30, 2018.

DPSCD eliminated self-approval for payroll as of January 12, 2018.

1.5 Ensure that payroll processing errors are detected timelier and those corrections are accurately processed.

DPSCD agrees. On November 1, 2018, the finance department established an internal help desk to monitor and respond to employee concerns. The CFO will review outstanding issues on a weekly basis to ensure timely response to concerns.

Finding No. 2 – **DPSCD Did Not Effectively Implement Procedures for Approving and Documenting Employee Travel Costs.** MDE agrees with the finding and the specific recommendations.

Recommendations

2.1 Retain written justifications and preapprovals for incurring lodging expenses in excess of maximum allowable rates.

DPSCD agrees. The DPSCD school board is in the process of adopting board policies for the new district. Finance policies related to travel are scheduled to be approved by March 31, 2018. The finance department will develop guidelines based on those new policies which will be implemented by June 30, 2018.

2.2 Revise its procurement and logistics policies and procedures to clearly describe requirements for incurring travel expenses in excess of maximum

Mr. Gary D. Whitman
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allowable rates and calculating meals and incidental expenses for the first and last days of travel.

DPSCD agrees. The DPSCD school board is in the process of adopting board policies for the new district. Finance policies related to travel are scheduled to be approved by March 31, 2018. The finance department will develop guidelines based on those new policies which will be implemented by June 30, 2018.

2.3 Require invoices to itemize all costs, including travel agency fees, and ensure that the invoices are adequately supported before paying for them.

DPSCD agrees. The district is in the process of revising their travel policy and procedures. This will be completed by March 1, 2018. In addition, the district is reviewing options for travel agents to ensure proper reporting is provided. A new travel agent will be in place by March 1, 2018.

Finding No. 3 – **DPSCD Did Not Effectively Implement Procedures for Documenting and Approving Costs for Consultants.** MDE agrees with the finding and the specific recommendations.

Recommendations

3.1 Timely adjust purchase orders when budgets are revised.

DPSCD agrees. Administrative personnel will receive training regarding budget transfer requests. Specifically, administrators must confirm the availability of funds prior to repurposing into subsequent activities. The verification process will require that account activity is reviewed to ensure that the full amount of the transfer request remains available for new activities.

3.2 Ensure that consultant work logs are complete and include evidence of supervisory approval before approving consultant invoices for payment.

DPSCD agrees. Administrative personnel will receive training on the proper procedures to process and approve consultant invoices. Sample templates that contain the elements of a satisfactory work log have been developed and provided to all financial staff.

In addition to the comments on specific findings and recommendations, below are comments on the background section for your consideration.

Page 4 - In the first full paragraph, there is an explanation of the restructure of the district into two local educational agencies. The statement about the timeline to paydown the debt is incorrect. There is an 18-mill designation through 2025 that will be used to help pay down the debt for the former district. Based on current interest rates, the debt is scheduled to be fully paid down by 2049.

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The last portion of the paragraph states the Michigan Department of Education disbursed $101,044,526 in Title I funds to DPSCD for fiscal year (FY) 2016 (July 1, 2015, through June 30, 2016). This is incorrect. The Title I funds for FY 2016 were disbursed to Detroit Public Schools. The approved amount for Detroit Public Schools was $101,044,526; however, the actual amount disbursed was $100,900,528.96.

In addition to the sentence about turnover from the Emergency Manager to the newly elected board of education, it should be noted the new board hired a new Superintendent to lead DPSCD on May 23, 2017 (Dr. Nikolai Vitti). This is relevant because the district's actions to address prior findings and recommendations have been under the direction of the new superintendent.

The final paragraph in the background section contains a note about the approximate number of students in DPSCD as of December 31. Without the context of previous years or the following year, this information does not add to the purpose of the draft audit report.

MDE appreciates the opportunity to provide comments on the draft audit report findings and recommendations. If you have any questions, contact me or Louis Burgess, Assistant Director, Office of Financial Management, at 517-335-3672.

Sincerely,

/original signed/

Kyle L. Guerrant, Deputy Superintendent
Finance and Operations

Attachment