



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services
Atlanta Audit Region

September 7, 2007

Control Number
ED-OIG/A04G0013

Dr. Hank Bounds
State Superintendent
Mississippi Department of Education
P.O. Box 771
Jackson, MS 39205-0771

Dear Dr. Bounds:

This **Final Audit Report** entitled *Audit of Mississippi Department of Education's (MDE) Immediate Aid to Restart School Operations (Restart) Controls and Compliance*, presents the results of our audit. The objectives of this audit were to determine if (1) MDE and the Local Educational Agencies (LEAs) established adequate systems of internal control to provide accurate data in the needs assessment and applications; (2) MDE established an adequate system of internal control to make accurate allocations of Restart funds to LEAs and an appropriate level of Restart services or assistance to non-public schools; and (3) MDE and the LEAs used Restart funds only for expenditures that were allowable under the terms of the grant and applicable laws and regulations. Our audit covered the period September 1, 2005 through January 31, 2007. In its comments to the draft report, MDE concurred with our findings and related recommendations. MDE provided evidence that it had taken action to address Recommendations 1.1 and 1.2, and stated that it was in the process of addressing the remaining recommendations. MDE's corrective actions for Recommendations 1.1 and 1.2 are sufficient to address the recommendations.

BACKGROUND

In 2005, Hurricanes Katrina and Rita had a devastating and unprecedented impact on students and teachers in Louisiana, Mississippi, Alabama, and Texas. Schools on the Gulf Coast suffered tremendous damage, requiring the closure of schools. Some schools were temporarily closed, while others were permanently closed, depending on the extent of damage sustained. The hurricanes' destruction forced students to enroll in surviving schools outside of the area in which they resided. Hurricane Katrina alone displaced about

372,000 students, with over 10,000 students displaced to Mississippi. As a result of the devastation, the Federal Emergency Management Agency declared the affected states disaster areas, making them eligible for Federal aid; the Congress appropriated emergency grant funds for the 2005-2006 school year.

The *Hurricane Education Recovery Act (HERA)*, passed as part of Public Law 109-148 in December 2005, authorized three new grant programs to assist school districts and schools in meeting the educational needs of students displaced by Hurricanes Katrina and Rita, and to help schools closed as a result of the hurricanes to re-open as quickly and effectively as possible. The programs included in the Act are (1) the Restart program, funded at \$750 million; (2) the Assistance for Homeless Youth program, funded at \$5 million; and (3) the Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid) program, funded at \$645 million. On June 8, 2006, Congress appropriated an additional \$235 million for the schools serving displaced K-12 students in the *Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery 2006*.

The purpose of the Restart program is to assist public and non-public school administrators with expenses related to the re-opening and restart of school operations, and the re-enrollment of students in elementary and secondary schools impacted by the hurricanes. The program is limited to State Educational Agencies (SEA) in Louisiana, Mississippi, Texas, and Alabama, to provide assistance and services to LEAs and non-public schools and help defray expenses related to the restart of operations in schools directly impacted by the hurricanes. Of the \$750 million Congress appropriated for the Restart program, \$445,604,439 went to Louisiana, \$222,492,681 to Mississippi, \$78,152,880 to Texas, and \$3,750,550 to Alabama.

In allocating Restart funds to the LEAs and schools, MDE considered the number of school-aged children serviced by the LEA or non-public school in academic year 2004-2005; the severity of the impact of Hurricane Katrina or Hurricane Rita on the LEA or non-public school; and the extent of the needs in each LEA or non-public school. Each LEA or non-public school requesting Restart funds submitted a Statement of Need application to MDE. An LEA or non-public school was required to use the Restart funding on services or assistance specifically for (1) recovery of student and personnel data, and other electronic information; (2) replacement of school district information systems; (3) hardware and software; (4) financial operations; (5) reasonable transportation costs; (6) rental or mobile education units and leasing of neutral sites or spaces; (7) initial replacement of instruction materials and equipment including textbooks; (8) re-developing instruction plans; (9) curriculum development; (10) initiating and maintaining education and support services; and (11) such other activities related to the purpose of the law that are approved by the Secretary. The U. S. Department of Education (Department), in Volumes I and II of *Frequently Asked Questions* regarding the HERA programs, clarified that the SEAs could use Restart funds to cover salary costs, retroactively from September 2005 throughout the 2005-2006 school year.

AUDIT RESULTS

MDE and the five LEAs reviewed in our sample had adequate systems of internal control over the administration of the Restart program for the public schools. We found that MDE and the LEAs provided accurate data in the needs assessment and applications; and MDE made accurate allocations of Restart funds to the LEAs. In addition, MDE and the LEAs used Restart funds for expenditures allowable under the terms of the grant and applicable laws and regulations. However, we found that MDE had weak internal controls over the program's administration for the non-public schools.

FINDING: MDE had Inadequate Controls over its Non-public Schools

Our review of MDE's administration of the Restart program identified issues indicating weak controls over the administration of the Restart program for the non-public schools. Specifically, we found that MDE awarded a Restart contract to monitor non-public schools to a contractor with an apparent conflict of interest; MDE initially disbursed Restart funds directly to non-public schools in violation of the HERA; and MDE did not maintain public control of the equipment purchased with that disbursement.

Appearance of Conflict of Interest in Monitoring Contract

MDE awarded a Restart monitoring contract to an organization that appears to have a conflict of interest and, therefore, lacks the necessary independence to perform monitoring. MDE entered into a contract with the Gulf Coast Education Initiative Consortium (GCEIC) for the period February 21, 2006 to March 30, 2007 for monitoring 27 non-public schools receiving Restart funds. However, GCEIC has a direct relationship with the entities monitored under the contract.

GCEIC is a partnership organization of 19 local member school districts in Mississippi and the Catholic Archdiocese of Biloxi. The member school districts are generally located in six coastal counties of Mississippi, including George, Hancock, Harrison, Jackson, Pearl River, and Stone. Each school district and non-public school pays GCEIC a membership fee of one dollar per student enrolled in the school district or non-public school. The total membership fees collected are approximately \$80,000 and make up 20% of the GCEIC annual budget. GCEIC's mission is to provide professional development and technological opportunities, and collaborate with higher education, business and industry, and other groups and agencies to enhance the teaching and learning opportunities for students. The consortium serves more than 90,000 students and 6,000 educators in over 200 schools in Mississippi.

The Catholic Archdiocese of Biloxi, which operates one of the largest groups of non-public schools, is a member of GCEIC and is represented on the governing board. Seventeen non-public schools belong to the Archdiocese of Biloxi. All 17 schools were affected by Hurricane Katrina, received Restart funds, and would be monitored by GCEIC

under the existing contract. These 17 schools paid GCEIC the membership fee of one dollar per student enrolled. Because the contractor has a financial interest in maintaining a relationship with the Archdiocese and its non-public schools, it lacks the necessary independence to perform monitoring under the contract. The Director of the GCEIC is designated to perform the monitoring on behalf of the organization. According to the contract, the GCEIC Director was paid \$60,000 to monitor all the non-public schools and provide technical assistance to those same entities.

According to 34 CFR 80.36 (c)(1)(v), dated July 1, 2006, "All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Section 80.36. Some of the situations considered to be restrictive of competition include, but are not limited to, organizational conflicts of interest."

Also Office of Management and Budget (OMB) Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C.51(a) states "[r]ecipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have met the audit requirements as delineated in Section B.26."

According to MDE officials, the contractor has not performed any monitoring of the non-public schools that received Restart funds. Subsequent to the initial disbursement of Restart funds to non-public schools as described below, MDE implemented controls at the SEA level to ensure expenditures were allowable prior to disbursing additional Restart funds to non-public schools. Currently, MDE requires the non-public schools to submit their requests for reimbursement and provide supporting documentation for review and approval prior to funds being disbursed. However, MDE has not modified the contract to eliminate the contractor's monitoring of the non-public schools.

MDE's Direct Disbursement of Restart Funds to Non-public Schools

MDE initially disbursed Restart funds directly to the non-public schools in violation of HERA. Specifically, HERA Section 102(h)(3) requires a public agency to maintain control of funds for the services and assistance provided to non-public schools and retain title to materials, equipment, and property purchased with such funds.

MDE maintained responsibility for the Restart funding for non-public schools at the SEA level and did not involve affected LEAs. Twenty-seven non-public schools submitted applications to MDE and MDE approved all 27 applications. The 27 non-public schools were awarded a total of \$20,000,000 in Restart funds. At the beginning of February 2006, 20 of the 27 non-public schools submitted requests for an initial disbursement to cover Restart costs incurred or obligated as of that date. MDE made an initial disbursement of \$3,054,224 to the non-public schools on February 15, 2006. This included \$2,471,823 deposited into the Catholic Archdiocese of Biloxi bank account on behalf of 17 non-public schools, and \$582,401 deposited into the Mississippi Private School Association (MPSA) bank account on behalf of the other three non-public schools.

Initially, MDE did not require the non-public schools to submit documentation in support of Restart expenditures. In addition, MDE did not maintain control and ownership of the equipment purchased by the non-public schools with the initial disbursement of Restart funds. Table 1 below details the initial payment to the Catholic Archdiocese of Biloxi for the 17 affiliated non-public schools, and the initial payment sent to the MPSA on behalf of three non-public schools unrelated to the Catholic Archdiocese of Biloxi.

Table 1 - Non-public Restart Funds Paid Directly to Schools

Non-public Schools	Initial Payment to Catholic Archdiocese of Biloxi for 17 Non-public Schools	Initial Payment Amount for Other Non-public Schools	Date MDE Disbursed Funds
Alpha Christian		\$190,000	2/15/2006
Cedar Lake		\$54,850	2/15/2006
Coastal Episcopal		\$337,551	2/15/2006
Bay Catholic	\$70,000		2/15/2006
Immaculate Conception	\$184,138		2/15/2006
Nativity	\$53,118		2/15/2006
Mercy Cross	\$454,620		2/15/2006
Our Lady Academy	\$195,792		2/15/2006
Our Lady of Fatima	\$93,000		2/15/2006
Resurrection Middle/High	\$469,000		2/15/2006
Sacred Heart Elementary	\$100,305		2/15/2006
Sacred Heart Hattiesburg	\$56,049		2/15/2006
St. Alphonsus School	\$10,000		2/15/2006
St. Clare Elementary	\$169,000		2/15/2006
St. James Elementary	\$9,050		2/15/2006
St. John Elementary	\$25,750		2/15/2006
St. John High School	\$70,000		2/15/2006
St. Paul Catholic School	\$112,000		2/15/2006
St. Peter Catholic School	\$50,000		2/15/2006
St. Thomas School	\$350,000		2/14/2006
Total = \$3,054,224	\$2,471,823	\$582,401	

After we notified MDE that its direct disbursement of Restart funds to the non-public schools violated the HERA, MDE stopped depositing funds directly into the Catholic Archdiocese of Biloxi and the MPSA bank accounts. In addition, MDE sent a request to the non-public schools for documentation to support expenditures that were paid with the initial Restart deposit. MDE's review of the supporting documentation revealed that some of the non-public school expenditures were not allowable. As a result, MDE did not reimburse the non-public schools' subsequent requests for purchases to be paid for with the remainder of the funds awarded, until the non-public schools produced enough allowable expenditures to cover the initial Restart deposit. As of January 12, 2007, MDE had not

received all of the documentation in support of the entire initial payment to the non-public schools. For all subsequent non-public expenditures of Restart funds, MDE implemented controls at the SEA level, including the review of supporting documentation to determine if the expenditures are allowable, before granting a non-public school's request for reimbursement.

To determine whether the non-public schools' initial Restart expenditures were allowable, we reviewed expenditures from a sample of eight non-public schools. We found that the supporting documentation was adequate and the expenditures for seven of the non-public schools were allowable under the terms of the grant and applicable laws and regulations. One of the non-public schools closed and refunded its initial disbursement of \$169,000. As of January 12, 2007, MDE was still receiving and reviewing supporting documentation from the non-public schools for the initial disbursement.

Lack of Control over Equipment

During our review of supporting documentation relating to the initial disbursement of Restart funds, we also noted that the non-public schools purchased equipment that is not currently under MDE's control and ownership. As of April 9, 2007, MDE had not accounted for, physically inventoried, or tagged any of the equipment purchased with the initial Restart disbursement. MDE officials stated that MDE is waiting for a determination from the Department on whether the SEA will be held "harmless" for the initial \$3 million disbursement and the subsequent equipment purchased by the non-public schools before expending the time and expense to account for the equipment.

Section 102(h)(3) of the HERA states that the control of funds for the services and assistance provided to a non-public school under paragraph (1), and title to materials, equipment, and property purchased with such funds, shall be in a public agency, and a public agency shall administer such funds, materials, equipment, and property, and shall provide such services (or may contract for the provision of such services with a public or private entity).

In addition, the *State of Mississippi, Department of Education Employee Procedure Manual*, Section 14.0, Revision 2, page 6 of 8, dated April 15, 2004, states a physical inventory will be performed twice a year (April and October) by Fixed Assets personnel. Equipment, vehicles, or office furniture with a cost of \$500 or more will be added to the Agency inventory after these items are paid in full. This includes items purchased from Surplus Property and any item that is donated to the Agency with a fair market value of \$500 or more. Any freight charges are to be included in the total cost of the item. These items should be tagged within 60 days of receipt. The State manual specifies items that, regardless of purchase price, must be included on the Agency inventory, including camera equipment, tape recorders, cellular telephones, and major computer components.

Without the proper public control of equipment, MDE runs the risk that equipment will be misappropriated. Although we found no evidence of fraud or mismanagement during our audit, theft of computer assets and misappropriation of computer equipment is a high-risk category for school districts.

Recommendations

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education instruct MDE to —

- 1.1 Provide an amended contract to show that the GCEIC is not monitoring the non-public schools and provide a new statement of work to reflect what services GCEIC has performed for payments received.
- 1.2 Account for all the Restart funds initially disbursed to the non-public schools; if any of the initial disbursement cannot be accounted for, determine the amount and provide a refund to the Department of Education.
- 1.3 Review all the supporting documentation for the initial Restart disbursement; determine what equipment and assets should be under MDE control and add to MDE's inventory database.
- 1.4 Compile a list of equipment at each non-public school to account for all the equipment that has been purchased with the initial disbursement of Restart funds and have the responsible official sign the list until a physical inventory can be completed.
- 1.5 Perform a physical inventory and tag all assets/equipment purchased by non-public schools with the initial disbursement of Restart funds; if any equipment/assets are missing determine the purchased value of the equipment and refund the amount to the Department of Education.

MDE Comments

In its comments to the draft report, MDE concurred with our finding and related recommendations. MDE added that it had already taken corrective actions in response to Recommendations 1.1 and 1.2. In response to Recommendation 1.1, MDE provided a State Board of Education amended and approved contract for GCEIC with a new statement of work and approved board meeting minutes. For Recommendation 1.2, MDE stated it had accounted for all the Restart funds initially disbursed by the non-public schools. According to MDE, the non-public schools that received an initial disbursement provided documentation to support allowable expenditures of the Restart funds received. MDE stated all documentation has been reviewed and the documentation supports all expenditures as allowable Restart expenditures. In response to Recommendations 1.3, 1.4, and 1.5, MDE stated it is in the process of reviewing and compiling a list of all the equipment and assets purchased with the initial disbursement of Restart funds by the non-public schools and adding it to the inventory. In addition, MDE contracted with GCEIC to tag all assets and equipment purchased by the non-public schools. The full text of MDE's comments on the draft report is included as an attachment to the report.

OIG Response

MDE's response did not require changes to the report findings or recommendations. MDE's corrective actions for Recommendations 1.1 and 1.2 are sufficient to address the recommendations. MDE is working to resolve Recommendations 1.3, 1.4, and 1.5 and have established milestone dates for the corrective actions.

OTHER MATTERS

MDE used HERA funds to award a monitoring contract for a program not approved under the grant. MDE awarded a contract to a contractor to monitor and provide technical assistance to the recipients of the Restart, Emergency Impact Aid, Assistance for Homeless Youth, and Emergency Response to Violence (Project SERV) programs. The contract listed three funding sources for the work to be performed, including Restart, Emergency Impact Aid, and Assistance for Homeless Youth funds. However, per HERA and the Department's Office of Elementary and Secondary Education, Project SERV is not a HERA grant and work related to that program should not be funded under HERA. We found that the total amount of the contract, \$17,600, was paid out of the Assistance for Homeless Youth funds. MDE acknowledged that it awarded a monitoring contract that covered the programs noted. MDE provided the audit team supporting documentation to show that the contractor's payroll records were corrected. Funds that were charged to the Homeless Youth program for Project SERV work were reallocated to the correct funding code for Project SERV.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine if, for the period September 1, 2005 through January 31, 2007, (1) MDE and the LEAs established adequate systems of internal control to provide accurate data in the needs assessment and applications; (2) MDE established an adequate system of internal control to make accurate allocations of Restart funds to LEAs and an appropriate level of Restart services or assistance to non-public schools; and (3) MDE and the LEAs used Restart funds only for expenditures that were allowable under the terms of the grant and applicable laws and regulations.

The five LEAs we selected were Biloxi, Gulfport, Harrison, Pascagoula, and Pass Christian. We selected these five LEAs because they represented about 52 percent of the total Restart funds awarded to the State of Mississippi. We tested expenditures for 13 non-public schools at MDE, since they maintained control of the funds for the non-public schools.

To accomplish our objectives, we obtained from the Department the amount of Restart funding allocated to MDE. In addition, we obtained and reviewed

- The HERA, regulations, and guidance relevant to the audit objectives.
- MDE's Restart applications and statement of needs submitted by the five LEAs and 13 non-public schools selected for review.
- MDE policies and procedures and interviewed staff and officials at MDE, Biloxi, Gulfport, Harrison County, Pascagoula and Pass Christian to determine
 - Controls established for the administration of the Restart Program
 - Accuracy of data in the statement of needs assessment and applications
 - Allocation methodology of Restart funds
 - Restart Program guidance provided by MDE
 - Monitoring plan in place for the Restart funds
- Restart expenditures and drawdown information, as well as EIA information for the five selected LEAs, to confirm that the majority of Restart funds were spent on payroll. We also obtained payroll information for the 2005-2006 school year, from the same LEAs, to determine whether total payroll exceeded the total expenditures/drawdowns for both the EIA and Restart programs.
- Restart drawdown and expenditures to date for the five LEAs. In reviewing the drawdown information, we determined that four of the LEA's (Biloxi, Gulfport, Harrison and Pascagoula) had expended 69 percent or more of their Restart funds on payroll. We judgmentally tested expenditures from the one LEA (Pass Christian) that had expended less than 60 percent of their Restart funds on payroll.

In addition, we judgmentally sampled expenditures of 13 non-public schools¹ from a list of 27 schools provided by MDE. Eight of the schools were affiliated with the Catholic Archdiocese of Biloxi and five with MPSA. Collectively, the 13 schools were awarded \$6,218,143 and had expended \$3,295,999. We performed expenditure testing at MDE for a random sample of expenditures for 13 non-public schools. We also performed additional tests of the eight affiliated non-public schools that received the initial disbursement of funds before providing the supporting documentation. We obtained and reviewed documentation such as purchase orders, invoices, and cancelled checks for a sample of expenditure transactions for the 13 non-public schools and the one public LEA (Pass Christian) to determine whether the LEAs and non-public schools charged expenditures only to the cost categories allowed by the terms of the grant and applicable laws and regulations.

We performed on-site work various weeks throughout February 2006 to January 2007. We visited MDE, Jackson, MS, and the selected LEAs - Biloxi School District, Biloxi, MS, Gulfport School District, Gulfport, MS, Harrison County School District, Gulfport, MS,

¹ The 13 non-public schools selected represent 33 percent of the total Restart funding and 56 percent of the total Restart funds expended by all non-public schools.

Pascagoula School District, Pascagoula, MS, and Pass Christian School District, Pass Christian, MS.

Our audit covered the period September 1, 2005 through January 31, 2007. An exit conference was held with MDE officials on April 9, 2007. The audit was conducted in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

ADMINISTRATIVE MATTERS

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

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 Education Department official, who will consider them before taking final Departmental action on the audit:

Kerri L. Briggs
Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Avenue, SW
Room 3W323
Washington, D.C. 20002

It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the finding 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/

Denise M. Wempe
Regional Inspector General for Audit

Attachment



**STATE OF MISSISSIPPI
DEPARTMENT OF EDUCATION**

Hank M. Bounds
State Superintendent of Education

August 13, 2007

**Control Number
ED-OIG/A04G0013**

Ms. Denise M. Wempe
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
61 Forsyth Street, Room 18T71
Atlanta, GA 30303

Dear Ms. Wempe:

In response to your July 13, 2007, Draft Audit Report, entitled *Audit of Mississippi Department of Education's (MDE) Immediate Aid to Restart School Operations (Restart) Controls and Compliance*, we respectfully submit the following response.

I appreciate your efforts in the Background portion of your Draft Report to describe the devastating impact of Hurricane Katrina on students and teachers in Mississippi. However, words are inadequate to describe the destruction to the buildings and physical plant which constituted our coastal school systems. Nor can words describe the emotional havoc wrought upon all those individuals so heavily invested in those systems, students, parents, teachers, staff, and administrators. It was in this state of emergency that the MDE attempted to respond to the needs of the state's entire educational community.

The emotional wreckage left in the path of Katrina caused everyone involved in education to respond with the greatest sense of urgency, from the U.S. Congress to the U.S. Department of Education to the Governor of our State to the Mississippi Department of Education. This sense of urgency prompted the USDOE Program Office to urge the MDE to get Hurricane Education Recovery Act funds out to schools to assist in efforts to restart school operations as soon as possible. With time of the essence and limited guidance from USDOE, the MDE acted in good faith and with a great sense of urgency to fulfill this mandate. In an effort to best serve the students and schools of our state in a time of crisis, the MDE was in constant communication with USDOE through numerous conference calls and email exchanges. The MDE's concerns regarding disbursements to non-public schools were not addressed at the inception of the Restart program. Nor was the term "public control" as it relates to those schools clearly explained or defined at the program's beginning. The MDE exercised its best efforts to comply with HERA requirements in disbursing Restart funds. And, when subsequent, more detailed guidance provided a clearer definition of "public control" and the use of federal funds in non-public schools, the MDE took immediate steps to strengthen internal controls and restore the fiscal integrity of the Restart program as it relates to the administration of the non-public schools. Please note that the MDE is still exercising its best efforts to respond to this disaster, almost two years to the day after landfall.

In regards to MDE's Direct Disbursement of Restart Funds to the Non-public Schools, our immediate course of corrective action was to ensure that the non-public schools had expended the funds only for allowable purposes under the RESTART grant. To accomplish this, MDE stopped the distribution of funds directly to the non-public schools and requested documentation to support the initial distribution of funds to the non-public schools. Based on the supporting documentation obtained from the non-public schools, we were able to document that all of the Restart funds initially disbursed were expended for allowable purposes under the terms of the Restart grant. In addition, as stated on page six of the Draft Audit Report, the OIG auditors also found that the supporting documentation was adequate and the expenditures were allowable under the terms of the grant and applicable laws and regulations for the schools they tested. We have obtained and verified all supporting documentation for the initial disbursement of RESTART Funds to the non-public schools and have found that all of the documentation supports allowable expenditures of the Restart funds.

Although MDE was able to document that the funds were used for allowable Restart expenditures, the documentation identified equipment purchases which MDE needs to add to its inventory to ensure the equipment is under public control. In regards to the Lack of Control over Equipment purchased with the initial disbursement, MDE has identified most of the equipment by school and is preparing to have it tagged and added to our inventory database to ensure that it remains under public control. This process was not started initially due to the uncertainty as to whether the non-public schools would be required to repay the funds they initially received. If so, any equipment purchases made would have been made with their own resources since the RESTART distribution would have been returned. Therefore, there would not have been a need for MDE to take ownership of the non-public schools' initial equipment purchases if repayment was required.

An official "HOLD HARMLESS" determination has not been granted to date, but MDE has still taken necessary corrective action steps to ensure that all equipment is under public control. The procedures that have been put into place and the corrective action steps taken to identify, tag and inventory all equipment items purchased with the initial RESTART disbursement are consistent with the recommendations from OIG. We anticipate that the corrective measures taken by MDE in regards to the initial disbursement of Restart funds to non-public schools and the subsequent purchase of equipment with these funds by the schools will be considered favorable in USDOE issuing a "HOLD HARMLESS" determination.

In regards to the Appearance of Conflict of Interest in Monitoring Contract, this contractor (GCEIC) did not provide any monitoring services due to the lack of independence. Although the initial contract was developed to incorporate all aspects of services that were needed for the non-public schools, it was determined that another contractor should be used to complete the monitoring. GCEIC worked diligently to provide much needed technical assistance to the non-public schools by providing training, disseminating information, helping collect supporting documentation, as well as providing feedback to MDE on problems and situations the non-public schools were facing in trying to restart school operations after Hurricane Katrina. In addition, GCEIC assisted MDE with the tagging of equipment purchased for the non-public schools with RESTART funds. Attached is a copy of the modified contract with GCEIC.

Your Draft Report Noted the Following Recommendations:

1.1 Provide an amended contract to show that the GCEIC is not monitoring the non-public schools and provide a new statement of work to reflect what services GCEIC has performed for payments received.

Response: As noted in your report, GCEIC did not perform any monitoring of the non-public schools. The contract with GCEIC was modified and approved by the State Board of Education on April 20, 2007, to delete the monitoring component of the contract. A copy of the modified contract and the board minutes are attached for your review. The statement of work noted in the contract was also modified to reflect what services GCEIC performed for MDE. (Completed)

1.2 Account for all the Restart funds initially disbursed to the non-public schools; if any of the initial disbursement cannot be accounted for, determine the amount and provide a refund to the Department of Education.

Response: The Mississippi Department of Education has accounted for all of the Restart funds initially disbursed to the non-public schools. The non-public schools that received a portion of the initial disbursement provided documentation to support allowable expenditures of the Restart funds received. One school closed and returned its initial allocation. All documentation has been reviewed and the documentation supports that all expenditures were for allowable Restart expenditures. (Completed)

1.3 Review all the supporting documentation for the initial Restart disbursement; determine what equipment and assets should be under MDE control and add to MDE's inventory database.

Response: We concur with your recommendation and will proceed accordingly. We have begun the process of reviewing all of the supporting documentation for the initial Restart disbursements, and identifying the equipment and assets that should be under public control. The equipment identified will be added to MDE's inventory database and the targeted completion date for this process is October 31, 2007.

1.4 Compile a list of equipment at each non-public school to account for all the equipment that has been purchased with the initial disbursement of Restart funds and have the responsible official sign the list until a physical inventory can be completed.

Response: We concur with your recommendation and will proceed accordingly. We have started compiling lists of equipment and assets for each non-public school. Upon completion and verification of each list, the list of equipment for each school will be forwarded to the responsible official of the school for signature. We will require the signed list to be returned to MDE for documentation until the physical inventory is completed. The targeted completion date for this process is October 31, 2007.

1.5 Perform a physical inventory and tag all assets/equipment purchased by non-public schools with the initial disbursement of Restart funds; if any equipment/assets are missing determine the purchased value of the equipment and refund the amount to the Department of Education.

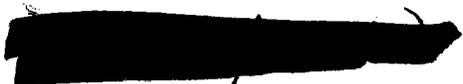
Response: We concur with your recommendation and will proceed accordingly. We are compiling lists of equipment and assets for each non-public school and will perform a physical inventory and tag all assets/equipment purchased by the non-public schools with the initial disbursement of Restart funds. If any equipment or assets are discovered to be missing, we will determine the purchase value of the equipment and refund any outstanding amounts to USDOE. Our targeted completion date for this process is December 31, 2007.

In response to the Other Matters:

In an effort to comply with federal monitoring requirements associated with the Katrina grants, the MDE awarded a monitoring contract to an independent contract worker to monitor several programs that were funded as a result of Hurricane Katrina. There was never any intent to fund the entire contract with funds from just one program. Initially, an accounting error was made when payment was processed and the monitoring charges were not appropriately allocated to the programs monitored. As soon as the Department recognized the error, it was corrected and the proper programs were charged, as indicated in the report from OIG.

We trust that you will favorably consider the corrective measures taken by MDE as acceptable corrective action to address the finding noted (MDE had Inadequate Controls over its Non-public Schools). If you have any questions, or require any additional information, please contact James A. Hart at (601) 359-1972.

Sincerely,



Hank M. Bounds
State Superintendent of Education
Mississippi Department of Education

Attachments

- c: Dr. Beth H. Sewell, Executive to the State Superintendent
- Lavoris Coure, Financial Analyst, USDOE-OIG
- Joseph Conaty, Academic Improvement and Teacher Quality, USDOE
- Sonya M. Amis, Associate State Superintendent of Education
- Melba G. Beasley, Director, Federal Financial Management
- James A. Hart, Federal Financial Management