



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services

July 21, 2009

FINAL MANAGEMENT INFORMATION REPORT
State and Local No. 09-01

To: Phil Maestri
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Office of the Secretary

From: Keith West /s/
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Subject: Management Information Report, *Fiscal Issues Reported in ED-OIG Work
Related to LEAs and SEAs*
Control Number ED-OIG/X05J0005

The purpose of this **Final Management Information Report** (MIR) is to provide the Office of the Secretary with information that might be beneficial in overseeing grants provided to State educational agencies (SEA). As part of the American Recovery and Reinvestment Act of 2009, Congress dramatically increased SEA and local educational agencies (LEA) funding and expectations for transparency and accountability in how that funding is used. Therefore, it is important that SEAs and LEAs have adequate oversight of grants and account for how funding is used. (See <http://www.recovery.gov/> for more information on the American Recovery and Reinvestment Act of 2009 related to the U.S. Department of Education [Department].)

The purpose of this project was to (1) identify any pervasive fiscal issues reported in prior U.S. Department of Education, Office of Inspector General (ED-OIG) work related to LEAs and SEAs (when the SEA work included a review of LEAs), and (2) develop any necessary suggestions to improve guidance to SEAs and LEAs. The scope of the project included a review of U.S. Department of Education, Office of Inspector General Audit Services (ED-OIG-AS) final audit reports issued during fiscal years 2003 through 2009 (the period October 1, 2002, through April 14, 2009) and U.S. Department of Education, Office of Inspector General Investigative Services (ED-OIG-IS) investigations that resulted in criminal convictions during the period October 1, 2002, through December 31, 2008.

This MIR (1) identifies numerous pervasive fiscal issues reported in 41 ED-OIG-AS final audit reports that included approximately \$182 million in questioned costs¹ and an additional \$1.4 billion in funds determined to be at risk because of internal control weaknesses, (2) summarizes 13 ED-OIG-IS investigations that resulted in criminal convictions of LEA officials, and (3) includes lessons learned and suggestions for enhancing guidance to SEAs and

¹ Consists of approximately \$62 million in unallowable costs and approximately \$119 million in inadequately documented costs. These amounts do not add to the total because of rounding.

LEAs that is designed to mitigate the risk of the pervasive issues and fraud schemes occurring in the future. We concluded that more effective internal control systems at the SEAs and LEAs could have mitigated the risk of the pervasive issues and fraud schemes occurring. Despite the amount of guidance available to SEAs and LEAs, we suggest that the guidance be enhanced given the high percentage of final reports reviewed that included the pervasive issues. Attachments 1 and 2 contain details about the ED-OIG-AS final reports summarized in this MIR.

Risk Management Service's Overall Comments

In its comments to the Draft Management Information Report, Risk Management Service (RMS) agreed that it is important to ensure American Recovery and Reinvestment Act of 2009 funds, as well as all Department grant funds, are appropriately administered and accounted for by SEAs and LEAs. RMS is currently developing a technical assistance plan and training curricula to provide enhanced guidance and training to the SEAs and LEAs. RMS stated that information provided in the MIR provides a timely and beneficial resource for the Department's analysis of the most prevalent training needs of its grantees. RMS' comments are summarized following each suggestion. The full text of RMS' comments on the Draft Management Information Report is included as [Attachment 3](#).

BACKGROUND

The National Center for Education Statistics reported that, in 2008, 49.8 million students at over 14,200 public school districts attended about 97,000 public elementary and secondary schools. An additional 6.2 million students will attend about 35,000 private schools. Approximately 54 percent of the Department's \$68 billion fiscal year 2008 budget supported elementary and secondary education grant programs. The Department awards formula or noncompetitive grants, sometimes referred to as state-administered programs, and discretionary or competitive grants. Grantees' fiscal responsibilities for projects funded by the Department include (1) proper stewardship of Federal funds, (2) compliance with all statutory and regulatory requirements, (3) appropriate draw down of funds for obligations made under the grant, and (4) maintenance of records that document the activities and expenditures of the grant. Uniform administrative requirements for grants and cooperative agreements to State and local governments are in 34 C.F.R. Part 80.²

Since the No Child Left Behind Act of 2001 (NCLB), which reauthorized and amended the Elementary and Secondary Education Act of 1965 (ESEA), was signed into law on January 8, 2002, ED-OIG audits and investigations and recent examples cited by the news media have disclosed a lack of adequate fiscal controls in school districts nationwide. Furthermore, some LEA officials have been charged with and convicted of fraud and misuse of Federal funds.

During the period October 1, 2002, through April 14, 2009, ED-OIG-AS issued 41 final audit reports that included fiscal control work at LEAs and included pervasive non-compliance issues. We considered a non-compliance issue pervasive if it appeared in five or more ED-OIG-AS final audit reports. Of these 41 reports, 27 reported 1 or more of the following issues: unallowable costs, inadequately documented costs, violation of the supplanting prohibition, and inadequate

² All C.F.R. references are to the January 1, 2008, edition.

inventory control systems. [Attachment 1](#) lists these 27 reports. The other 14 reports included questioned costs related to LEAs' not meeting program requirements, inability to demonstrate that program requirements were fulfilled, ineligibility for the programs, or inadequately documenting program eligibility. [Attachment 2](#) lists these 14 reports. In addition, we highlight 13 ED-OIG-IS cases that resulted in criminal convictions of LEA officials during the period October 1, 2002, through December 31, 2008.

The 41 ED-OIG-AS final audit reports that identified pervasive fiscal non-compliance issues involved 1 or more of the following programs:

- NCLB, Title I (Improving the Academic Achievement of the Disadvantaged);
- NCLB, Title II (Preparing, Training, and Recruiting High Quality Teachers and Principals);
- NCLB Title V (Promoting Informed Parental Choice and Innovative Programs); and
- Individuals with Disabilities Education Improvement Act of 2004 (IDEA).

Table 1 provides funding information for each of the Federal programs affected by the pervasive fiscal issues during fiscal years 2003 through 2009. The fiscal year 2009 funding information is estimated. For fiscal years 2003 through 2009, the Department awarded approximately \$193.7 billion in funding for the Title I, II, and V, and the IDEA programs.

Table 1—Fiscal Years 2003 to 2009 Funding for Federal Programs Affected by Pervasive Fiscal Issues

Fiscal Year	ESEA Grants to LEAs, Title I	Reading First, Title I	State Agency Program-Migrant Education, Title I	Improving Teacher Quality, Title II	State Grants for Innovative Programs, Title V	Special Education Grants to States, IDEA
2003	\$11,680,364,368	\$931,886,837	\$392,674,972	\$2,916,170,876	\$382,497,500	\$8,851,818,230
2004	\$12,336,904,603	\$990,880,700	\$391,613,840	\$2,915,475,501	\$296,548,500	\$10,045,527,146
2005	\$12,731,134,126	\$1,006,790,000	\$380,428,384	\$2,902,021,967	\$198,400,000	\$10,579,745,824
2006	\$12,705,870,097	\$997,913,596	\$376,523,742	\$2,873,001,756	\$99,000,000	\$10,567,960,540
2007	\$12,830,876,901	\$1,006,943,243	\$376,523,719	\$2,873,001,756	\$99,000,000	\$10,767,961,000
2008	\$13,889,944,385	\$378,186,700	\$356,326,474	\$2,920,572,199	\$0	\$10,932,511,571
2009*	\$14,295,901,000	\$969,350,000	\$387,271,000	\$2,821,071,760	\$0	\$11,269,511,000
Totals	\$90,470,995,480	\$6,281,951,076	\$2,661,362,131	\$20,221,315,814³	\$1,075,446,000	\$73,015,035,311

*Estimated

³ This column total is net of a small rounding difference.

PERVASIVE FISCAL ISSUES REPORTED IN ED-OIG-AS FINAL AUDIT REPORTS

Of the 41 ED-OIG-AS final audit reports issued during fiscal years 2003 through 2009 (October 1, 2002, through April 14, 2009) that met our criteria⁴ and contained pervasive fiscal issues, (1) 27 included pervasive fiscal issues related to one or more of the following issues: unallowable or inadequately documented personnel and non-personnel expenditures, supplanting, and inventory control systems; and (2) 14 included unallowable costs related to LEAs' not meeting program requirements, inability to demonstrate that program requirements were fulfilled, ineligibility for the programs, or inadequately documenting program eligibility.

Pervasive Fiscal Issues Related to Personnel and Non-Personnel Expenditures, Supplanting, and Inventory Control Systems

From the 27 reports that included pervasive fiscal issues and are listed in [Attachment 1](#), we identified the following issues and associated unallowable costs:⁵

- Personnel costs totaling \$1,398,564 were reported as unallowable because they were not allocable to the grant to which they were charged in 8 of 16 audit reports (50 percent) that included a review of personnel costs.⁶
- Non-personnel costs totaling \$826,183 were reported as unallowable because they were unnecessary or unreasonable to carry out the grant or not-for-program purposes in 9 of 20 audit reports (45 percent) that included a review of non-personnel costs.⁷
- Non-personnel costs totaling \$810,055 were reported as unallowable because contracts were missing required elements, were unfulfilled, were not approved, or included expenditures that exceeded the contract amounts in 8 of 11 audit reports (73 percent) that included a review of contract expenditures.
- Personnel costs totaling an estimated \$66,666,155⁸ were reported as inadequately documented because time and effort certifications were missing, incomplete, inaccurate, or untimely in 11 of 16 audit reports (69 percent) that reviewed time and effort certifications.
- Personnel costs totaling an estimated \$36,710,230 were reported as inadequately documented because personnel activity reports or timesheets were missing or incomplete in 9 of 15 audit reports (60 percent) that included a review of personnel activity reports or timesheets.

⁴ As described in the *Purpose and Methodology* section, we included audits reports covering formula grants that contained fiscal findings.

⁵ An additional \$29,837,986 in funds was determined to be at risk because of internal control weaknesses uncovered during the audits.

⁶ Five of these eight audit reports included unallowable costs because employees did not work on the grant.

⁷ In one report reviewed (Audit Control Number [ACN] ED-OIG A02E0030), the auditors found that the LEA overcharged Title I for purchased services, which is a non-personnel cost. The audit did not include a specific review of non-personnel costs, but the auditors discovered the unallowable charge by reviewing the expenditure report the district filed with the SEA. However, we are including the report in the 9 of 20 reports that included a review of non-personnel costs.

⁸ The totals for inadequately documented personnel costs (time and effort certifications and personnel activity reports) are estimates. Two of the final audit reports reviewed (ACN ED-OIG A06E0018 and ACN ED-OIG A06H0011) did not differentiate between inadequately documented costs, totaling \$165,566 for time and effort certifications and personnel activity reports. We divided the amount evenly between the two finding sub-categories for the respective audits.

- Non-personnel costs totaling \$16,010,550 were reported as inadequately documented because of missing or inaccurate supporting documentation in 11 of 19 audit reports (58 percent) that included a review of non-personnel costs.
- Improper inventory control systems resulted in a total of \$2,693,004 in lost or unaccounted for property reported in 9 of 9 audit reports (100 percent) that included a review of inventory control systems.
- Supplanting of \$2,504,617 in Federal grant funds was reported in 6 of 6 audit reports (100 percent) that included a review for supplanting.

ED-OIG-AS cited the following internal control weaknesses as the causes for the pervasive non-compliance issues in the 26 audit reports:

- Inadequate policies and procedures (34 times);⁹
- No policies and procedures (15 times);
- Not understanding the regulations and guidance (10 times); and
- Policies and procedures in place but not followed (5 times).

Of the 34 instances where inadequate policies and procedures were cited, monitoring was cited specifically in 5 instances. Four of the 5 instances dealt with SEAs' failure to monitor subrecipients, and 1 of the 5 instances pertained to the SEA's failure to monitor contractors.

Pervasive Fiscal Issues Related to LEAs Not Meeting Program Requirements or Demonstrating Eligibility for the Programs

Of the 14 ED-OIG-AS final audit reports that included unallowable costs resulting from LEAs' not meeting program requirements, inability to demonstrate that program requirements were fulfilled, ineligibility for the programs, or inadequately documenting program eligibility, 12 covered Title I, Parts A, B, or C of NCLB; and 2 covered IDEA. We list these 14 reports in [Attachment 2](#).

- Eight of 14 contained program requirement findings, resulting in \$30,244,522 in unallowable or inadequately documented costs, or both, and an additional \$893,445,204 in funds determined to be at risk because of internal control weaknesses uncovered during the audits.
- Six of 14 contained eligibility findings, resulting in \$23,904,648 in unallowable or inadequately documented costs, or both, and an additional \$543,145,542 in funds determined to be at risk because of internal control weaknesses disclosed by the audits.

⁹ We included all cited internal control weaknesses in our count. In some cases, more than one internal control weakness was cited as the cause for a particular pervasive issue. Also, some reports with multiple pervasive issues cited the same cause for each pervasive issue.

ED-OIG-AS cited the following internal control weaknesses as the causes for the pervasive fiscal non-compliance issues in the 14 audit reports:

- Inadequate policies and procedures, including inadequate monitoring (12 times);
- Not understanding the regulations and guidance (1 time); and
- Policies and procedures in place but not followed (1 time).

Of the 12 instances where inadequate policies and procedures were cited, monitoring was cited specifically in 10 of 12 instances. All 10 instances dealt with the SEAs’ failure to monitor subrecipients.

Table 2 provides a summary of the pervasive fiscal issues and the corresponding internal control weaknesses that contributed to the pervasive issues. The numbers in the table represent the number of final audit reports that cited the specific internal control weakness as a cause of the pervasive fiscal issue.

Table 2—Pervasive Fiscal Issues and Corresponding Internal Control Weaknesses

Pervasive Fiscal Issue	Internal Control Weakness				
	Inadequate Policies and Procedures	Inadequate Monitoring by SEA	No Policies and Procedures	Did Not Understand Regulations and Guidance	Policies and Procedures in Place But Not Followed
Unallowable Personnel Costs	5		2	1	
Unallowable Non-personnel Costs	9	2	3	1	1
Inadequately Documented Personnel Costs	6		3	3	2
Inadequately Documented Non-personnel Costs	5		3		1
Improper Inventory Control Systems	4		4	1	1
Supplanting	5	3		4	
Program Requirements	7	7		1	
Program Eligibility	5	3			1
Totals	46	15	15	11	6

FRAUD SCHEMES DISCLOSED IN ED-OIG-IS INVESTIGATIONS

We selected a sample of 13 ED-OIG-IS investigations that resulted in criminal convictions of LEA officials during the period October 1, 2002, through December 31, 2008, as examples of fraud schemes encountered by ED-OIG-IS. Below, we classify the 13 cases into five categories of fraud schemes: (1) kickbacks from consultants, contractors, and employees; (2) fictitious vendors; (3) false expenditure reports and checks; (4) use of dormant or unknown bank accounts; and (5) misuse of procurement cards. For each investigation, we describe the time frame of the fraud, the dollar amount involved, the method of fraud detection, the fraud scheme, the disposition of the case, and the internal control weakness (or weaknesses) that facilitated the fraud.

Embezzlement Involving Kickbacks from Consultants, Contractors, and Employees

Meridian Public School District, Mississippi

- *Time frame:* March 2000 through January 2003
- *Amount of fraud:* \$217,505
- *Method of fraud detection:* An individual at Meridian Public School District noticed an invoice from a consultant that was incapable of providing the invoiced services because of a serious health condition and reported the matter to the Mississippi Office of the State Auditor.
- *Fraud scheme:* Individuals submitted false expense reports and invoices to a school principal requesting payment for consulting services that did not occur or requesting payment for delivery of school supplies that were not delivered. The principal then submitted the false forms for payment. The individuals then paid a portion of the proceeds to the principal as kickbacks.
- *Disposition of case:* The principal was sentenced to 30 months of incarceration and ordered to pay restitution. Three other individuals were ordered to pay restitution and sentenced to 12 months and 1 day of incarceration, 5 months of incarceration, and 3 years of probation, respectively.
- *Internal control weakness:* If Meridian Public School District had a pre-approved vendor list that the principal was required to use, or if another employee was required to preapprove these purchases, the fraud may have been deterred. As demonstrated by the method of fraud detection in this case, having conscientious people with integrity in positions of trust may also help deter and detect fraud.

District of Columbia Public Schools (DCPS)

- *Time frame:* March 2003 through May 2006
- *Amount of fraud:* \$383,910
- *Method of fraud detection:* A DCPS employee discovered the fraud scheme and reported it to the District of Columbia Office of Inspector General.
- *Fraud scheme:* The Executive Director for DCPS' Office of Charter School Oversight wrongfully diverted funds to personal bank accounts by submitting fraudulent invoices and steered no-bid contracts to friends for which she received kickbacks and other fraudulent payments. The no-bid contracts totaled approximately \$445,000.

- *Disposition of case:* The employee was sentenced to 35 months of incarceration and ordered to pay restitution.
- *Internal control weakness:* The fraud occurred because the employee had little or no oversight. There was inadequate review of funding requests and invoices she submitted.

New Orleans Public Schools, Louisiana (Two investigative cases)

- *Time frame:* Fall 2001 through 2003
- *Amount of fraud:* \$106,505 (One scheme for \$36,505 and a second for \$70,000)
- *Method of fraud detection:* A school employee notified school investigators of the first scheme. ED-OIG-AS identified unsupported payroll during an audit, which led to detection of the second scheme.
- *Fraud schemes:* In the first scheme, New Orleans Public Schools para-educators, teachers, and secretaries received pay they did not earn. These individuals paid kickbacks to the school secretary in exchange for falsely inflated class coverage hours. In the second scheme, a payroll clerk received kickbacks of 50 percent for facilitating payments to teachers, secretaries, and para-educators in the form of false travel reimbursements, fraudulent stipend payments, and payroll checks.
- *Disposition of cases:* For the first scheme, one individual was sentenced to 41 months of incarceration, 3 years of supervised release, and ordered to pay a \$500 assessment fee and restitution; a second individual was sentenced to 30 months of incarceration, 3 years of supervised release, and ordered to pay a \$400 assessment fee and restitution; and 2 additional individuals were each sentenced to 3 years of probation and ordered to pay restitution. For the second scheme, the payroll clerk was sentenced to 24 months of incarceration and 3 years of supervised release, and ordered to pay restitution, a \$5,000 fine, and a \$700 court fee.
- *Internal control weaknesses:* For the first scheme, the fraud occurred because there were no procedures in place for supervisors to review teachers' class coverage sheets. For the second scheme, the fraud occurred because a payroll office employee was able to electronically access and edit payroll information without detection. Therefore, there were inadequate controls over the electronic payroll system.

Dallas Independent School District (DISD), Texas

- *Time frame:* May 2002 through July 2005
- *Amount of fraud:* \$979,221
- *Method of fraud detection:* A source close to the fraud scheme reported it to an investigative reporter.
- *Fraud scheme:* A former DISD Deputy Superintendent and Chief Operating Officer acting as a consultant to a technology contractor assisted in the scheme by helping prepare the DISD Request for Proposals for technology contracts. The DISD Chief Technology Officer, who was in charge of procuring technology contracts, provided specifications for the upcoming DISD technology contract before DISD had issued a public Request for Proposal. In turn, the contractor provided kickbacks to the Chief Technology Officer, paid bogus invoices to the consultant for consulting fees, and received contracts totaling \$4,400,000.

- *Disposition of case:* The former DISD Deputy Superintendent and Chief Operating Officer testified as a government witness at the trial of his co-conspirators. He was sentenced to one year of probation, 80 hours of community service, and ordered to pay a \$5,000 fine. The Chief Technology Officer was sentenced to 132 months of incarceration and 36 months of supervised release, was ordered to pay a special assessment of \$1,300, and was jointly liable for a forfeiture verdict.
- *Internal control weakness:* There were inadequate controls over the Request for Proposal process. The fraud occurred because the Chief Technology Officer was able to bypass bidding rules by claiming urgency or imminent system failure, had quotes before the bidding process started, had equipment before purchase orders were issued, and compromised the contract selection committee.

Pharr-San Juan-Alamo Independent School District, Texas

- *Time frame:* 1997 through 2004
- *Amount of fraud:* \$73,800
- *Method of fraud detection:* The Federal Bureau of Investigation received several complaints over several years, including some from local law enforcement agencies.
- *Fraud scheme:* At least three contractors paid bribes to the Pharr-San Juan-Alamo Independent School District Superintendent and three board members in exchange for using their official positions to influence the awarding of district construction contracts. The bribes totaled at least \$73,800 and influenced the awarding of multiple contracts totaling \$2,186,981.
- *Disposition of case:* Sentencing and restitution is pending.
- *Internal control weakness:* Written procedures for obtaining bids and selecting contractors were generally adequate. However, the fraud occurred because of (1) collusion among several influential board members accepting bribes for voting on certain contracts and (2) the Superintendent accepting bribes for subverting the process for presenting bids at school board meetings for votes.

Puerto Rico Department of Education (PRDE)

- *Time frame:* 1997 through 2001
- *Amount of fraud:* \$240,000
- *Method of fraud detection:* A contractor reported favoritism to ED-OIG-IS.
- *Fraud scheme:* The PRDE Secretary and the Special Assistant to the Secretary took bribes from contractors for awarding contracts without participating in the bidding process. To avoid the bidding process, the PRDE Secretary ruled that the contracts were for “special projects.” One contractor paid bribes totaling \$240,000 and received Title I contracts totaling approximately \$37 million that were awarded without full and open competition. From all contractors, the 2 officials requested at least 10 percent of the amount of the contract awarded as kickbacks. All invoices submitted by the contractors for payment were paid without PRDE questioning the lack of adequate supporting documentation or determining whether services were provided or the equipment purchases were overstated.
- *Disposition of case:* The PRDE Secretary was sentenced to 12.7 years of incarceration and the Special Assistant to the Secretary was sentenced to 11 years of incarceration. Both officials were ordered to pay restitution.

- *Internal control weakness:* Other PRDE employees overlooked internal controls because of the knowledge that the contracts were approved by the Secretary. The fraud occurred because (1) contracts were awarded without an official bidding process; and (2) invoices were not reviewed to determine whether services were provided, accurate, or necessary.

Embezzlement Involving Fictitious Vendors

Pine Bluff School District, Arkansas

- *Time frame:* January 2001 through March 2008
- *Amount of fraud:* \$700,000 (including \$303,000 in Department funds)
- *Method of fraud detection:* A school administrator discovered the fraud and notified local police.
- *Fraud scheme:* An administrative assistant/data analyst employed by the district created a fictitious vendor and prepared forged purchase orders, invoices, and deposit slips with this fictitious vendor name and then diverted checks into an account she owned under the false vendor name.
- *Disposition of case:* The employee was sentenced to 80 years of incarceration and ordered to pay restitution.
- *Internal control weakness:* The fraud occurred because of a lack of segregation of duties (i.e., no separate entry and approval of purchase orders and no separate approval of invoices).

Garland Independent School District (GISD), Texas

- *Time frame:* May 2006 through July 2007
- *Amount of fraud:* \$92,112
- *Method of fraud detection:* The employee's bank notified local police when it noticed that the employee was receiving payroll via direct deposit and was also depositing checks.
- *Fraud scheme:* A Special Programs Federal Bookkeeper used the GISD online application system to register a fictitious vendor and then created a fraudulent vendor contract. The employee falsified purchase orders and generated fraudulent invoices from this vendor detailing services provided. On each invoice, the employee signed her name as the GISD point of contact and forged the signature of the vendor. To comply with the GISD management approval requirement, the employee used her supervisor's signature stamp on each invoice to indicate that the payment had been approved. The GISD Business Office processed the payment requests and then issued checks made payable to the vendor. The employee picked up and deposited each check into her personal bank account.
- *Disposition of case:* The employee was sentenced to 10 months of incarceration, 2 years of probation, and ordered to pay restitution.
- *Internal control weakness:* The fraud occurred because there was no policy for reviewing online applications from vendors and the employee was able to circumvent invoice review procedures with unauthorized access to her supervisor's signature stamp.

Embezzlement Involving False Expenditure Reports and Checks

William Floyd Union Free School District (WFSD), New York¹⁰

- *Time frame:* April 2000 through October 2002
- *Amount of fraud:* \$1,639,625
- *Method of fraud detection:* ED-OIG-IS Special Agents discovered the fraud involving false expenditure reports. WFSD discovered the embezzlement of funds when it noted irregularities while filing expenditure reports and reconciling bank statements after the employee retired.
- *Fraud scheme:* The Assistant to the Superintendent for Business filed false expenditure reports with the New York State Education Department, enabling WFSD to fraudulently obtain Title I, Title II, and other Federal education grant funds. The false expenditure reports included fake check numbers, payees, and amounts. The employee also obtained funds by writing WFSD checks to himself.
- *Disposition of case:* Sentencing and restitution is pending.
- *Internal control weakness:* The fraud involving false expenditure reports occurred because the SEA and WFSD both did not have adequate controls in place for reviewing expenses and ensuring the amounts claimed on expenditure reports were proper (for example, no one from WFSD reconciled the expenditure reports with the general ledger). The embezzlement of funds occurred because the employee both wrote checks and completed the bank reconciliation (this lack of segregation of duties allowed him to remove the checks made out to him when they came from the bank).

Embezzlement Involving Use of Dormant or Unknown Bank Accounts

William Floyd Union Free School District (WFSD), New York

- *Time frame:* February 1999 through March 2003
- *Amount of fraud:* \$675,616
- *Method of fraud detection:* The Suffolk County District Attorney's Office discovered this fraud.
- *Fraud scheme:* After retiring from his job as Assistant Superintendent for Business and while receiving a pension, WFSD paid this former Assistant Superintendent as a consultant to complete the same duties he performed before retiring. WFSD was aware of his former employment with the district. However, it issued IRS Form W-2s to the Assistant Superintendent's consulting company. In addition, the former Assistant Superintendent withdrew accrued interest payments from whole life insurance policies that WFSD purchased for officials. No one, including the WFSD auditor, was aware that these policies were accruing interest in a brokerage account. The Assistant Superintendent called the broker and had the funds wired and mailed to him via checks.
- *Disposition of case:* The Assistant Superintendent was sentenced to 2 to 6 years of incarceration on each of 4 counts of second-degree grand larceny and 1 to 3 years of incarceration each on 1 count of third-degree grand larceny and 4 counts of money laundering.
- *Internal control weakness:* The embezzlement of accrued interest payments occurred because WFSD (1) did not adequately account for income earned on insurance policies and (2) did not adequately track a related brokerage account. The pension

¹⁰ [Attachment 1](#) lists two ED-OIG-AS audit reports covering WFSD.

fraud occurred because (1) neither the Assistant Superintendent nor WFSD applied for a waiver, as required by law, to postpone the Assistant Superintendent's receipt of his annual pension; and (2) the school board did not approve or authorize paying the Assistant Superintendent's private consulting contracts.

Marble City Schools, Oklahoma

- *Time frame:* July 2002 through June 2007
- *Amount of fraud:* \$1,000,000
- *Method of fraud detection:* Detection began when a school board member followed up on a suspicious transaction.
- *Fraud scheme:* The Marble City Schools Superintendent was previously an officer in a rural school organization. The Superintendent changed a bank account, which the organization thought it had closed, so the bank statements would go to his home address. He then issued false invoices to Marble City Schools and deposited the resulting checks into the bank account.
- *Disposition of case:* The Superintendent was sentenced to 24 months of incarceration and made a voluntary repayment of funds.
- *Internal control weakness:* The fraud occurred because there were inadequate internal controls over the approval of invoices (invoices were not presented to the school board for approval, as required).

Embezzlement Involving Misuse of Procurement Cards

Dallas Independent School District, Texas

- *Time frame:* 2004 through 2006
- *Amount of fraud:* \$164,633
- *Method of fraud detection:* An individual obtained procurement card records through a public records request, identified improper charges, and reported this information on an internet blog.
- *Fraud scheme:* Two Dallas Independent School District secretaries used district procurement cards to purchase personal items. One of the secretaries made almost all of the purchases on weekends.
- *Disposition of case:* One employee was sentenced to 18 months of incarceration and ordered to pay restitution. The second employee was sentenced to 12 months of incarceration to be followed by 2 years of supervised release and ordered to pay restitution.
- *Internal control weakness:* The fraud occurred because there was a lack of supervision over procurement card purchases. The group assigned to supervise the purchase card program was understaffed. Beginning in July 2005, supervisors were required to sign and approve monthly credit card statements of subordinates, but some supervisors did not receive these statements to confirm that goods and services were delivered.

LESSONS LEARNED and SUGGESTED ENHANCEMENTS

Based on our analysis of each of the pervasive fiscal issues disclosed in ED-OIG-AS final audit reports and the fraud schemes uncovered by ED-OIG-IS investigations, we comment on the (1) mitigating factors that, if present, might have prevented the pervasive fiscal issues or fraud schemes from occurring; (2) available guidance that could have prevented the pervasive fiscal issues or fraud schemes from occurring; (3) suggested enhancements to Departmental guidance and training that could prevent future occurrences of the pervasive fiscal issues and fraud schemes; and (4) proposed corrective actions SEA and LEA officials are undertaking to prevent future occurrences of the pervasive fiscal issues.

Pervasive Fiscal Issues Identified in ED-OIG-AS Final Reports: Mitigating Factors and Available Guidance

The most common internal control weakness that caused the pervasive fiscal issues identified in the 41 ED-OIG-AS final audit reports we reviewed was inadequate policies and procedures. Effective internal control systems at the SEAs and LEAs could have mitigated the risk of the pervasive fiscal issues occurring.

For the pervasive fiscal issues identified in the 41 audit reports, the following criteria apply:

- Unallowable Personnel Costs
 - Relevant Criteria: Office of Management and Budget (OMB) Circular A-87, Attachment A, Paragraphs C.1.b and C.3; and 34 C.F.R. § 80.22.
 - Criteria Summary: Criteria cited above establish that allowable costs must be allocable to Federal awards and provide a definition for “allocable.” For the costs of a State or local government, the cost principles in OMB Circular A-87 apply.
- Unallowable Non-personnel Costs
 - Relevant Criteria: OMB Circular A-87, Attachment A, Paragraph C.1; and 34 C.F.R. § 80.22.
 - Criteria Summary: Criteria cited above state that allowable costs must be necessary, reasonable, and allocable to Federal awards.
- Inadequately Documented Personnel Costs
 - Relevant Criteria: OMB Circular A-87, Attachment B, Paragraphs 8.h.3 and 8.h.4.
 - Criteria Summary: Criteria cited above state that employees working solely on a single Federal award or cost objective will complete periodic certifications that are prepared at least semi-annually, and employees working on multiple activities or cost objectives will complete personnel activity reports that are prepared at least monthly.
- Inadequately Documented Non-personnel Costs
 - Relevant Criterion: OMB Circular A-87, Attachment A, Paragraph C.1.j.
 - Criterion Summary: Criterion cited above states that to be allowable costs must be adequately documented.

- Improper Inventory Control Systems
 - Relevant Criterion: 34 C.F.R. § 80.32.
 - Criterion Summary: Criterion cited above sets forth the minimum requirements for managing equipment, including taking a physical inventory.

- Supplanting
 - Relevant Criteria: OMB Circular A-87, Attachment A, Paragraphs C.1.b and C.3; 34 C.F.R. § 80.22; and 34 C.F.R. § 200.79.
 - Criteria Summary: Criteria cited above establish that allowable costs must be allocable to Federal awards and provide a definition for “allocable.” The criteria also establish the fiscal requirements for compliance with the supplement, not supplant, requirement.

- Program Requirements
 - Relevant Criteria for Impacted Programs: ESEA § 1116(b), 34 C.F.R. §§ 200.32-34, and 34 C.F.R. §§ 200.44-50 (Title I, Part A, Public School Choice and Supplemental Educational Services); ESEA § 1225 and Guidance for the Reading First Program, section G (Title I, Part B, Reading First); ESEA § 1306, 34 C.F.R. § 200.82, and 34 C.F.R. § 200.84, and Title I, Part C, Education of Migratory Children, Draft Non-Regulatory Guidance, sections IV and V (Title I, Part C, Migrant Education); and IDEA §§ 612- 613, IDEA § 618, 34 C.F.R. § 300.205, 34 C.F.R. § 300.224, and 34 C.F.R. § 300.230 (IDEA, Part B).
 - Criteria Summary: The criteria cited above (1) describe public school choice and supplemental education services requirements and responsibilities; (2) define Reading First reporting requirements; (3) explain Migrant Education Program (MEP) use of funds and program requirements; and (4) outline IDEA eligibility requirements and responsibilities.

- Program Eligibility
 - Relevant Criteria for Impacted Programs: ESEA § 1120a, 34 C.F.R. § 200.79, and Non-Regulatory Guidance, Title I, Fiscal Issues: Maintenance of Effort, Comparability, Supplement, not Supplant, Carryover, Consolidating Funds in Schoolwide Programs, Grantback Requirements, section B (Title I, Part A, Comparability of Services); and ESEA §§ 1113-1114, ESEA § 1304, 34 C.F.R. §§ 200.70-71, 200.78, 200.83-85, and Title I, Part C, Education of Migratory Children, Draft Non-Regulatory Guidance, sections I and II (Title I, Part C, Migrant Education).
 - Criteria Summary: The criteria cited above define SEA responsibilities for MEP, including State and child eligibility; and establish the fiscal requirements for compliance with the comparability requirement of ESEA.

Regarding internal control systems, guidance is available to SEA and LEA officials from the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In January 2009, COSO published its *Guidance on Monitoring Internal Control Systems*¹¹ to clarify the

¹¹ See http://www.coso.org/documents/COSO_Guidance_On_Monitoring_Intro_online1.pdf.

monitoring component of internal control. According to the guidance, effective monitoring can lead to organizational efficiencies and reduced costs associated with public reporting on internal control because problems are identified and addressed in a proactive, rather than reactive, manner. COSO also assigns a significant role to an organization's internal audit department in assessing the internal control systems implemented by the organization and contributing to ongoing effectiveness.

Suggested Enhancements

We reviewed the law, cost principles in OMB Circular A-87, regulations, and non-regulatory guidance relevant to each program and pervasive fiscal issue identified in the 41 audit reports. In general, the criteria as a whole adequately explain the administrative requirements for Federal grants. Despite the adequacy of the available criteria, a high percentage of final reports reviewed included the pervasive fiscal issues illustrated in Table 2. The most common internal control weaknesses that caused the pervasive fiscal issues included inadequate or nonexistent policies and procedures, inadequate monitoring by the SEA, and auditees not understanding the regulations.

The Department has issued non-regulatory guidance, including guidance on fiscal requirements. *Non-Regulatory Guidance, Title I Fiscal Issues: Maintenance of Effort; Comparability; Supplement, not Supplant; Carryover; Consolidating Funds in Schoolwide Programs; and Grantback Requirements* was issued in February 2008 and updates the Title I fiscal issues guidance released in May 2006. The guidance addresses consolidating funds in schoolwide programs; maintaining fiscal effort with State and local funds; providing services in its Title I schools with State and local funds that are at least comparable to services provided in its non-Title I schools; and using Part A funds to supplement, not supplant regular non-Federal funds.

We suggest that the Department enhance guidance to SEAs and LEAs on how to implement the administrative requirements for Federal grants and ensure that SEA and LEA officials understand the importance of complying with the requirements. The Department should offer additional guidance and training workshops to SEAs and LEAs. The guidance and workshops should stress the existing requirements and provide technical support for ensuring allowable and adequately documented personnel and non-personnel costs; proper inventory control systems; and the supplementing, not supplanting, of Federal grant funds. The guidance should include specific examples of situations where personnel activity reports are required and provide illustrative examples of time and effort certifications and adequate personnel activity reports. The guidance should also make SEAs and LEAs aware of the necessity to have and implement policies and procedures that require proper (1) segregation of duties for procuring goods and services and reconciling bank statements, (2) bidding procedures, and (3) review of invoices and supporting documentation.

RMS' Comments

RMS stated that it is currently developing a technical assistance plan and training curricula to provide enhanced guidance and training to SEAs and LEAs. The technical assistance plan and training curricula will include administrative requirements for implementation of Federal grants and will convey the importance of complying with those requirements. RMS is also working with the Office of the Chief Financial Officer on indirect cost training. RMS and other program offices are also looking into opportunities such as conferences, training workshops, and webinars

that they can participate in before December 31, to provide additional technical assistance to SEAs and LEAs.

The complete list of technical assistance topics is still being drafted and additional topics may be added as a result of this MIR. RMS is considering the following topics: cash management, record-keeping, property and procurement, American Recovery and Reinvestment Act of 2009 reporting, sub-recipient monitoring, fraud prevention and detection, allowable activities, school-wide allocations, cost allocations/indirect costs, internal controls, time and effort, data quality, and purchase cards.

Auditee-Proposed Corrective Action Plans

For the 41 final audit reports containing pervasive fiscal issues, we analyzed the responses to the report findings submitted by auditee officials. In the majority of the responses, auditee officials were receptive to ED-OIG-AS recommendations to enhance existing policies and procedures.

- In 31 of 41 audit reports, auditee officials proposed enhancing existing policies and procedures;¹²
- In 2 of 41 audit reports, auditee officials proposed reviewing current policies and procedures to ensure that policies and procedures complied with applicable regulations;
- In 3 of 41 audit reports, auditee officials stated that they did not concur with the audit findings and recommendations;
- In 4 of 41 audit reports, the report did not contain specific information regarding proposed corrective actions; and
- In 1 of 41 audit reports, *William Floyd Union Free School District Allowability of Title I Salary and Salary-Related Expenditures*, auditee officials did not provide any comments.

Fraud Schemes: Mitigating Factors and Available Guidance

We summarized 13 fraud cases that resulted in criminal convictions of LEA officials and categorized them based on whether the embezzlement involved (1) kickbacks from consultants, contractors, and employees; (2) use of fictitious vendors; (3) false expenditure reports and checks; (4) use of dormant or unknown bank accounts; or (5) procurement card misuse. We discussed each of the cases with ED-OIG-IS employees and identified internal control weaknesses that could have contributed to the fraud occurring. In 6 of the cases, LEA employees acted alone in the fraud scheme. Seven of the cases involved collusion (2 of these cases were fraud schemes entirely within the organization and 5 of these cases included individuals outside the organization). In all cases, the scheme was perpetrated over time, from 1 year to 8 years. Effective internal control systems at the SEAs and LEAs could have mitigated the risk of the fraud schemes.

According to *Managing the Business Risk of Fraud: A Practical Guide*,¹³ a proactive approach to managing fraud risk is one of the best steps organizations can take to mitigate exposure to

¹² Eleven of the 31 corrective action plans also included provisions for enhancing subrecipient monitoring.

fraudulent activities. Although complete elimination of all fraud risk is most likely unachievable or uneconomical, organizations can take positive and constructive steps to reduce their exposure. Only through diligent and ongoing effort can an organization protect itself against significant acts of fraud. The combination of the following key principles for proactively establishing an environment to effectively manage an organization's fraud risk can significantly mitigate fraud risk:

- **Fraud risk governance.** As part of an organization's governance structure, a fraud risk management program should be in place, including a written policy (or policies) to convey the expectations of the board of directors and senior management regarding managing fraud risk.
- **Fraud risk assessment.** Fraud risk exposure should be assessed periodically by the organization to identify specific potential schemes and events that the organization needs to mitigate.
- **Fraud prevention.** Prevention techniques to avoid potential key fraud risk events should be established, where feasible, to mitigate possible impacts on the organization. According to the American Institute of Certified Public Accountants,¹⁴ organizations can mitigate the risk of fraud by (1) reducing pressures on employees that might push them into committing fraud, (2) reducing perceived opportunities to commit fraud, and (3) dispelling rationalizations for engaging in fraudulent conduct.
- **Fraud detection.** Detection techniques should be established to uncover fraud events when preventive measures fail or unmitigated risks are realized.
- **Coordinated and timely investigations and corrective actions.** A reporting process should be in place to solicit input on potential fraud, and a coordinated approach to investigation and corrective action should be used to help ensure potential fraud is addressed appropriately and timely.

This guide can be used to assess an organization's fraud risk management program, as a resource for improvement, or to develop a program where none exists. It includes a *Fraud Prevention Scorecard* and a *Fraud Detection Scorecard* to help assess the strength of an organization's fraud prevention and detection systems.

Suggested Enhancements

We provide two suggestions to help mitigate the risk of fraud. First, the Department provides guidance and training workshops to SEAs and LEAs on how to implement the administrative requirements for Federal grants. In its guidance and training sessions, it should consider presenting information from *Managing the Business Risk of Fraud: A Practical Guide*. The Department might also present examples of SEAs and LEAs that have implemented successful fraud control systems based on this guide. Emphasis should be placed on preventing fraud as well as detecting it once it has occurred.

¹³ This guide, available at <http://www.acfe.com/documents/managing-business-risk.pdf>, is sponsored by the Association of Certified Fraud Examiners, the Institute of Internal Auditors, and the American Institute of Certified Public Accountants.

¹⁴ See https://www.aicpa.org/antifraud/financial_auditors/understanding_programs_controls/advice_audit/87.htm.

Second, ED-OIG has its own public access hotline for reporting fraud, waste, and abuse. However, the investigations we summarized included only one instance of fraud reported directly to ED-OIG. Making SEA and LEA employees aware of the hotline might expedite the detection of fraud. Employees may contact the hotline by calling (800) 647-8733, emailing oig.hotline@ed.gov, or writing to the Inspector General's Hotline, Office of Inspector General, U.S. Department of Education, 400 Maryland Avenue, SW, Washington D.C. 20202-1500.

RMS' Comments

RMS stated that it is planning to include fraud prevention and detection as one of its technical assistance topics. RMS will consider presenting information from *Managing the Business Risk of Fraud: A Practical Guide* and will place emphasis on preventing fraud as well as detecting it once it has occurred. RMS agreed that it is important to help ensure SEA and LEA employees are aware of the ED-OIG hotline, and it will include information on how to contact the hotline in the technical assistance being developed.

PURPOSE AND METHODOLOGY

The purpose of this final MIR is to provide the Office of the Secretary with information that may be beneficial in oversight of grants provided to SEAs. As part of the American Recovery and Reinvestment Act of 2009, Congress dramatically increased SEA and LEA funding and expectations for transparency and accountability in how that funding is used. Therefore, it is important that SEAs and LEAs have adequate oversight of grants and account for how funding is used. We completed the MIR to (1) provide Department officials with suggestions for enhancements to existing guidance provided to SEAs and LEAs; (2) assist SEAs and LEAs in complying with grant administration requirements by providing information on pervasive fiscal non-compliance issues identified in previous ED-OIG-AS audits; and (3) aid entities conducting future audits or reviews of SEAs and LEAs in improving oversight by notifying them of pervasive fiscal non-compliance issues identified in previous ED-OIG-AS audits.

The purpose of this project was to (1) identify any pervasive fiscal issues reported in prior ED-OIG work related to LEAs and SEAs (when the SEA work included a review of LEAs), and (2) develop any necessary suggestions to improve guidance to SEAs and LEAs. The scope of the project included a review of ED-OIG-AS final audit reports issued during fiscal years 2003 through 2009 (October 1, 2002, through April 14, 2009) and ED-OIG-IS investigations that resulted in criminal convictions during the period October 1, 2002, through December 31, 2008.

To achieve our objectives, we performed the following procedures:

- Reviewed information on the Department's website and other sources for the Title I, Title II, Title V, and IDEA programs and documented information about the programs applicable to our objectives.
- Identified the amount the Department awarded for each of the applicable grant programs for fiscal years 2003 through 2009.

- Reviewed ED-OIG-AS final audit reports issued during the period October 1, 2002, through April 14, 2009, that involved SEAs and LEAs. We identified and reviewed 49 final audit reports of formula grants that contained fiscal findings. We then determined that 41 of these 49 reports included pervasive fiscal issues (occurring in more than 5 reports). Of these 41 reports, 27 involved 1 or more of the following issues: unallowable costs, inadequately documented costs, violation of the supplanting prohibition, and inadequate inventory control systems ([Attachment 1](#)). The other 14 included unallowable costs resulting from the LEAs' failure to meet program requirements, inability to demonstrate fulfillment of grant requirements, ineligibility for the programs, or inadequate documentation of its eligibility for the program ([Attachment 2](#)).
- Summarized any internal control weaknesses cited in the reports as the cause of each pervasive fiscal issue and determined the total amount of unallowable costs associated with each pervasive fiscal issue.
- Reviewed the criteria relevant to each program and pervasive fiscal issue identified in our review of the 41 audit reports.
- Reviewed *U.S. Department of Education, Inspector General's Semiannual Report to Congress*, Nos. 46-57, covering the period October 1, 2002, through September 30, 2008; discussed recent fraud cases with ED-OIG-IS employees; and reviewed a draft compendium of investigations involving SEAs and LEAs. Using these sources, we selected a sample of 13 fraud cases that resulted in criminal convictions of LEA officials. We classified these cases into five categories—those involving (1) kickbacks from consultants, contractors, and employees; (2) fictitious vendors; (3) false expenditure reports and checks; (4) dormant or unknown bank accounts; and (5) procurement cards. We discussed each of these cases with ED-OIG-IS employees to obtain details, including a description of any internal control weaknesses that allowed fraud to occur.

ADMINISTRATIVE MATTERS

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

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.

If you would like to discuss the information presented in this MIR or obtain additional information, please call Gary D. Whitman, Regional Inspector General for Audit, at (312) 730-1620, or me at (202) 245-7050.

Attachments

cc:

Joseph Conaty, Acting Assistant Secretary, OESE

Andy Pepin, Acting Assistant Secretary, OSERS

Bill Modzeleski, Acting Assistant Deputy Secretary, OSDIFS

Jim Shelton, Assistant Deputy Secretary, OII

Richard Smith, Acting Assistant Deputy Secretary and Director, OELA

Dennis Berry, Acting Assistant Secretary, OVAE

Mary Mitchelson, Acting Inspector General

Delores Warner, Audit Liaison Officer, OESE

Melanie Winston, Audit Liaison Officer, OSERS, Internal Audits

Anthony White, Audit Liaison Officer, OSERS, Office of Special Education Programs

Tina Otter, Audit Liaison Officer, Risk Management Service, Office of the Secretary

Samuel Lopez, Audit Liaison Officer, OELA

Liza Araujo, Audit Liaison Officer, OII

Michelle Padilla, Audit Liaison Officer, OSDIFS

John Miller, Audit Liaison Officer, OVAE

Acronyms/Abbreviations Used in this Report

ACN	Audit Control Number
C.F.R.	Code of Federal Regulations
COSO	Committee of Sponsoring Organizations of the Treadway Commission
Department	U.S. Department of Education
DCPS	District of Columbia Public Schools
DISD	Dallas Independent School District
ED-OIG	U.S. Department of Education, Office of Inspector General
ED-OIG-AS	U.S. Department of Education, Office of Inspector General, Audit Services
ED-OIG-IS	U.S. Department of Education, Office of Inspector General, Investigative Services
ESEA	Elementary and Secondary Education Act of 1965
GISD	Garland Independent School District
IDEA	Individuals with Disabilities Education Improvement Act of 2004
LEA	Local Educational Agencies
MEP	Migrant Education Program
MIR	Management Information Report
NCLB	No Child Left Behind Act of 2001
OMB	Office of Management and Budget
PRDE	Puerto Rico Department of Education
RMS	Risk Management Service
SEA	State Educational Agencies
WFSD	William Floyd Union Free School District

Attachment 1: ED-OIG-AS Final Audit Reports Containing Pervasive Fiscal Issues Related to Personnel and Non-personnel Costs, Inventory Control, and Supplanting

Issued	ACN/Title	Program	Unallowable Personnel	Unallowable Non-personnel	Inadequately Documented Personnel	Inadequately Documented Non-personnel	Inventory Control	Supplanting
Apr-09	A06H0011 , Adequacy of Fiscal Controls Over the Use of Title I, Part A Funds at Dallas Independent School District	Title I, Part A	X	X	X	X	X	
Nov-08	A05H0025 , Harvey Public Schools District's Use of Selected U.S. Department of Education Grant Funds	Title I, Parts A, B; Title II; IDEA, Part B			X	X	X	
Oct-08	A04H0017 , Puerto Rico Department of Education's Administration of Title I Services Provided to Private School Students	Title I		X			X	
Sep-08	A07H0017 , St. Louis Public School District's Use of Selected U.S. Department of Education Grant Funds	Title I, Parts A, B; Title II, Part A; IDEA, Part B	X	X	X	X	X	
Jul-08	A05H0010 , 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	Title I, Part A	X	X	X	X		
Jan-08	A05G0032 , ODE's Administration of its Migrant Education Program	Title I, Part C; MEP		X				
Oct-07	A02G0020 , Elizabeth Public School District Allowability of Title I, Part A Expenditures	Title I, Part A		X	X	X	X	X
Jun-07	A05G0031 , Columbus City School District's Compliance with Financial Accountability Requirements for Its Expenditures Under Selected No Child Left Behind Act Programs	Title I, Part A; Title II, Parts A,D; Title V, Part A	X		X		X	
Jun-07	A05H0008 , Indian Springs District 109's Use of Individuals with Disabilities Education Improvement Act Funds	IDEA, Part B	X	X				
Apr-07	A02G0007 , Hempstead Union Free School District's Elementary and Secondary Education Act of 1965, as amended, Title I, Part A Non-Salary Expenditures	Title I, Part A		X		X	X	

Issued	ACN/Title	Program	Unallowable Personnel	Unallowable Non-personnel	Inadequately Documented Personnel	Inadequately Documented Non-personnel	Inventory Control	Supplanting
Jul-06	A02F0017 , Puerto Rico Department of Education, Salinas School District's Administration of Title I Funds	Title I, Part A				X		
Jun-06	A05F0018 , The School District of the City of Detroit's Administration of Parental Involvement Funds Under the No Child Left Behind Act of 2001	Title I, Part A	X	X	X	X		
Apr-06	A02F0005 , New Haven School District's Administration of Title I, Part A Summer and After School Programs	Title I, Part A						X
Mar-06	A02F0030 , William Floyd Union Free School District Allowability of Title I Non-Salary Expenditures	Title I, Part A		X				X
Dec-05	A02E0030 , William Floyd Union Free School District Allowability of Title I Salary and Salary-Related Expenditures	Title I, Part A	X	X	X			
Oct-05	A09F0009 , ARC Associates' and Oakland Unified School District's Compliance With Supplemental Educational Services Provisions	Title I, Part A		X				
Aug-05	A05F0007 , The Michigan Department of Education's Compliance with the Public School Choice and Supplemental Educational Services Provisions of the No Child Left Behind Act of 2001	Title I, Part A						X
Jun-05	A06E0018 , Title I funds administered by the East Baton Rouge Parish School District	Title I, Part A			X	X		
Feb-05	A06E0008 , Title I funds administered by the Orleans Parish School Board	Title I, Part A			X	X		

Issued	ACN/Title	Program	Unallowable Personnel	Unallowable Non-personnel	Inadequately Documented Personnel	Inadequately Documented Non-personnel	Inventory Control	Supplanting
Dec-04	A02E0009 , Puerto Rico Department of Education's Special Education Program Services	IDEA				X		
Dec-04	A06E0017 , Title I funds administered by the Beauregard Parish School District	Title I, Part A			X			
Dec-04	A06E0012 , Title I funds administered by the Caddo Parish School District	Title I, Part A			X			
Mar-04	A02D0014 , Puerto Rico Department of Education's Title I Expenditures for the period, July 1, 2002 to December 31, 2002	Title I, Part A		X				X
Nov-03	A05D0008 , Audit of 20 Arizona charter schools' uses of U.S. Department of Education funds	Title I, Part A; IDEA, Part B						X
Aug-03	A05D0009 , Audit of Cleveland Municipal School District's Set-Aside Funds for District-Wide Activities	Title I, Part A	X					
Jun-03	A02C0011 , The Virgin Islands Department of Education - St. Thomas/St. John School District's Control of Equipment Inventory	IDEA, Part B					X	
Mar-03	A02C0019 , The Virgin Islands Department of Education-St. Croix School District's Control of Equipment Inventory	IDEA, Part B					X	

Attachment 2: ED-OIG-AS Final Audit Reports Containing Pervasive Fiscal Issues Related to Program Requirements and Program Eligibility

Issued	ACN/Title	Program	Failure to Meet Program Requirements	Unable to Demonstrate Program Requirements Fulfilled	Ineligibility for Program	Inadequate Documentation of Program Eligibility
Jun-07	A05G0033 , Illinois State Board of Education's Compliance with the Title I, Part A, Comparability of Services Requirement	Title I, Part A				X
Mar-07	A09G0020 , Arizona Department of Education's Oversight of the ESEA, Title I, Part A Comparability of Services Requirement	Title I, Part A				X
Nov-06	A05G0015 , Ohio Department of Education's Title I, Part A, Comparability of Services Requirement	Title I, Part A				X
Oct-06	A05G0011 , Wisconsin Department of Public Instruction's Reading First Program	Title I, Part B		X		
Aug-06	A06F0016 , Arkansas Department of Education's Migrant Education Program	Title I, Part C, MEP			X	
Mar-06	A06F0013 , Oklahoma State Department of Education's Migrant Education Program	Title I, Part C, MEP			X	
Feb-06	A07F0016 , Kansas State Department of Education's Maintenance of Effort Under the Individuals with Disabilities Education Act of 1997, Part B, Program	IDEA, Part B		X		
Aug-05	A07F0003 , Illinois State Board of Education's Compliance with the Public School Choice and Supplemental Educational Services Provisions of the No Child Left Behind Act	Title I, Part A	X			
Aug-05	A05F0012 , Minnesota Department of Education's Maintenance of Effort Under the Individuals with Disabilities Education Act of 1997, Part B, Program	IDEA, Part B		X		
Jun-04	A05D0038 , Michigan's local educational agencies' allocations of Elementary and Secondary Education Act of 1965, as amended, Title I, Part A, funds to schools	Title I, Part A			X	
May-03	A06C0033 , California Department of Education's Compliance with the Priority for Services Requirements of the Migrant Education Program	Title I, Part C, MEP		X		
May-03	A06C0032 , Kansas Department of Education's Compliance with the Priority for Services Requirements of the Migrant Education Program	Title I, Part C, MEP		X		
May-03	A06C0031 , The Migrant Education Program at the Florida Department of Education	Title I, Part C, MEP		X		
Feb-03	A06C0030 , The Migrant Education Program at the Texas Education Agency	Title I, Part C, MEP		X		

Attachment 3: RMS' Comments to Draft Management Information Report

June 29, 2009

MEMORANDUM

TO: Gary D. Whitman
Regional Inspector General for Audit
Office of Inspector General

FROM: Phil Maestri /s/
Director
Office of the Secretary, Risk Management Service

SUBJECT: Response to Draft Management Information Report
Fiscal Issues Reported in ED-OIG Work Related to LEAs and SEAs
Control Number ED-OIG/X05J0005

Thank you for the opportunity to respond to the Draft Management Information Report (MIR) cited above. The MIR states that the purpose of this report is to provide the Office of the Secretary with information that might be beneficial in overseeing grants provided to State educational agencies (SEAs). As part of the American Recovery and Reinvestment Act of 2009 (ARRA), Congress dramatically increased SEA and local educational agency (LEA) funding and expectations for transparency and accountability in how that funding is used. Therefore, it is important that SEAs and LEAs have adequate oversight of grants and account for how funding is used. The purpose of this project was to (1) identify any pervasive fiscal issues reported in prior U.S. Department of Education (Department), Office of Inspector General (ED-OIG) work related to LEAs and SEAs (when the SEA work included a review of the LEAs), and (2) develop any necessary suggestions to improve guidance to SEAs and LEAs.

ED-OIG requested comments on the information presented in the MIR and a response on the suggestions provided, so our specific responses on the suggestions are provided below. Risk Management Service (RMS) agrees that it is important to ensure ARRA funds, as well as all Department grant funds, are appropriately administered and accounted for by SEAs and LEAs. RMS, in coordination with other Department Principal Offices (POs) on the ARRA Technical Assistance (TA) Team, is currently developing a technical assistance plan and training curricula to provide enhanced guidance and training to the SEAs and LEAs. The information provided in this MIR provides a timely and beneficial resource for the Department's analysis of the most prevalent training needs of our grantees.

Suggestion: OIG suggests that the Department enhance guidance to SEAs and LEAs on how to implement the administrative requirements for Federal grants and ensure that SEA and LEA officials understand the importance of complying with the requirements. The Department should offer additional guidance and training workshops to SEAs and LEAs. The guidance and workshops should stress the existing requirements and provide technical support for ensuring allowable and adequately documented personnel and non-personnel costs; proper inventory

control systems; and the supplementing, not supplanting, of Federal grant funds. The guidance should include specific examples of situations where personnel activity reports are required and provide illustrative examples of time and effort certifications and adequate personnel activity reports. The guidance should also make SEAs and LEAs aware of the necessity to have and implement policies and procedures that require proper (1) segregation of duties for procuring goods and services and reconciling bank statements, (2) bidding procedures, and (3) review of invoices and supporting documentation.

RMS response: RMS, in coordination with other POs on the ARRA TA Team, is currently developing a technical assistance plan and training curricula to provide enhanced guidance and training to SEAs and LEAs, which will include administrative requirements for implementation of Federal grants and will convey the importance of complying with those requirements. RMS will be providing cross-Department TA, along with POs, beginning with the States determined to be most in need of TA in order to appropriately spend ARRA funds (the 1st batch states). RMS is currently developing a draft list of TA topics, based on its analyses as well as input, analyses and rankings from Title I and IDEA. The information provided in this MIR will also be included in the RMS' and TA Team's analysis of prevalent issues for which enhanced TA is needed. In addition, RMS will be contacting the Chief State School Officers (CSSOs) for each of the 1st batch states to discuss any additional TA they feel is needed in order for them to be able to appropriately spend ARRA funds.

RMS is developing a set of curricula around basic financial topics, such as those included in this MIR, including cash management and internal controls. RMS is also working with OCFO on indirect cost training. In addition, some of the POs are working on curricula for the more programmatic TA issues, including supplement vs. supplant. RMS will be producing a series of webinars that will be available to everyone who signs-in, including both SEAs and LEAs. The webinars will include broad-brush topics common to everyone.

The goal is to get the ARRA-related TA done by December 31, 2009. In addition to providing TA on-site and through webinars, video teleconferences, and conference calls, RMS and other POs are also looking into conferences, training workshops, and any other opportunities, between now and December 31st, that the Department can participate in to provide additional TA to SEAs and LEAs.

While the complete list of TA topics is still being drafted and individualized TA lists will be negotiated with the states, the following TA topics are currently being considered: cash management, record-keeping, property and procurement, ARRA reporting, sub-recipient monitoring, fraud prevention and detection, allowable activities, school-wide allocations, cost allocations/indirect costs, internal controls, time and effort, data quality, and purchase cards. Additional topics may also be added as a result of this MIR.

Suggestion: OIG suggests that in the guidance and training workshops provided by the Department to SEAs and LEAs on how to implement the administrative requirements for Federal grants, the Department should consider presenting information from *Managing the Business Risk of Fraud: A Practical Guide*. The Department might also present examples of SEAs and LEAs that have implemented successful fraud control systems based on this guide. Emphasis should be placed on preventing fraud as well as detecting it once it has occurred.

RMS response: RMS is currently planning to include fraud prevention and detection as one of its TA topics. As this TA is developed, RMS will consider presenting information from *Managing the Business Risk of Fraud: A Practical Guide*, and emphasis will be placed on preventing fraud as well as detecting it once it has occurred.

Suggestion: ED-OIG has its own public access hotline for reporting fraud, waste, and abuse. However, the investigations we summarized included only one instance of fraud reported directly to ED-OIG. Making SEA and LEA employees aware of the hotline might expedite the detection of fraud.

RMS response: RMS agrees that it is important to help ensure SEA and LEA employees are aware of the ED-OIG hotline, and we will include information on how to contact the hotline in the TA being developed.

Again, we appreciate the information provided in this MIR and the opportunity to provide this response.