U.S. Department of Education
Office of Inspector General

American Recovery and Reinvestment Act of 2009

Systems of Internal Control Over Selected ARRA Funds in the State of Indiana

Audit Report

Indiana Statehouse

ED-OIG/A05J0011 January 2010

Acronyms and Abbreviations Used in This Report

ARRA	American Recovery and Reinvestment Act of 2009
BRS	Bureau of Rehabilitation Services
C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
EDGAR	Education Department General Administrative Regulations
IDOE	Indiana Department of Education
IDEA	Part B of the Individuals with Disabilities Education Improvement Act of 2004
Indianapolis	Indianapolis Public Schools
IRIS	Indiana Rehabilitation Information System
LEA	Local Educational Agency
Muncie	Muncie Community Schools
ED-OIG	U.S. Department of Education, Office of Inspector General
OMB	Office of Management and Budget
OSEP	Office of Special Education Programs
SFSF	State Fiscal Stabilization Fund
Title I	Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended
Wawasee	Wawasee Community School Corporation

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
Chicago/Kansas City/Dallas Audit Region

January 14, 2010

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Dear Sirs:

This **final audit report** presents the results of our audit of the systems of internal control over selected American Recovery and Reinvestment Act of 2009 funds in the State of Indiana.

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate U.S. 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 U.S. Department of Education officials, who will consider them before taking final Departmental action on this audit:

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

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

Sincerely,

/s/

Gary D. Whitman
Regional Inspector General for Audit

Systems of Internal Control Over Selected ARRA Funds in the State of Indiana

Control Number ED-OIG/A05J0011

PURPOSE

The American Recovery and Reinvestment Act of 2009 (ARRA) places a heavy emphasis on accountability and transparency. Federal agencies and others who are affected by ARRA have the responsibility to ensure that ARRA funds reach intended recipients and achieve intended results. This includes effectively implementing and controlling funds at the Federal, State, and local levels; ensuring that recipients understand requirements and have proper controls in place over the administration and reporting of ARRA funds; and promptly identifying and mitigating instances of fraud, waste, and abuse of the funds. Proper systems of internal control are essential for ensuring ARRA funds are administered properly and used in ways that comply with the requirements of ARRA.

The purpose of our audit was to determine whether the Indiana Department of Education (IDOE), other State of Indiana agencies, and selected local educational agencies (LEA) charged with responsibility for overseeing ARRA funds had designed systems of internal control that are sufficient to provide reasonable assurance of compliance with applicable laws, regulations, and guidance. Our audit covered IDOE's and other State of Indiana agencies' designs for systems of internal control over the administration and use of ARRA funds as of September 30, 2009.

We assessed the design of State-level internal control that IDOE; the Indiana Family and Social Services Administration, Bureau of Rehabilitation Services (BRS); and the State Budget Agency of the Indiana Office of Management and Budget (OMB) planned to use in administering funds received under ARRA. We assessed the design of internal control over the administration of ARRA funds for the Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (Title I); Part B of the Individuals with Disabilities Education Improvement Act of 2004 (IDEA); the Vocational Rehabilitation Act; and the State Fiscal Stabilization Fund (SFSF) programs. We assessed the design of State-level internal control over data quality, cash management, subrecipient monitoring, and use of funds. In addition, we assessed the design of control for the four areas listed above at three LEAs: Indianapolis Public Schools (Indianapolis), Muncie Community Schools (Muncie), and Wawasee Community School Corporation (Wawasee).

RESULTS

The State of Indiana has been proactive in its efforts to ensure the proper administration of ARRA funds. Upon the adoption of ARRA, Indiana convened a task force to review proposed program uses within each State agency that would be administering ARRA funds. Indiana also created this task force to establish fiscal control and accountability for ARRA funds. This task force includes representatives from the Office of the Governor of Indiana, Indiana OMB's State Budget Agency and State Board of Accounts, Indiana Office of Inspector General, Auditor of State, Treasurer of State, and the Department of Administration. The task force developed and distributed guidance for the accounting of ARRA funding. The guidance included internal control requirements and a questions and answers section that discussed ARRA-specific reporting requirements, accounting codes, audit expectations, and procurement matters. The State Board of Accounts plans to incorporate ARRA funds into its biennial audits of LEAs in accordance with the recently released Federal OMB Circular A-133 Compliance Supplement.[1]

IDOE also provided ARRA-related webinars to LEAs, distributed several memoranda that provided up-to-date guidance about the proper administration of ARRA funds and information about ARRA reporting requirements, and established a process to ensure that LEAs set up separate accounting codes to track ARRA funds. IDOE plans to continue to distribute ARRA guidance to LEAs on a regular basis and to conduct training sessions.

As a result of observations we made during our audit and guidance disseminated by the Federal OMB and the U.S. Department of Education (Department), IDOE, BRS, and the LEAs made changes to their controls and processes. IDOE (1) revised its Title I monitoring guide to include ARRA-specific requirements; (2) developed monthly expenditure monitoring procedures to minimize the time elapsing between the transfer of funds and disbursement by the LEAs for funds received under the ARRA Title I and IDEA programs; and (3) developed and implemented a new, online tool for ARRA reporting which included all elements required by Section 1512(c) of Division A of ARRA.[2]

However, IDOE's, BRS's, and the LEAs' systems of internal control still could be improved so they provide reasonable assurance of subrecipient compliance with applicable laws, regulations, and guidance. We concluded that, as of September 30, 2009—

- IDOE could strengthen its subrecipient monitoring to ensure compliance with ARRA requirements. IDOE (a) had not finalized the revisions to its IDEA monitoring guide to cover ARRA IDEA funds, (b) did not plan to monitor SFSF distributed to LEAs as extensively as it plans to monitor funds received under the ARRA Title I and IDEA programs, and (c) did not adequately monitor LEAs' support for personnel expenditures.

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[1] The Federal OMB Circular A-133 Compliance Supplement, dated March 2009, is effective for audits of fiscal years beginning after June 30, 2008, and was supplemented by the Federal OMB Circular A-133 Compliance Supplement Addendum #1, dated June 30, 2009.

[2] All subsequent section references to ARRA in this report are to Division A.

- IDOE could improve its procedures to ensure compliance with Federal cash management requirements. IDOE developed monthly expenditure monitoring procedures to minimize the time elapsing between the transfer of funds and disbursement by the LEAs for funds received under the ARRA Title I and IDEA programs. However, it did not have adequate procedures in place to (a) minimize the time elapsing between the transfer of SFSF and the disbursement by the LEAs or (b) ensure that LEAs calculate and remit interest earned on excess cash resulting from unspent ARRA funds.
- BRS had not completed systems modifications to ensure compliance with ARRA reporting requirements. BRS did not revise its current system or develop new systems for reporting data for funds received under the ARRA Vocational Rehabilitation program.

We provided a preliminary version of this final audit report to IDOE, BRS, and Indiana OMB, State Budget Agency for review and comment on November 24, 2009. IDOE provided joint comments on behalf of itself and Indiana OMB. BRS did not provide comments. In their joint comments, IDOE and Indiana OMB did not indicate disagreement with the findings and recommendations and stated their commitment to complying with all Federal recommendations and guidelines for the disbursement and reporting of ARRA funds. Based on the comments, we revised our findings and recommendations. The comments are summarized at the end of each finding and the entire narrative is included as an Enclosure to this report. Attachments to the comments provided by IDOE and Indiana OMB are available upon request.

FINDING NO. 1 – IDOE Could Strengthen Its Subrecipient Monitoring to Ensure Compliance with ARRA Requirements

As of September 30, 2009, IDOE had extensive monitoring guides to monitor subrecipients' regular Title I and IDEA programs and had revised its guides to cover the ARRA Title I program. The revised Title I monitoring guide includes both programmatic and fiscal monitoring, including ARRA-specific requirements. In addition, IDOE was revising its IDEA monitoring guide in coordination with the Department's Office of Special Education Programs (OSEP). Further, IDOE had provided its program review teams, who will be monitoring LEAs' uses of funds received under the ARRA Title I and IDEA programs, training on ARRA monitoring requirements. However, IDOE (1) had not finalized the revisions to its IDEA monitoring guide to cover ARRA IDEA funds, (2) did not plan to monitor SFSF distributed to LEAs as extensively as it plans to monitor funds received under the ARRA Title I and IDEA programs, and (3) did not adequately monitor LEAs' support for personnel expenditures.

IDEA Monitoring Guide Had Not Been Revised to Reflect ARRA-Specific Requirements

As of September 30, 2009, IDOE had not modified its IDEA monitoring guide to include ARRA-specific requirements. The IDEA monitoring guide that IDOE currently uses includes only programmatic monitoring. IDOE relies on the State Board of Accounts to conduct fiscal monitoring when it conducts biennial Single Audits of LEAs. In addition, IDOE plans to contract with an outside firm to conduct fiscal monitoring for regular IDEA funds and for funds received under the ARRA IDEA program. IDOE also plans to submit a fiscal monitoring guide to OSEP for review.

Procedures to Monitor SFSF Are Not Adequate

IDOE did not plan to monitor SFSF distributed to LEAs as extensively as it will monitor funds received under the ARRA Title I and IDEA programs. Because SFSF replaced State funds that could be used for general fund expenses, IDOE believed that LEAs have much greater latitude for expending SFSF. Therefore, IDOE planned only to keep track of how rapidly the LEAs expend their SFSF distributions and require the LEAs to report specific data, such as the amounts charged to each expenditure category, the number of jobs funded by SFSF, and vendors that have used SFSF. IDOE had not developed procedures to (1) ensure LEAs are properly reporting complete and accurate SFSF information, (2) ensure LEAs are spending SFSF in accordance with ARRA requirements, or (3) follow up with LEAs if they fail to spend SFSF in accordance with ARRA requirements.

IDOE's Monitoring Was Not Adequate to Detect Deficiencies in LEAs' Support for Personnel Expenditures

During our visits to three LEAs, we determined that IDOE did not adequately monitor LEAs to ensure that they maintained semiannual certifications and personal activity reports for the regular Title I and IDEA grants. This documentation also is required for the ARRA Title I and IDEA programs. We identified the following issues at the three LEAs we visited:

- Indianapolis did not have employees working solely on the regular IDEA grant sign and retain semiannual certifications.
- Wawasee did not have employees working solely on one grant (either regular Title I or IDEA) sign and retain semiannual certifications and did not have employees working on multiple grants complete and retain personal activity reports.
- Muncie did not have employees working solely on the regular IDEA grant sign and retain semiannual certifications and did not have employees working on multiple grants complete and retain personal activity reports.

IDOE's monitoring guide for the regular IDEA grant does not cover the review of semiannual certifications and personal activity reports. However, as stated above in this finding, IDOE plans to contract with an outside firm to conduct fiscal monitoring for regular IDEA funds and for funds received under the ARRA IDEA program. It also plans to submit a fiscal monitoring guide to OSEP for review and plans to have its IDEA and Title I offices collect semiannual certifications and personal activity reports for the regular and ARRA Title I and IDEA grants during its desktop monitoring process. During its latest Title I monitoring visit to Wawasee (on May 4, 2006), IDOE found that Wawasee was not maintaining personal activity reports. However, IDOE did not include a finding regarding Wawasee not maintaining semiannual certifications. Also, though IDOE had a finding regarding not maintaining personal activity reports, it did not have adequate procedures in place to follow up with the LEA to ensure that it had taken appropriate corrective action.

IDOE created a PowerPoint presentation illustrating when semiannual certifications and personal activity reports are to be used, demonstrating how to complete the documents, and providing links to sample forms available on IDOE's Web site. IDOE also provided guidance and training to LEAs related to the use of semiannual certifications and personal activity reports.

Inadequate monitoring of the regular Title I and IDEA grants increases the risk that IDOE will not adequately monitor funds received under the ARRA Title I and IDEA programs for maintenance of semiannual certifications and personal activity reports.

Federal Regulations Require That IDOE Adequately Monitors Subrecipients

In its application for SFSF, the Office of the Governor of Indiana assured that, among other things, it would comply with (1) all of the accountability, transparency, and reporting requirements that apply to SFSF; and (2) Department regulations at 34 Code of Federal Regulations (C.F.R.) Part 80.[3] Also, the Department's Grant Award Notification included the statement that funds awarded under the SFSF program are subject to all applicable statutes and regulations, including the General Education Provisions Act and the Education Department General Administrative Regulations (EDGAR).[4]

EDGAR contains provisions requiring States to monitor subrecipients to ensure compliance with applicable Federal requirements. According to 34 C.F.R. § 80.40(a), "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

In addition, according to Section 1512(c) of ARRA, each recipient that receives ARRA funds from a Federal agency shall submit a report to that agency that contains, among other items, the total amount of ARRA funds received from the agency, the amount of recovery funds that were expended or obligated to projects or activities, a detailed list of all projects or activities for which ARRA funds were expended or obligated, and an estimate of the number of jobs created and retained by the project and activity.

If IDOE does not have adequate monitoring procedures for funds received under the ARRA IDEA and SFSF programs, it cannot ensure that LEAs are properly reporting complete and accurate information or spending funds in accordance with ARRA requirements. Given the current economic climate, LEAs may be experiencing tight budget constraints, increasing the risk of unallowable or inadequately documented expenditures or misuse of funds related to ARRA programs.

[3] All regulatory citations are to the July 1, 2008, volume, unless otherwise noted.
[4] On August 27, 2009, the Department issued an email to remind States of their responsibility to thoroughly and effectively monitor subrecipients under the SFSF program (http://www.ed.gov/programs/statestabilization/index.html, August 27, 2009).

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education, in collaboration with the Assistant Secretary for Special Education and Rehabilitative Services, require IDOE to—

1.1 Coordinate with OSEP to develop a final IDEA monitoring guide that addresses ARRA requirements;

1.2 Develop and implement monitoring procedures to (a) ensure LEAs are properly reporting complete and accurate SFSF information, (b) ensure LEAs are spending SFSF in accordance with ARRA requirements, and (c) follow up with LEAs if they fail to spend SFSF in accordance with ARRA requirements; and

1.3 Implement its planned monitoring procedures to ensure that LEAs use semiannual certifications and personal activity reports to document personnel expenditures paid with regular Title I, regular IDEA, and ARRA Title I and IDEA funds.

Auditee Comments

For Recommendation 1.1, IDOE stated that it will contract with an outside firm to provide IDEA fiscal monitoring, including ARRA specific requirements, and will submit a fiscal monitoring guide to OSEP for review.

For Recommendation 1.2, IDOE stated that it communicated with LEAs regarding expectations, timelines, and amounts received for SFSF and referred to its reporting tool for LEAs to identify SFSF expenditures.

For Recommendation 1.3 in the preliminary version of this report, which related to providing training to LEA personnel on the use of semiannual certifications and personal activity reports, IDOE stated that it provided guidance and training to Special Education Directors in October 2009 and to Title I Program Administrators in November and December 2009.

For Recommendation 1.4 in the preliminary version of this report (now Recommendation 1.3), IDOE stated that it plans to have its IDEA and Title I offices collect semiannual certifications and personal activity reports for the regular and ARRA Title I and IDEA grants during its desktop monitoring process.

OIG Response

We modified the finding and recommendations to reflect IDOE’s planned corrective actions for Recommendations 1.1 and 1.4 (now Recommendation 1.3).

The corrective action described for Recommendation 1.2 does not fully address our recommendation. The reporting tool IDOE described for Recommendation 1.2 only requires LEAs to report what amounts were charged to each expenditure category and, if applicable, to explain why funds were not expended by October 31, 2009. The described monitoring procedures also do not indicate how IDOE will ensure that LEAs are properly reporting complete and accurate SFSF information and spending SFSF in accordance with ARRA requirements. In addition, the planned actions do not indicate how or whether IDOE will follow up with LEAs if they do not spend SFSF in accordance with ARRA requirements. Therefore, we did not modify Recommendation 1.2.

Because the comments demonstrated that corrective action was implemented for Recommendation 1.3 in the preliminary version of this report, we deleted this recommendation in this final report and re-numbered our final recommendation.

FINDING NO. 2 – IDOE Could Improve Its Procedures to Ensure Compliance with Federal Cash Management Requirements

IDOE developed monthly expenditure monitoring procedures that it stated were to be implemented in October 2009. The expenditure monitoring procedures are intended to minimize the time elapsing between the transfer of funds from the State and the disbursements by the LEAs for funds received under the ARRA Title I and IDEA programs. IDOE planned to consider each LEA's cash position prior to authorizing each transfer of advanced funds. IDOE also planned to implement procedures to track LEAs' SFSF expenditures and informed LEAs that SFSF were to be expended no later than October 31, 2009.

However, IDOE had not developed or implemented adequate procedures to minimize the time elapsing between the transfer of SFSF and the disbursement of SFSF by the LEAs. In addition, IDOE had not fully developed or implemented procedures to provide reasonable assurance that LEAs calculate and remit interest earned on unspent ARRA funds (excess cash balances). IDOE had not instructed LEAs to remit interest promptly and at least quarterly and did not have a mechanism in place for LEAs to remit this interest. Though IDOE recently developed procedures for LEAs to minimize the time between receiving and disbursing regular funds and funds received under the ARRA Title I and IDEA programs, IDOE's procedures still were not adequate to ensure that LEAs calculate and remit interest earned on (1) unspent funds transferred to LEAs prior to the implementation of IDOE's new cash management procedures,[5] (2) unspent funds that might accumulate in the future, or (3) SFSF.

Procedures Needed to Minimize Time Between Receipt and Disbursement of SFSF Funds

Using the Indiana State tuition formula, IDOE distributed $536 million in SFSF to LEAs in June 2009. The SFSF replaced the general State education funding for the month. IDOE did not consider LEAs' cash needs when disbursing these funds.

SFSF should not be distributed to LEAs too far in advance of being needed to pay ARRA-authorized expenses. On June 8, 2009, Indianapolis, Wawasee, and Muncie received $24,250,232, $1,633,864, and $4,349,095 in SFSF, respectively. During our site visits to the three LEAs in July and August 2009, we determined that the LEAs had not expended any of these funds at the time of our visits.

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[5] As of June 30, 2009, Indianapolis had not expended $1,724,003 received under the ARRA IDEA program.

IDOE's cash management procedures should involve a review of LEAs' cash needs prior to all advances to ensure that the time elapsing is minimized between the transfer of funds from the State and disbursement by the LEAs. The regulation at 34 C.F.R. § 80.21 prescribes the basic standard and the methods under which grantees will make payments to subgrantees. The basic standard is that the "[m]ethods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee . . . ." The regulations address the advance and reimbursement payment methods and include the following requirement for the advance method:

> (c) Advances. Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.

Procedures Needed to Ensure LEAs Remit Interest Earned on Unspent ARRA Funds

As of September 30, 2009, IDOE had not developed or implemented procedures to provide reasonable assurance that LEAs calculate and remit interest earned on unspent ARRA funds (excess cash). The three LEAs we visited did not calculate and remit, to the Department, interest on unspent regular Title I and IDEA grant funds. For two of the three LEAs, quarterly expenditure reports submitted for the regular Title I grant showed excess cash.[6] Because quarterly expenditure reports showed excess cash for the regular Title I grant, IDOE should have instructed the LEAs to calculate and remit interest to the Department and updated their procedures to reflect these requirements for ARRA funds.

We found the following issues at two LEAs:

- Wawasee: Quarterly expenditure reports for the regular Title I grant for the 2007-08 and 2008-09 school years showed a large positive cash balance throughout both years, including a cash balance of $182,506 as of June 30, 2008 (54 percent of its $335,318 Title I award for the year).
- Indianapolis: Quarterly expenditure reports for the regular Title I grant for the 2008-09 school year showed that Indianapolis was maintaining a large positive cash balance. As of June 30, 2009, Indianapolis had not expended $6,669,926 (20 percent of its $33,670,002 Title I award for the year).

In response to the preliminary version of the report, IDOE provided copies of quarterly expenditure report templates for the regular Title I and IDEA grants that were modified to list the interest earned each quarter. IDOE also provided copies of new report templates that require LEAs to report and return interest earned for each fiscal year. These forms, which cover the ARRA Title I and IDEA grants, require LEAs to list interest earned during each quarter of the 2009-10 school year. The forms state that the total interest amount for the year (minus up to

[6] Prior to the monthly expenditure monitoring procedure, LEAs submitted quarterly expenditure reports. According to quarterly expenditure reports, Muncie appeared to not have excessive cash and, therefore, would not be required to calculate and remit interest.

$100) should be returned to the Department by October 31, 2010. However, the forms do not cover the calculation, reporting, or remittance of interest earned on SFSF. Also, it is not clear how the interest will be returned to the Department and it appears that interest will only be remitted at the end of the school year, rather than on a quarterly basis, as required by 34 C.F.R. § 80.21(i).

ARRA Cash Management Requirements

The regulation at 34 C.F.R. § 80.21(i) addresses requirements when interest is earned on Federal cash advances. The regulation states—

> . . . [G]rantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to $100 per year for administrative expenses.

Department guidance issued in April 2009 reinforced the cash management requirements. The guidance addresses funds received under the ARRA Title I, IDEA, and SFSF programs.[7]

By not determining each LEA's cash position prior to disbursing SFSF cash advances, IDOE did not ensure that LEAs were not maintaining excess cash. By drawing Federal funds and disbursing them to LEAs too far in advance of the LEAs' immediate cash needs, there is an additional cost to the U.S. Treasury and an increased risk that SFSF might be misused. Because of the Federal deficit, the U.S. Treasury must borrow the cash needed to fund Federal programs and, as a result, incurs interest costs. In addition, if LEAs maintain Federal funds received in advance of their immediate cash needs in interest bearing accounts and do not return the interest earned, they deprive the U.S. Treasury of this interest earned.

It is also important that funds are not drawn prematurely because the funds might be more susceptible to misuse when held in local accounts for extended periods. Past U.S. Department of Education, Office of Inspector General (ED-OIG) work has identified instances involving non-ARRA funds where the systems of internal control were weak, by-passed, or nonexistent.[8]

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[7] Department guidance for the three programs are titled: (1) *Funds Under Title I, Part A of the Elementary and Secondary Education Act of 1965 Made Available Under The American Recovery and Reinvestment Act of 2009; (2) Funds for Part B of the Individuals with Disabilities Education Act Made Available Under The American Recovery and Reinvestment Act of 2009*; and (3) *Guidance on the State Fiscal Stabilization Fund Program*.

[8] *Fiscal Issues Reported in ED-OIG Work Related to LEAs and SEAs* (Management Information Report, ED-OIG/X05J0005, July 21, 2009); *An OIG Perspective on Improving Accountability and Integrity in ESEA Programs* (ED-OIG/S09H0007, October 16, 2007).

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education, in collaboration with the Assistant Secretary for Special Education and Rehabilitative Services, require IDOE to—

2.1 Implement its prescribed procedures to (a) proactively monitor, prior to future disbursements, cash balances at LEAs for ARRA Title I and IDEA programs before approving cash disbursements to ensure that excess cash is minimized; and (b) track SFSF expenditures to ensure SFSF have been expended;

2.2 Develop and implement procedures to proactively monitor, prior to future SFSF disbursements, cash needs at LEAs before approving SFSF cash advances to ensure that excess cash is minimized; and

2.3 Develop and implement procedures for LEAs to, at least quarterly, calculate and remit interest earned on unspent funds received under the ARRA Title I, IDEA, and SFSF programs.

Auditee Comments

For part (a) of Recommendation 2.1 related to Title I and IDEA, IDOE stated that, effective December 3, 2009, it modified its monthly report forms for ARRA funds.

For part (b) of Recommendation 2.1, IDOE described how it will track the expending of additional SFSF after distribution to the LEAs and stated that all SFSF have been expended. IDOE stated that it will communicate expectations of funding disbursements, including expenditure deadlines, and will regularly request expenditure reports from LEAs to monitor and track expenditures.

For Recommendation 2.2 in the preliminary version of this report (now Recommendation 2.3), IDOE stated that quarterly expenditure reports for Title I and IDEA regular grants have been modified to list the interest earned. With its comments on the preliminary version of this report, IDOE provided copies of the monthly monitoring report forms for ARRA Title I and IDEA grants that require LEAs to list the interest earned. IDOE also provided copies of new forms that require LEAs to complete and return interest earned for each fiscal year.

OIG Response

We did not modify the finding or Recommendation 2.1 related to ARRA Title I and IDEA programs because IDOE's comments did not allow us to conclude that LEAs are providing monthly expenditure reports or that IDOE is using them to monitor cash balances before approving cash disbursements. For Recommendation 2.1 for SFSF, IDOE's comments did not allow us to conclude that the three LEAs we visited have expended the SFSF received.

IDOE did not indicate that it plans to consider LEAs' cash needs before providing future SFSF disbursements. Such a procedure is needed to minimize excess cash balances. Because IDOE's prescribed procedures for monitoring cash balances for ARRA programs at LEAs do not include

SFSF, we added a recommendation that IDOE be required to develop and implement procedures to proactively monitor, prior to future SFSF disbursements, cash needs at LEAs before approving SFSF cash advances (see Recommendation 2.2).

For Recommendation 2.2 in the preliminary version of this report (now Recommendation 2.3) we described IDOE's planned corrective action in the finding but did not modify the recommendation. The forms that IDOE described cover the ARRA Title I and IDEA grants and require LEAs to list interest earned during each quarter of school year 2009-2010. The forms state that the total interest amount for the year (minus up to $100) should be returned to the Department by October 31, 2010. However, it is not clear how the interest will be returned to the Department, and it appears that interest will be remitted only at the end of the school year, not on a quarterly basis as required by 34 C.F.R. § 80.21(i). Finally, IDOE did not indicate whether interest earned on SFSF will be identified, calculated, reported, or remitted to the Department.

FINDING NO. 3 – BRS Had Not Completed Systems Modifications to Ensure Compliance with ARRA Reporting Requirements

As of September 30, 2009, BRS had not fully developed systems of control to provide reasonable assurance that reported ARRA data are complete, accurate, reliable, and in compliance with Section 1512 of ARRA.

BRS Had Not Fully Identified Data Systems for Reporting ARRA Data

BRS reports Vocational Rehabilitation program data from its Indiana Rehabilitation Information System (IRIS), and the Indiana Family and Social Services Administration reports financial data from its PeopleSoft system to the Department's Rehabilitative Services Administration. However, rather than using IRIS to fulfill Section 1512(c) of ARRA reporting requirements, BRS will use a program manager to track employment outcomes and other program related data for each ARRA activity. BRS had not identified (1) the system from which the program manager will obtain data, (2) how it will ensure the data are complete and accurate, or (3) what data the program manager will track other than employment outcomes. BRS officials told us that BRS did not revise its current system or develop new systems for reporting ARRA data because it had not yet determined how to use ARRA funds and was waiting for the Department's Rehabilitative Services Administration to change its reporting system so BRS can identify the data needed for ARRA reporting. The Department's Rehabilitative Services Administration told us that its management information system, into which all agencies enter their program reports, allows State vocational rehabilitation agencies to report their financial status information (outlays, unliquidated obligations, and program income) from their Standard Form 269 Financial Status Report (SF-269)[9] for ARRA grants. Rehabilitative Services Administration requires separate SF-269s to be filed for the Vocational Rehabilitation program for both ARRA and non-ARRA funds. It does not require the reporting of other data required by Section 1512(c) of ARRA. Therefore, BRS should be able to modify its system to ensure that it addresses all

[9] Standard grant reporting form developed by the Federal OMB.

reporting requirements of Section 1512(c) of ARRA without Rehabilitative Services Administration making any changes to its management information system.

Systems Should Provide for Accurate, Complete, and Current Information

According to 34 C.F.R. § 80.20(a):

> A State must [expend] and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to (1) permit preparation of reports required by this part and the statutes authorizing the grant, and (2) permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

The Federal OMB's *Implementation Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, issued June 22, 2009, states that prime recipients are to (1) initiate appropriate data collection and reporting procedures to ensure that Section 1512 reporting requirements are met in a timely and effective manner, (2) implement internal control measures as appropriate to ensure accurate and complete information, and (3) perform data quality review for material omissions and/or significant reporting errors, making appropriate and timely corrections to prime recipient data and work with the designated subrecipient to address any data quality issues.

Section 1512(c) of ARRA requires the following elements to be reported not later than 10 days after the end of each calendar quarter.

> (1) the total amount of recovery funds received from that agency;
> (2) the amount of recovery funds received that were expended or obligated to projects or activities; and
> (3) a detailed list of all projects or activities for which recovery funds were expended or obligated, including—
>> (A) the name of the project or activity;
>> (B) a description of the project or activity;
>> (C) an evaluation of the completion status of the project or activity;
>> (D) an estimate of the number of jobs created and the number of jobs retained by the project or activity; and
>> (E) for infrastructure investments made by State and local governments, the purpose, total cost, and rationale of the agency for funding the infrastructure investment with funds made available under this Act, and name of the person to contact at the agency if there are concerns with the infrastructure investment.
>
> (4) Detailed information on any subcontracts or subgrants awarded by the recipient to include the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006 (Public Law 109–282), allowing aggregate reporting on

awards below $25,000 or to individuals, as prescribed by the Director of the Office of Management and Budget.

Unless BRS revises its current system or develops new systems that address these requirements for Vocational Rehabilitation funds, it will not meet ARRA's guiding principles for transparency and reporting publicly on the use of funds.

Recommendation

We recommend that the Assistant Secretary for Special Education and Rehabilitative Services require—

3.1 BRS to (a) develop and implement procedures to collect, compile, and report on funds received under the ARRA Vocational Rehabilitation program; and (b) modify its systems or develop new systems that address the reporting requirements of Section 1512(c) of ARRA.

Auditee Comments

BRS did not provide comments to this finding.

IDOE[10] stated that it (1) successfully completed the quarterly reporting requirement for the ARRA funds that had been disbursed prior to September 30, 2009; (2) communicated, to the LEAs, background information and expectations and timelines for meeting the Federal deadline of October 10, 2009; (3) created and disseminated the Indiana Survey of ARRA Funds, which contained elements that required LEAs to report on funds received for all ARRA programs that had received or disbursed funds; (4) developed a web-based survey tool that included online help descriptions of each field to assist LEAs in completing the survey; and (5) communicated updated directions for future ARRA reporting.

OIG Response

As of September 30, 2009, IDOE had not fully developed systems of control to provide reasonable assurance that reported ARRA data are complete, accurate, reliable, and in compliance with Section 1512(c) of ARRA. However, the reporting tool IDOE provided in response to the preliminary version of this report included all applicable reporting elements required by Section 1512(c) of ARRA. IDOE provided documentation showing that it implemented its new, online reporting tool and provided LEAs with (1) information about the timing of quarterly reporting, (2) an internet address for the reporting tool, and (3) tips for inputting information into the reporting tool. Therefore, we deleted the portion of the finding and recommendation related to IDOE. Our finding and recommendation now apply only to BRS.

[10] The preliminary version of this report cited both IDOE and BRS for not having fully developed systems of control to provide reasonable assurance that reported ARRA data are complete, accurate, reliable, and in compliance with Section 1512(c) of ARRA.

BACKGROUND

IDOE administers funds received under the ARRA Title I, IDEA, and SFSF programs.[11] The ARRA allocations for these three programs totaled $1.246 billion. BRS administers Vocational Rehabilitation funds, with an ARRA allocation totaling $12.3 million. On April 1, 2009, the Department made 50 percent of the total allocations for Title I, IDEA, and Vocational Rehabilitation funds available to Indiana. Indiana's SFSF application was approved on May 18, 2009, and the Department made 76 percent of this total allocation available to Indiana. As of October 8, 2009, IDOE had drawn down more than $694 million in funds. BRS had not drawn down any funds. The SFSF application states that Indiana will use SFSF to restore levels of State support to elementary and secondary education and to institutes of higher education.[12]

Table: ARRA Funding

	Allocation Amount	Award Amount Available	Amount Drawn Down
Title I	$168,676,901	$84,338,450	$27,967,631
IDEA	$253,534,865	$126,767,433	$55,408,123
SFSF, Education Grants	$823,661,223	$625,982,529	$610,787,540
Vocational Rehabilitation	$12,335,350	$6,167,675	$0
Totals	**$1,258,208,339**	**$843,256,087**	**$694,163,294**

According to the Grant Award Notifications, Indiana is to receive Title I, IDEA, and Vocational Rehabilitation funds for the grant award period February 17, 2009, through September 30, 2010, and SFSF for the grant award period May 15, 2009, through September 30, 2010. As of June 4, 2009, IDOE had distributed $4,363,104 and $478,284 in IDEA and Title I ARRA funds, respectively, to LEAs. As of June 8, 2009, IDOE had distributed $536,365,651 in SFSF to LEAs. As of June 17, 2009, BRS had not distributed any Vocational Rehabilitation funds received under ARRA.

SCOPE AND METHODOLOGY

Our audit covered IDOE's and other State of Indiana agencies' designs for systems of internal control over the administration and use of ARRA funds as of September 30, 2009. We assessed the design of State-level internal control that IDOE; the Indiana Family and Social Services Administration, BRS; and the State Budget Agency of the Indiana OMB planned to use in administering funds received under ARRA. We assessed the design of internal control over the administration of ARRA funds only for the Title I, IDEA, Vocational Rehabilitation Act, and

[11] The Department allocated SFSF to the Office of the Governor of Indiana, which delegated administrative responsibility for these funds to IDOE.
[12] Our review included review of control over SFSF support for elementary and secondary education. We did not review control over any Indiana institutes of higher education. For fiscal year 2009, Indiana's SFSF application included budgeted amounts of $579 million for elementary and secondary education and $44 million for Institutes of Higher Education.

SFSF programs. We assessed the design of State-level internal control over data quality, cash management, subrecipient monitoring, and use of funds. In addition, we assessed the design of internal control at three LEAs: Indianapolis, Muncie, and Wawasee.

Our audit was limited to assessing the design of the internal control. We did not evaluate or test the implementation of the controls. Also, during and subsequent to our fieldwork, IDOE, BRS, and the State Budget Agency of the Indiana OMB were continuing the process of designing and implementing internal control over their administration of ARRA funds. Thus, the plans and processes that we reviewed during our audit could be substantially modified or not implemented as designed. Also, because BRS had not disbursed ARRA funds at the time of our audit, we might not have been aware of unique factors related to the administration of ARRA funds during our assessment of the design of internal control. Because of the limited nature of our review and the other factors mentioned, there is a more than a remote possibility that other opportunities for improvement in the State and local-level systems of internal control could exist but not be identified by our audit.

To assess the design of the control, we:

- Reviewed prior single audits and applicable reports issued by ED-OIG and the Indiana State Board of Accounts, IDOE monitoring reports, and the Department's Student Achievement and School Accountability monitoring report for Indiana;
- Identified funds allocated and awarded under ARRA to IDOE, BRS, and the Office of the Governor of Indiana for the Title I, IDEA, Vocational Rehabilitation, and SFSF programs;
- Gained an understanding of the portions of the law, regulations, Department Guidance, and Federal OMB Circulars relevant to the audit's objectives;
- Interviewed IDOE's program and fiscal officials for Title I, IDEA, and SFSF; and BRS' officials for Vocational Rehabilitation. We also interviewed officials from Indiana OMB's State Budget Agency and State Board of Accounts, Indiana's Office of Inspector General, the Department's Office of Special Education and Rehabilitative Services, and the Department's Office of Elementary and Secondary Education;
- Interviewed program and fiscal personnel at three LEAs;
- Reviewed organizational charts for IDOE, BRS, and three LEAs;
- Obtained and reviewed written policies and procedures related to data quality, cash management, subrecipient monitoring, and use of funds for Title I, IDEA, Vocational Rehabilitation, and SFSF from IDOE, BRS, and three LEAs, as applicable;
- Provided questionnaires to IDOE, BRS, and three LEAs related to data quality, cash management, subrecipient monitoring, and use of funds and obtained and reviewed completed questionnaires;
- Obtained and reviewed IDOE's monitoring protocols for Title I and IDEA and State Board of Accounts accounting manuals used by IDOE, BRS, and the three LEAs; and
- Obtained and reviewed Indiana's approved SFSF application and various budget documents including Indiana's 2010-2011 Budget, State revenue reports, and State revenue forecasts.

We conducted our work from June through August 2009 at IDOE, BRS, and the three selected LEAs.[13] We discussed the results of our audit and recommendations with IDOE, BRS, and Indiana OMB, State Budget Agency officials on September 21, 2009.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Use of computer-processed data for this audit was limited to background information and expenditure reports provided by the LEAs that showed cash on hand. We did not assess the reliability of the computer-processed data because we used these data for informational purposes only.

[13] We conducted our work at IDOE, BRS, and Indianapolis Public Schools in Indianapolis, Indiana; our work at Muncie Community Schools in Muncie, Indiana; and our work at Wawasee Community School Corporation in Syracuse, Indiana.

Enclosure:
IDOE and Indiana OMB Comments

IDOE and Indiana OMB provided several attachments with their comments. Due to volume, the attachments are omitted here but are available upon request.

NOTE: Recommendation 1.3 was deleted in the final report and the subsequent recommendation was renumbered. Recommendation 2.2 was added to the final report. Therefore, the reference in the comments to Recommendation 2.2 relates to Recommendation 2.3 in the final report. Also, Recommendation 3.1 was deleted in the final report and the subsequent recommendation was renumbered. Therefore, the reference in the comments to Recommendation 3.1 relates to a recommendation that we did not include in this final audit report.

Indiana Department of Education
SUPPORTING STUDENT SUCCESS

M E M O R A N D U M

TO: Gary D. Whitman
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General

FROM: Lance V. Rhodes
Chief Financial Officer
Indiana Department of Education

DATE: December 8, 2009

SUBJECT: Response to Preliminary Audit

Thank you for allowing the Indiana Department of Education (IDOE) and Office of Management and Budget (OMB) the opportunity to review and provide commentary on the report entitled *Systems of Internal Control Over Selected ARRA Funds on the State of Indiana.*

IDOE and OMB are committed to complying with all federal recommendations and guidelines pertaining to the disbursement and reporting of ARRA funds to the state.

Attached you will find our joint responses to the preliminary findings that focus on IDOE and OMB processes. We believe the responses and documentation will assist the Office of Inspector General for US Department of Education in their evaluation of the states processes that have been established for the ARRA grants development.

If you have further questions, please contact me at your convenience.

Respectfully,

/s/
Lance V. Rhodes

Comments on Finding Number 1 – IDE could strengthen its subrecipient monitoring to ensure compliance with ARRA requirements.

IDOE will contract with an outside firm to provide IDEA fiscal monitoring to include ARRA specific requirements. IDOE will submit the fiscal monitoring guide to OSEP for review. The monitoring indicators will be developed by December 18, 2009. A Request for Proposal (RFP) will be issued publically to receive bids so that IDOE can enter into an agreement with the identified vendor. State guidelines require a minimum of a 60 day implementation schedule. (Recommendation 1.1)

Additionally, IDOE provided training to LEA personnel on the use of semiannual certifications and activity reports (PARS). All Special Education Directors received copies of a Power Point presentation on documenting personnel expenditures on October 2009 and discussed the requirement during the ICASE conference on October 2. (Recommendation 1.3)

Additionally, Title 1 provided information to Title 1 Program Administrators during the Title 1 Winter Administrative Meetings on November 30, December 3 and December 7, 2009. Special Education and Title 1 will collect semi-annual certifications and PARS using a cycle desk-top monitoring process to document personnel expenditures paid with regular Title 1, regular IDEA, and ARRA Title 1 and IDEA funds. (Recommendation 1.4)

IDOE communicated federal reporting requirements for the Fiscal Stabilization Funds received through memorandum and follow up emails. The communication identified the expectations, timelines and amounts LEA's receipted into the specific SFSF Fund (7950). (Memo attached) IDOE created a reporting tool for LEA's to identify expenditures from SFSF Funds. (Report attached) IDOE created a protocol to follow up with LEA's who did not comply with initial directive. (Recommendation 1.2)

Comments on Finding Number 2 – IDE could improve its procedure to ensure compliance with federal cash management requirements.

Currently, all SFSF Phase I Funds available to Indiana have been disbursed and expended. If SFSF Phase II Funds are distributed after approve application to federal government, IDOE will implement the same procedures outlined in recommendation number 1.2 of finding number 1. IDOE will communicate expectations of funding disbursement including expenditure deadlines. IDOE will regularly request expenditure reports from LEA's proactively to monitor and track expenditures. (See sample attachment in recommendation 1.2 of finding number 1) (Recommendation 2.1)

Effective December 3, 2009, Title 1 and IDEA programs have modified their Quarterly report forms on regular programs, and monthly report forms on ARRA to include interest earned.

Additionally, we have created a form requiring all districts to complete and return interest earned for each fiscal year.

In addition to the quarterly reports/interest earned forms, Part B and Preschool stimulus cash requests are now required. This will significantly reduce the balances at the LEA level. (Documents attached) (Recommendation 2.2)

Comments to Finding Number 3 – IDE and BRS had not completed systems modifications to ensure compliance with ARRA Reporting requirements.

IDOE and OMB successfully completed the quarterly reporting requirement for the ARRA funds that had been disbursed prior to September 30, 2009. This effort was part of a centralized report to the federal government on a tool contractually developed for this particular initiative.

IDOE and OMB communicated to the LEA's background information, expectations and timelines for meeting the federal deadline of October 10, 2009. (Memorandum attached) OMB communicated with LEA's with a follow up clarifying memo. (Memorandum attached)

The Indiana Survey of ARRA Funds contained elements that required LEA's to report on funds received for all ARRA programs that had received or disbursed funds. This would include but was not limited to SFSF, Title 1, and IDEA programs.

The web-based survey tool included online help descriptions of each field to assist LEA's in completing the survey. (Tool Tips documentation and Indiana Survey of ARRA Funds Screen Shots attached) (Recommendation 3.1)

On December 7, 2009, IDOE and OMB communicated with LEA's preliminary expectations and timelines for Q4 2009 ARRA Reporting. Noted in that communication is streamlined and updated directions based on previous experience and feedback. (Memorandum attached)

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Office of Inspector General
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Washington, DC 20202-1500

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