



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

April 16, 2010

FINAL ALERT MEMORANDUM

To: Philip Maestri
Director
Office of the Secretary, Risk Management Service

From: Keith West /s/
Assistant Inspector General for Audit

Subject: Philadelphia School District Designation as a High-Risk Grantee
Control Number ED-OIG/L03K0002

The purpose of this final alert memorandum is to apprise you of the need to consider (1) working with the Pennsylvania Department of Education (PDE) to designate the Philadelphia School District (PSD) as a high-risk grantee, and (2) coordinating enhanced monitoring by U.S. Department of Education (Department) program offices in recognition of the fact that Department funds, including American Recovery and Reinvestment Act of 2009 (ARRA) funds, are at significant risk of not being used in compliance with program requirements.

In our final audit report, entitled *Philadelphia School District's Controls Over Federal Expenditures*, Control Number ED-OIG/A03H0010 (see <http://www.ed.gov/about/offices/list/oig/areports.html>), issued on January 15, 2010, we reported that PSD did not have adequate fiscal controls in place to account for Federal grant funds.¹ The lack of adequate controls contributed to our determining a total of \$138,376,068 as questionable costs (\$17,284,250 in unallowable costs and \$121,091,818 in inadequately documented costs).

Our final audit report included the following instances of noncompliance with laws, regulations, and Office of Management and Budget (OMB) Cost Principles:

- PSD needed stronger controls over personnel expenditures charged to Federal grants. This included adequate controls to ensure salary costs charged to grant funds were supported and personnel costs paid by the Title I, Part A grant were allocable. Also, PSD's payroll policies and procedures were not adequate.
- PSD supplanted State and local funding with Federal funds.
- PSD did not have adequate controls in place to ensure that non-payroll expenditures met Federal regulations and grant provisions.

¹ The audit period was July 1, 2005, through June 30, 2006.

- PSD's policies and procedures were not adequate and/or enforced for journal voucher (JV) processing, travel, imprest fund reimbursements, inventory tracking, and contracting.
- PSD did not have written policies and procedures for various fiscal processes, which included monitoring of budgets, using Title II, Part A Nonpublic grant funds, purchasing from the Office Depot vendor, charging of transportation costs, allocating single audit costs, and calculating and charging of indirect costs to grant funds.

We also reported in the Other Matters section of our report that PSD lacked position descriptions for some personnel in senior management positions, ordered excessive amounts of food for activities, needed improvement in its coding of expenditures, and did not maintain adequate supporting documentation for training and professional development expenditures (see Attachment 1 for further detail on the reported findings).

Throughout its response to our draft audit report, PSD stated that its policies and procedures were adequate and included a general statement that its "financial practices provide sufficient internal controls to safeguard Federal funds against loss or misuse." Furthermore, PSD stated in the response that it had implemented procedures in January 2009 concerning the retention of time and effort certifications for employees working on Federal awards. PSD did not provide the new procedures nor evidence of the implementation of the procedures. As of the date of this memorandum, PSD had not posted any new or revised policies and procedures to its Web site.

Similar issues have been reported in other recent reviews of PSD.² For instance:

- PSD's OMB Circular A-133 *Single Audit Report for Fiscal Year (FY) ended June 30, 2008, dated October 8, 2009*, reported that PSD did not have policies and procedures in place to ensure that grant funds were liquidated within the required periods, time and effort certifications were not maintained for employees working on Federal grants, and Department grant funds were used for unallowable salary costs. Furthermore, it was found that PSD's procurement policies and procedures did not ensure that the awarding of contracts for purchased services complied with Federal regulations. Also reported was that PSD had three prior audit findings, totaling \$1,032,961, because Department grant funds were not liquidated within the required time period. PSD had not implemented and/or enforced policies and procedures as recommended in prior audit reports.
- *Report on Internal Control and on Compliance and Other Matters, Fiscal 2008, dated December 29, 2008*, also reported conditions similar to our audit. The audit period for this review was July 2007 through June 2008. Weaknesses and/or improprieties with imprest funds were reported at all 15 schools reviewed. This included undocumented transactions, unexplained expenditures, missing receipts, pre-signed checks, questionable transactions, and insufficient segregation of duties. The report also noted personal property control deficiencies. Of the 50 items selected for review from

² All reviews were conducted by the City of Philadelphia, Office of the Controller.

district property reports, 13 (26 percent) could not be located, and 3 of 39 items (8 percent) observed at schools could not be found on PSD's personal property records. It was also reported that PSD still had not developed formal payroll policies and procedures for entering and approving payroll information or processing termination pay.

- *School District of Philadelphia, Review of Credit Card and Other Employee Reimbursement Programs, dated March 14, 2008*, reviewed the use of executive credit cards and employee reimbursements during FY 2007. This review found that PSD had reimbursed employees for items unallowable under its own travel policies (gas and out-of-town travel costs). Also, PSD reimbursed individuals for trips to vacation destinations, such as the Walt Disney World Resort and St. Petersburg, Florida, Beach Resorts. Additionally, it was found that for 67 percent of the reimbursements tested, the object code did not agree with the expenditure type. For example, reimbursements for florists, hotels, food, and groceries were recorded as bank fees.

The regulations at 34 Code of Federal Regulations § 80.12(a) allow the Department to impose special award conditions when a grantee has exhibited any one of the "high risk" attributes. A grantee or subgrantee may be considered "high risk" if an awarding agency determines that a grantee or subgrantee:

- (1) Has a history of unsatisfactory performance, or
- (2) Is not financially stable, or
- (3) Has a management system which does not meet the management standards set forth in this part, or
- (4) Has not conformed to terms and conditions of previous awards,
or
- (5) Is otherwise not responsible; and if the awarding agency determines that an award will be made, special conditions and/or restrictions shall correspond to the high risk condition and shall be included in the award.

PSD should be designated as a high-risk grantee based on: 1) the significance of the findings in our January 2010 final audit report; 2) the fact that other recent reviews have found the same or similar issues; 3) the fact that PSD does not seem to have developed any new policies and procedures, or revised its inadequate policies and procedures, or enforced the ones it had in place; and 4) the fact that PSD was awarded \$1,167,181,584 in Department grant funds for school year 2007-2008 (see Attachment 2). Furthermore, it is estimated that PSD is to receive \$331,173,437 in Department funding provided by ARRA (see Attachment 3).

Designation as a high-risk grantee will help provide reasonable assurance that Department funds are safeguarded and used only for reasonable, allowable, and adequately documented purposes.

Recommendations

We recommend that your office:

- 1.1 Take immediate steps to safeguard the current funding awarded to PSD by working with PDE to designate PSD as a high-risk grantee, with special conditions placed on all future Department grant funds awarded to PSD; and
- 1.2 Coordinate enhanced monitoring of PSD with the Office of Elementary and Secondary Education (OESE), the Office of Special Education and Rehabilitative Services (OSERS), the Office of Vocational and Adult Education (OVAE), the Office of Safe and Drug-Free Schools (OSDFS), the Office of Innovation and Improvement (OII), the Office of Postsecondary Education (OPE), and the Office of English Language Acquisition (OELA) in recognition that funds for all Department programs for the 2009-2010 school year and subsequent school years are at significant risk of not being used in compliance with program requirements.

Department Comments

A draft of this memorandum was provided to the Office of the Secretary, Risk Management Service (RMS) for comment. In its response to the draft alert memorandum, RMS generally concurred with our recommendations. RMS agreed that Department funds may be at risk and that PDE should be instructed to consider designating PSD as a high-risk grantee. RMS stated that it will strongly recommend PDE consider designating PSD as a high-risk grantee and that PDE develop a plan to bring PSD into compliance with Federal requirements. Furthermore RMS has begun working with Department Program offices and PDE to obtain current information on PSD's administration of grant funds.

In addition, RMS noted that PDE is ultimately responsible for ensuring that PSD has adequate fiscal controls and that PDE is the entity that the Department holds responsible for the administration of the Federal funds that were discussed in ED-OIG/A03H0010. The response is included in its entirety as Attachment 4 to this memorandum.

We conducted our work in accordance with the Office of Inspector General (OIG) quality standards for alert memorandums.

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System.

Alert memoranda issued by the OIG will be made available to members of the press and general public to the extent information contained in the memoranda is not subject to exemptions in the Freedom of Information Act (5 U.S.C. § 552).

For further information, please contact Mr. Bernard Tadley, Regional Inspector General for Audit, at (215) 656-6279.

Attachments

Electronic cc:

Anthony Miller, Deputy Secretary, Office of the Deputy Secretary
Martha J. Kanter, Under Secretary, Office of the Under Secretary
Thelma Meléndez de Santa Ana, Ph.D., Assistant Secretary, OESE
Alexa E. Posny, Assistant Secretary, OSERS
Margo Anderson, Associate Assistant Deputy Secretary, OII
Kevin Jennings, Assistant Deputy Secretary, OSDIFS
Brenda Dann-Messier, Assistant Secretary, OVAE
Daniel T. Madzellan, Delegated the Authority to Perform the Functions and
Duties of the Assistant Secretary, OPE
Richard Smith, Acting Assistant Deputy Secretary, OELA
Phil Rosenfelt, Audit Liaison Officer, Office of General Counsel
Tina Otter, Audit Liaison Officer, Office of Secretary/Risk Management Service
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Samuel Lopez, Audit Liaison Officer, OELA

Attachment 1: Summary of Findings and Other Matters Reported in *Philadelphia School District's Controls Over Federal Expenditures*¹

1. PSD Needed Stronger Controls Over Personnel Expenditures Charged to Federal Grants

A. Lack of Adequate Controls to Ensure Salary Costs Charged to Grant Funds Were Adequately Supported

PSD charged personnel expenditures that were inadequately supported to Federal grant funds, resulting in inadequately supported salary and fringe benefit costs of \$123,772,665. Specifically, PSD could not adequately support the compensation of employees: (1) for all types of remuneration paid from grant funds (\$53,021,174); (2) whose salaries were included in adjusting journal entries (\$33,474,626); and (3) who worked on multiple cost activities (\$37,276,865).

(See final audit report, page 9.)

B. Lack of Monitoring of Personnel Costs to Ensure Costs Were Allocable

PSD charged personnel costs for Head Start teachers (\$2,888,140) and school police officers (\$22,800) to Title I, Part A grant funds that were not allocable to the grant.

(See final audit report, page 20 and 21.)

C. Inadequate Payroll Policies and Procedures

PSD's payroll policies and procedures did not address timesheet retention, documentation requirements for overtime and bonus payments, or provide an adequate definition of the sign-in and sign-out process. We reviewed \$29,400 in salary costs and \$2,009 in overtime payments. We found that \$1,795 of the salary costs and \$874 of the overtime costs could not be supported because of missing timesheets or the lack of a sign-out time being recorded on the timesheet. Of the \$26,125 in bonus payments we reviewed, we found a \$1,500 bonus was paid in error.

(See final audit report, page 22.)

2. Supplanted Federal Funds

PSD used Department grant funds to supplant State and local funding totaling \$6,979,063. We found district-level expenditures for contracting expenses, teacher training expenses, and computer equipment and software expenses that were funded by State and local funds in prior years and were transferred into Department grants during our audit period. PSD also may have supplanted local funding by charging a portion of the school choice transportation costs to the Title I, Part A grant (\$1,293,386).

(See final audit report, page 25.)

3. Lack of Adequate Controls in Place to Ensure Non-Payroll Expenditures Met Federal Regulations and Grant Provisions

PSD did not have an adequate accounts payable process; it did not include a review of expenditures for allowability or require that proper supporting documentation be obtained

¹ See <http://www.ed.gov/about/offices/list/oig/areports.html>.

prior to payment from grant funds. Also, PSD did not have written accounts payable policies and procedures. PSD charged \$1,175,623 in non-payroll expenditures to grant funds that did not follow Federal cost regulations or grant provisions, resulting in expenditures that were not reasonable, allocable, or adequately supported. We found inadequately supported expenditures, totaling \$764,241, which included food, training materials, computers, Palm Pilots, and class trips. Unallowable costs, totaling \$411,383, included finance charges and late fees, indemnity insurance for a Nonpublic school, tips for alcoholic beverages, iPods, pool tables, two 11-inch crystal vases, a crystal wine bucket, newspaper subscriptions for the Title I program office, and the purchase of two copier/printers. (See final audit report, page 29.)

4. Policies and Procedures Were Not Adequate and/or Enforced

A. Policies and Procedures for Processing Journal Vouchers

PSD's written policies and procedures relating to JV transfers were not adequate because they did not include adequate controls and processes. Specifically, the policies and procedures were not adequate because they did not clearly define or provide detailed examples of what documentation should be used to support JV transactions. Also, the policies and procedures did not require analysts or others to determine that expenditures transferred to a grant were allowable. The JV processing policies and procedures also did not require the analyst to determine that the grant funds were from the appropriate grant period when performing a carryover to fully expend grant funds.

We reviewed \$47,668,116 in JV transactions. We found JV transactions, totaling \$6,349,260, were unallowable. These included a transaction that moved charges for salaries and benefits for teachers who were stated to be reduced-class size teachers but in fact were not, duplication of a JV, transfer of fringe benefits for a position that does not earn such benefits, and the transfers of salaries for those not working on the grant charged. We also found that \$11,928,352 in JV transactions could not be adequately supported. This included transactions for principal and new teacher training, prior period carryover transactions, salaries for instructional and support staff, along with transactions for food service, facilities rentals, and copier usage costs. (See final audit report, page 34.)

B. Travel Policies and Procedures

PSD did not adhere to its travel policies and procedures, resulting in unallowable, unsupported, and unreasonable travel costs charged to the grants we reviewed. We reviewed 75 travel reimbursements, totaling \$51,651. We determined that \$9,532 of the travel expenditures was unallowable. The majority of the unallowable expenditures (\$8,433) were for lodging costs over the government rate. Other unallowable expenditures included \$264 for business class rail fare and \$279 paid for tips for food, taxicab fare, and hotel maid service. Also, PSD could not locate four travel reimbursement forms, totaling \$2,275. There was also a separate instance where a lodging expenditure for \$278 was reimbursed without a receipt. (See final audit report, page 41.)

C. Imprest Funds Policies and Procedures

PSD's imprest fund policies and procedures were not adequate or enforced. The policies and procedures in effect during the audit period (issued in September 1978) did not provide examples of prohibited expenditures, other than prohibiting temporary loans, personal advances, or cashing of personal or other checks. The policy also did not require a review of expenditures to ensure compliance with the funding source, which included Department grants.

We found that school imprest funds were reimbursed without receipts, the fund expenditure spending limit was not adhered to, and duties in the handling of the fund lacked adequate segregation (we found instances where the fund custodian signed and approved the Imprest Fund Reimbursement Requests). We reviewed 287 imprest fund transactions totaling \$135,162. The total unallowable amount expended through school imprest funds was \$10,593, and the inadequately supported amount was \$20,084. Of the inadequately supported amount, \$7,124 was found to be questionable. (See final audit report, page 44.)

D. Inventory Controls

PSD did not comply with its property inventory procedures. As a result, we found that \$45,808 in equipment was unaccounted for in PSD's records. Although PSD's policies stated that a complete inventory should be maintained, PSD was not strenuous in the enforcement of its policy that required items valued at more than \$500 receive property codes. Additionally, the transfer of inventoried property from closed schools to new locations was not performed. PSD also did not require items purchased for under \$500 to be inventoried. (See final audit report, page 47.)

E. Contract Provisions Were Not Adhered to and Contract Services Were Rendered Prior to Approval

PSD did not always adhere to the requirements set forth in its contracts with vendors. Specifically, contract provisions regarding invoice requirements were not followed. PSD also did not follow the required protocol to obtain the approval of the contract through resolution before entering into a contract with a vendor. (See final audit report, page 49.)

5. No Written Policies and Procedures for Various Fiscal Processes

A. Monitoring of Budgets

PSD did not have written policies and procedures relating to the monitoring of grant budgets during the audit period. As a result, budget to actual reconciliations were not required and appeared not to have been performed on a periodic basis. We reviewed 110 JV transactions, totaling \$47,668,116 (excluding transportation and indirect costs transactions), and found seven transactions, totaling \$1,504,101, were unallowable and two transactions, totaling \$2,331,044, were inadequately supported. We found that expenditures were transferred between grants that had over-expended budgets and grants that had budgets with funds remaining to be spent, and were transferred from State funding to the Title II, Part A grant and then into the Title I, Part A grant. Also, grant analysts consistently overrode grant budgets to complete JV transactions. We found 55 instances in our samples where the budgets were overridden to complete JV transactions. (See final audit report, page 51.)

B. Use of Title II, Part A Grant Funds

PSD's Intermediate Unit 26 (IU 26) did not have policies and procedures in place to ensure Title II, Part A grant funds were expended in accordance with Federal regulations and guidance. PSD directly paid private schools and other vendors for professional development services with Title II, Part A grant funds. We reviewed 39 Title II, Part A expenditures, totaling \$436,756, for services to Nonpublic schools paid for by PSD's IU 26 Office of Nonpublic Programs. We found that 23 of these expenditures, totaling \$422,956, were unallowable because they were direct reimbursements to private school organizations. The majority of the expenditures (\$248,572) paid to the Nonpublic schools would also be unallowable because many of these expenditures were for the incidental costs (i.e., travel, food, and lodging) of the professional development activity.

PSD also did not provide guidance to Nonpublic schools on the use of Title II, Part A funds. The Nonpublic schools did not provide adequate supporting documentation when requesting reimbursement. Thirteen of the 39 expenditures we reviewed were reimbursed with only a request for reimbursement submitted by the Nonpublic school that did not include receipts to show that the costs were actually incurred. We determined that nine expenditures, totaling \$10,050, were inadequately supported because of a lack of adequate supporting documentation. These were for payments to private school personnel who attended professional development activities as either an instructor or participant. (See final audit report, page 54.)

C. Use of Office Depot Web site

PSD did not have documented policies and procedures defining the process to be used for ordering items from the Office Depot vendor. We reviewed 779 Office Depot expenditures, totaling \$97,953. We found that 584 expenditures, totaling \$66,252, were unallowable. Unallowable Office Depot expenditures that were charged to grant funds included the purchase of a mini fridge, hand trucks, a microwave oven, greeting cards (all purchased by the Title I program office), cordless phones, cherry wood office furniture, hand soap, facial tissue, cleaning supplies, and many other basic office and education supplies. We found unallowable items expensed from the Title I, Part A, Comprehensive School Reform, Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP), and Reading First grants. (See final audit report, page 58.)

D. Bus and School Choice Transportation Costs Charged to Grant Funds

PSD did not have written policies and procedures regarding the use of PSD's bus service, and a review of the costs was not being performed. We reviewed nine JV transfers, which included 69 transportation expenditures, totaling \$1,380,266. We found three unallowable expenditures, totaling \$13,885. This included \$13,145 (\$12,064 for token usage and \$1,081 for busing) for transportation costs for public school choice students. We also found 22 expenditures (that included costs for buses for afterschool tutoring and field trips to PSD's educational center), totaling \$42,655, were inadequately supported (\$30,880 of this was also questionable). (See final audit report, page 60.)

E. Allocation of Single Audit Costs

PSD did not have written policies and procedures regarding the allocation of single audit costs and did not allocate these costs appropriately. Therefore, grantors may not have been allocated their appropriate share of the audit costs. Additionally, PSD did not allocate the entire cost (\$283,533) of the single audit. During the audit period, PSD allocated \$183,220 in single audit costs to Federal grants. Department grants absorbed more than 89 percent of the 2006 audit costs allocated. The Title I, Part A grant absorbed 27 percent of the cost for the audit period, while the Vocational Education grant absorbed more than 17 percent. (See final audit report, page 62.)

F. Charging of Indirect Costs

PSD did not have written policies and procedures relating to the calculation and recording of indirect cost expenditures. Therefore, indirect costs were not calculated correctly. We reviewed \$2,659,237 in indirect costs charged to the grants and found that the indirect costs were overstated by \$11,063 (the Title I, Part A grant by \$8,055, the Safe and Drug Free Schools grant by \$2,312 and the Title II, Part D grant by \$696). (See final audit report, page 64.)

Issues noted and reported in the Other Matters section of our report:

- **A Lack of Position Descriptions for Personnel in Senior Management**
PSD could not provide job descriptions that were in effect during the audit period for the positions of Comptroller, Deputy Budget Director, and the Safe and Drug-Free Schools Director. (See final audit report, page 66.)
- **Ordering of Excessive Amounts of Food**
PSD ordered excessive amounts of food for activities. In many instances PSD could not fully support the amount of food ordered, and too much food was ordered when considering the number of participants. We noted that school personnel were the main attendees at many functions where food was ordered. (See final audit report, page 66.)
- **Expenditure Coding Needs Improvement**
PSD's account coding was not clearly defined and the codes were used improperly. For example, trips to bowling alleys, and charges for portable toilets were coded as part-time extra-curricular salaries. (See final audit report, page 67.)
- **Lack of Supporting Documentation for Training and Professional Development Expenditures**
PSD did not require sign-in sheets, course agendas, or training certificates to be maintained as supporting documentation for the reimbursement of professional development costs. Also, employees were reimbursed for travel associated with training without having to provide training certificates or even a course agenda from the training activity. Without these items PSD cannot be certain that those that registered or travelled for training actually attended the training. (See final audit report, page 68.)

**Attachment 2: Department Funds Awarded to PSD
During the 2007-2008 School Year¹**

Program Office and Program Title		CFDA Number	Total Grant Awarded	Total Expenditures
OESE				
Title I Grants to Local Education Agencies		84.010	\$799,170,756	\$133,909,383
Reading First State Grants		84.357	\$57,830,215	\$11,827,442
Improving Teacher Quality State Grants		84.367	\$45,630,015	\$20,864,089
Education Technology State Grants		84.318	\$17,965,736	\$1,273,738
English Language Acquisition Grants		84.365	\$11,098,138	\$3,254,871
Comprehensive School Reform Demonstration		84.332	\$8,675,215	\$2,086,989
Teacher Improvement Fund		84.374	\$4,815,856	\$627,078
Mathematics and Science Partnerships		84.366	\$2,790,563	\$982,874
Twenty-First Century Community Learning Centers		84.287	\$1,991,624	\$118,225
State Grants for Innovative Programs		84.298	\$1,931,629	\$366,085
Advanced Placement Program		84.330	\$1,747,362	\$5,034
Title I Program for Neglected and Delinquent		84.013	\$1,346,218	\$443,375
Education for Homeless Children and Youth		84.196	\$650,000	\$318,481
Literacy Improvement Through School Libraries		84.364	\$384,494	\$416
Impact Aid Area		84.041	\$285,401	\$285,401
Educationally Deprived Children-State Administration		84.012	\$11,500	\$239
Total OESE			\$956,324,722	\$176,363,720
OSERS				
Special Education-Grants to States		84.027	\$130,258,686	\$43,056,016
Special Education- State Personnel Development		84.323	\$24,781	\$0
Total OSERS			\$130,283,467	\$43,056,016
OVAE				
Career and Technical Education-Basic Grants to States		84.048	\$25,785,370	\$5,719,026
Adult Education-State Grant Program		84.002	\$1,103,661	\$537,889
Total OVAE			\$26,889,031	\$6,256,915
OSDFS				
Fund for the Improvement of Education- Character Education		84.215V	\$27,259,968	\$0
Safe and Drug-Free Schools and Communities-State Grants		84.186	\$7,002,487	\$2,143,496
Safe and Drug-Free Schools and Communities-National Programs		84.184	\$4,375,117	\$3,110,058
Total OSDFS			\$38,637,572	\$5,253,554
OII				
Magnet Schools Assistance		84.165	\$2,838,341	\$878,751
Fund for the Improvement of Education		84.215K	\$8,776,263	\$2,089,112
Arts in Education		84.351	\$934,577	\$198,837
School Leadership		84.363	\$626,623	\$0
Total OII			\$13,175,804	\$3,166,700
OPE				
GEAR UP		84.334	\$1,254,020	\$390,831
OELA				
Foreign Language Assistance		84.293	\$616,968	\$285,596
Total Department Grants			\$1,167,181,584	\$234,773,332

¹ Data were obtained from PSD's 2007-2008 Schedule of Expenditures of Federal Awards. This was the most recent data available as of the date of this alert memorandum.

Attachment 3: Estimated Department ARRA Funds Awarded to PSD¹

Program Providing Funding	Program Office	Amount
Title I Grants to Local Education Agencies	OESE	\$164,088,459
State Fiscal Stabilization Funds–Education Fund	OESE	\$119,766,295
Special Education-Grants to States	OSERS	\$47,318,683
	Total	\$331,173,437

¹ Data were obtained from the Commonwealth of Pennsylvania’s recovery Web site (www.recovery.pa.gov) on February 16, 2010.

Attachment 4: Response from Risk Management Services to Draft Memorandum



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

March 30, 2010

MEMORANDUM

TO: Keith West
Assistant Inspector General for Audit Services

FROM: Phil Maestri [REDACTED]
Director [REDACTED]
Office of the Secretary, Risk Management Service

SUBJECT: Response to Draft Alert Memorandum
Philadelphia School District Designation as a High-Risk Grantee
Control Number ED-OIG/L03K0002

Thank you for the opportunity to respond to the Draft Alert Memorandum (memo) cited above. The memo states that the Office of Inspector General (OIG) reported in its final audit report issued January 15, 2010 that Philadelphia School District (PSD) did not have adequate fiscal controls in place to account for federal grant funds. Based on the significance of the findings in the audit report and given that PSD participated in 29 other U.S. Department of Education (Department) programs and expended \$234,773,332 during the 2007-2008 school year, the OIG issued the memo cited above in order to alert the Department's Risk Management Service (RMS) of the need to consider (1) working with the Pennsylvania Department of Education (PDE) to designate PSD as a high-risk grantee, with special conditions placed on all future Department grant funds and (2) coordinating enhanced monitoring by Department Program offices in recognition that all funds for all Department Programs are at significant risk of not being used in compliance with program requirements.

You requested comments on the information presented in the memo and a response on the suggestions provided. RMS agrees that the findings are significant and that Department funds are potentially at risk. RMS, working with Department Program offices and the PDE, will obtain information regarding the current status of PSD's administration of Department funds and determine the best course of action for safeguarding those funds. We provide specific responses on the suggestions provided as follows:

Recommendation: The OIG recommends that RMS take immediate steps to safeguard the current funding provided to PSD by working with PDE to designate PSD a high-risk grantee with special conditions placed on all future Department grant funds awarded to PSD.

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Page 2 – Keith West

RMS response: RMS appreciates the seriousness of the current problem and agrees that steps should be taken to examine PSD's administration of Department funds. We note that PDE is the Department's grantee for all State-administered formula grant programs under the Elementary and Secondary Education Act of 1965, and the Individuals with Disabilities Education Act. Therefore, PDE is the entity directly responsible for ensuring that PSD has adequate fiscal controls in place to account for all Federal grant funds. PDE is the grantee that the Department ultimately holds responsible for administering Federal funds that were the subject of final audit ED-OIG/A03H0010. Consequently, RMS agrees that PDE should be instructed to consider designating PSD as a high-risk grantee. The RMS has already engaged Department Program offices in a dialogue and reached out to PDE to work close and collaborative with PDE and will strongly recommend PDE considers designating PSD a high-risk grantee and develops a plan to bring PSD into compliance with all federal grant requirements.

Recommendation: Coordinate enhanced monitoring of PSD with the Office of Elementary and Secondary Education (OESE), the Office of Special Education and Rehabilitative Services (OSERS), the Office of Vocational and Adult Education (OVAE), the Office of Safe and Drug-Free Schools (OSDFS), the Office of Innovation and Improvement (OII), the Office of Postsecondary Education (OPE), and the Office of English Language Acquisition (OELA) in recognition that funds for all Department programs for the 2009-2010 school year and subsequent school years are at significant risk of not being used in compliance with program requirements.

RMS response: As stated above, RMS has already engaged in a partnership and is in the process of obtaining information regarding the current status of PSD's administration of Department funds, and working with Department Program Offices and PDE to establish the best course of action for safeguarding those funds.

Again, we appreciate the opportunity to provide this response.