



**U.S. Department of Education
Office of Inspector General**



American Recovery and Reinvestment Act of 2009

**South Carolina:
Use of Funds and Data Quality
for Selected American Recovery and Reinvestment Act
Programs**

Audit Report



South Carolina State House

ED-OIG/A04K0005

April 2011

Abbreviations, Acronyms, and Short Forms Used in this Report

Agreement	Cash Management Agreement
ARRA	American Recovery and Reinvestment Act of 2009
Charleston	Charleston County School District
C.F.R.	Code of Federal Regulations
CIS	Communities in School
CMIA	Cash Management Improvement Act of 1990
Department	U.S. Department of Education
ESF	Education Stabilization Fund
FTE	Full-time Equivalent
FY	Fiscal Year
Greenville	Greenville County School District
GSF	Government Services Fund
IDEA	Individuals with Disabilities Education Act Part B Grants to States
LEA	Local Educational Agency
OIG	Office of Inspector General
OMB	Office of Management and Budget
Report	SCDOE February 2010 Accounting Project Information Report
SEA	State Educational Agency
SFSF	State Fiscal Stabilization Fund
SCDOE	South Carolina Department of Education
Spartanburg	Spartanburg County School District Two
SSN	Social Security Number
WFK	Wings for Kids, Inc.
Title I	Title I, Part A of the Elementary and Secondary Education Act
Task Force	South Carolina Stimulus Oversight, Accountability, and Coordination Task Force
Treasury	U.S. Department of the Treasury
TSA	Treasury State Agreement



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
Atlanta Audit Region

April 20, 2011

Mitchell M. Zais, Ph.D.
State Superintendent
South Carolina Department of Education
1429 Senate Street, Suite 1006
Columbia, SC 29201

Dear Dr. Zais:

This **final audit report** presents the results of our review of “South Carolina’s Use of Funds and Data Quality for Selected ARRA Programs.”

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

This report incorporates comments you provided in response to our draft audit report. If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department officials, who will consider them before taking final Departmental action on this audit:

Thelma Meléndez de Santa Ana, Ph.D.
Assistant Secretary
Office of Elementary and Secondary Education
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Washington, DC 20202

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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/

Denise Wempe
Regional Inspector General for Audit

Enclosure

**South Carolina:
Use of Funds and Data Quality
for Selected American Recovery and Reinvestment Act
Programs
Control Number ED-OIG/A04K0005**

PURPOSE

The American Recovery and Reinvestment Act of 2009 (ARRA) places a heavy emphasis on accountability and transparency, and in doing so, increases the responsibilities of the agencies that are impacted by ARRA. Overall, the U.S. Department of Education (Department) is responsible for ensuring that education-related ARRA funds reach intended recipients and achieve intended results. This includes effectively implementing and controlling funds at the Federal level; effectively 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.

The purpose of our audit was to determine whether the State of South Carolina (1) used ARRA funds in accordance with applicable laws, regulations, and guidance; and (2) reported accurate, reliable, and complete data in compliance with ARRA reporting requirements. This report provides the results of our audit of the South Carolina Department of Education (SCDOE) and three South Carolina local educational agencies (LEA) – Charleston County School District (Charleston), Greenville County School District (Greenville), and Spartanburg County School District Two (Spartanburg).¹ We focused our audit on the use of funds and data quality related to Title I, Part A of the Elementary and Secondary Education Act (Title I); Individuals with Disabilities Education Act, Part B Grants to States (IDEA); and State Fiscal Stabilization Fund (SFSF) – consisting of Education Stabilization Fund (ESF) and Government Services Fund (GSF) – received through ARRA.

RESULTS

We found that ARRA funds were generally used in accordance with applicable laws, regulations, and guidance at the entities reviewed – SCDOE, Charleston, Greenville, and Spartanburg. SCDOE has been proactive in its efforts to ensure the proper administration of ARRA funds. Specifically, SCDOE (1) worked closely with its LEAs to develop uses for the ARRA funding and prepare applications and budgets to account for funds; (2) provided training to LEAs through the use of webinars; and (3) developed a web-based spreadsheet to provide consistency and efficiency for the LEAs to report Section 1512 data requirements. In addition, the State established the South Carolina Stimulus Oversight, Accountability, and Coordination Task Force (Task Force)² as a centralized accountability group to oversee transparency and accountability requirements associated with ARRA funds. Charleston, Greenville, and Spartanburg used Title I, IDEA, and SFSF ESF funds for summer programs, literacy programs, personnel, better and assistive technology, and utilities.

¹ The results of our work at the South Carolina Office of the Governor and related subrecipients will be presented in a separate report.

² The Task Force is composed of approximately 18 senior accountability officials that represent various agencies in South Carolina and includes the Superintendent of Education from SCDOE as a member.

Although ARRA funds were used for allowable purposes, we identified internal control weaknesses related to cash management and contract procurement. Specifically, we found that –

- (1) SCDOE did not assess cash needs of subgrantees prior to advancing Title I ARRA funds; did not monitor spending to determine whether the advanced funds were spent in a timely manner; and did not have policies and procedures to remit interest earned on Federal cash advances to the Department.
- (2) Charleston and Spartanburg did not have documentation available to support that ARRA funded contracts were awarded and administered in accordance with district, State, and/or Federal procurement requirements.
- (3) SCDOE had insufficient policies and procedures over the ARRA claims reimbursement process.

At the three LEAs reviewed, we identified issues relating to district level accounting, payroll expenditures, and Section 1512 ARRA reporting of jobs and vendor data. Although the issues identified resulted in inaccurate reporting of both job and vendor data, the errors in reporting did not materially misstate the information according to the most recent Office of Management and Budget (OMB) guidance on materiality. OMB Memorandum M-10-34³ defines an error as material if the omission or misstatement in the prior period report could mislead the public on how ARRA funding is being expended. The specific issues identified in our review of the LEAs, which are detailed in the Appendix, would not significantly affect the ARRA information reported. As a result, no corrections are required to SCDOE's reported vendor data, and the current guidance does not allow changes to the job data. In addition, all three LEAs made changes to facilitate more accurate reporting in the future.

SCDOE concurred with our findings and stated that the issues reported have been addressed by the SCDOE and LEAs involved in the audit. In response to SCDOE's comments, overall, we commend SCDOE for its prompt response to address the recommendations included in this report. SCDOE comments are summarized following each of the findings and the entire comments are included as an Enclosure.

South Carolina's Office of the State Treasurer responded to the Cash Management Improvement Act of 1990 (CMIA) issue included in the Other Matter section of the draft audit report. According to the Office of the State Treasurer, Federal programs included in the Treasury State Agreement (TSA) are based on funds received and included in the State's most recent Single Audit.⁴ No ARRA funds were received during fiscal year ended June 30, 2009 – the period covered in the State's most recent Single Audit – and as a result, the TSA was not modified. The Office of the Treasurer, however, anticipates that the next TSA will need to be modified to cover Federal ARRA funds. As a result of the State Treasurer's comments, we removed the Other Matter section from the final audit report.

³ The OMB Guidance, titled "Updated Guidance on the American Recovery and Reimbursement Act," dated September 24, 2010, allows an ARRA recipient or Federal agency to initiate the change to a prior reporting process. However, the Federal agency must have documentation to support the requested change and must deem that the change is "material." The guidance does not allow changes to job data.

⁴ South Carolina's most recent Single Audit (Fiscal Year Ended June 30, 2009) is dated April 5, 2010. The Single Audit covering Fiscal Year Ended June 30, 2010, is in progress.

BACKGROUND

ARRA was signed into law on February 17, 2009, in an unprecedented effort to jumpstart the American economy. ARRA has three immediate goals – (1) create new jobs and save existing ones, (2) spur economic activity and invest in long-term growth, and (3) foster unprecedented levels of accountability and transparency in government spending. To ensure transparency and accountability of spending, recipients are required under Section 1512 of ARRA to submit quarterly reports on ARRA awards, spending, and job impact. According to OMB, the reports are required to contain specific detailed information on the projects and activities funded by ARRA in order to provide the public with an unprecedented level of transparency for how Federal dollars are being spent. The reports are also expected to facilitate accountability for the timely, prudent, and effective spending of the ARRA funds.

SCDOE was awarded a total of \$509.6 million in education-related ARRA funds. As shown in Table 1, SCDOE drew down close to \$36.6 million in ARRA funds as of December 31, 2009, for Title I, IDEA, and SFSF.

Program	Total Amount Awarded	Drawdowns as of December 31, 2009	Percent of Total Award Drawn (%)
Title I	\$142,838,914	\$24,959,215	17.5
IDEA	\$180,812,151	\$11,082,735	6.1
SFSF GSF ⁵	\$1,000,000	\$500,000	50.0
SFSF ESF	\$184,922,339	\$0	0.0
Total	\$509,573,404	\$36,541,950	7.2

SCDOE allocated Title I, IDEA, and SFSF ESF funds to the State’s 85 school districts and 3 special school districts.⁶ The \$1 million in SFSF GSF funds was equally divided between the South Carolina Governor's School for Science and Mathematics and the South Carolina Governor's School for the Arts and Humanities.

Collectively, Charleston, Greenville, and Spartanburg were allocated approximately \$29.6 million for Title I, \$15 million for IDEA, and \$25.6 million for SFSF ESF. Table 2 shows the total Fiscal Year (FY) 2010 ARRA allocations for each of the three LEAs reviewed.

School District	Grants		
	Title I--Part A	IDEA--Part	SFSF ESF
Charleston	\$14,851,359	\$5,404,401	\$3,200,175
Greenville	\$13,924,747	\$8,466,248	\$19,387,255
Spartanburg	\$845,647	\$1,129,021	\$3,005,057
Total Allocation	\$29,621,753	\$14,999,670	\$25,592,487

⁵ Government Services Funds awarded to SCDOE.

⁶ SCDOE’s special school districts include the Charter School District, the South Carolina Department of Corrections, and the South Carolina Department of Juvenile Justice.

FINDINGS

FINDING NO. 1 – SCDOE’s Cash Management and Monitoring Procedures for Title I ARRA Cash Advances Need Improvement

SCDOE did not initially (1) assess the cash needs of subgrantees prior to advancing Title I ARRA funds; (2) monitor spending to determine whether the advanced funds were spent in a timely manner; and (3) have policies and procedures to remit interest earned on Federal cash advances to the Department. In June 2009, SCDOE drew down \$17.2 million in Title I ARRA funds and advanced approximately \$14.8 million of these funds to 61 of its 85 subgrantees. Two of the three subgrantees reviewed held Federal funds in an interest bearing account prior to use and earned interest but did not remit the interest earned to the Department in accordance with Federal regulations. In addition, SCDOE may have earned interest on the drawdown balance of \$2.4 million. The \$2.4 million, which were not advanced funds, was retained by SCDOE to reimburse future expenditure reports⁷ submitted by the 24 subgrantees. As a result, interest would be earned until sufficient expenditure reports were submitted by the remaining school districts to cover the balance of funds.

South Carolina’s Title I subgrantees were allowed to receive a 15 percent advance of their Title I ARRA award if an approved application and budget were on file at SCDOE. The advance policy as cited in SCDOE’s Title I Rules and Regulations Handbook stated that

[u]pon receipt of a completed project application, fifteen percent of the newly awarded funds will be advanced to the recipient. This advance will be recouped upon submission of [the] first expenditure report (the difference between the expenditure and advance will be sent to the district).

After the first Title I drawdown of \$17.2 million, SCDOE operated the Title I program on a cost reimbursement basis and drew down Title I ARRA funds based on expenditure reports submitted by subgrantees.

According to SCDOE’s February 2010 Project Accounting Project Information Report (Report)⁸ for Title I ARRA funds, 21 of the 61 subgrantees had outstanding advance balances. Of the nearly \$8.1 million in Title I ARRA funds advanced to the 21 subgrantees, SCDOE had received expenditure reports for approximately \$5.7 million, resulting in an outstanding advance balance of approximately \$2.4 million. We found that SCDOE did not limit Title I ARRA advanced funds to the immediate needs of subgrantees or conduct any monitoring efforts to determine whether the advanced funds were spent in a timely manner. According to 34 Code of Federal Regulations (C.F.R.) § 80.21(c) –

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.

Two of the three LEAs reviewed – Charleston and Greenville – had not submitted sufficient expenditure reports between June 2009 and January 2010 to use the total advanced Title I funds. Table 3 lists each subgrantee with corresponding advanced fund balances as of the February 2010 report. As shown in Table 3, Charleston had \$788,844 remaining from the \$2.2 million advanced, and Greenville had \$84,787

⁷ An expenditure report represents a claim for reimbursement. SCDOE officials stated that LEAs typically submit expenditure reports to SCDOE on a quarterly basis.

⁸ Reporting the amounts advanced to each subgrantee by SCDOE and total expenditures claimed by each subgrantee on expenditure claim reports as of a specific date.

remaining from the \$2.1 million advanced, resulting in earned interest amounts of \$6,283 and \$4,338, respectively.⁹ Based on our findings at the two LEAs with Title I advances, the remaining 19 LEAs listed in Table 3 may also have earned interest that should be remitted to the Department.

Table 3: SCDOE Subgrantees with Outstanding Title I ARRA Advance Balances¹⁰				
Subgrantee¹¹	District Code	Advanced Amount	Expenditures Submitted to SCDOE	Advanced Funds Balance
Aiken	201	\$837,795	\$419,234	\$418,561
Allendale	301	\$164,872	\$84,395	\$80,477
Anderson	405	\$222,581	\$163,383	\$59,198
Berkeley	801	\$652,504	\$634,544	\$17,960
Charleston	1001	\$2,227,704	\$1,438,860	\$788,844
Chesterfield	1301	\$210,811	\$178,192	\$32,619
Clarendon	1401	\$88,071	\$0	\$88,071
Clarendon	1402	\$152,997	\$149,543	\$3,454
Colleton	1501	\$268,471	\$78,412	\$190,059
Edgefield	1901	\$82,100	\$37,973	\$44,127
Fairfield	2001	\$103,208	\$0	\$103,208
Greenville	2301	\$2,054,903	\$1,970,116	\$84,787
Greenwood	2450	\$231,202	\$71,237	\$159,965
Greenwood	2452	\$15,303	\$7,090	\$8,213
Jasper	2701	\$106,557	\$96,981	\$9,576
Laurens	3055	\$156,816	\$0	\$156,816
McCormick	3301	\$45,774	\$0	\$45,774
Marion	3401	\$135,843	\$75,851	\$59,992
Orangeburg	3803	\$205,728	\$159,621	\$46,107
Saluda	4101	\$43,357	\$42,103	\$1,254
SC Public Ch	4701	\$83,178	\$81,135	\$2,043
Total		\$8,089,775	\$5,688,670	\$2,401,105

According to 34 C.F.R. § 80.21(c), (i), SCDOE is required to minimize the time elapsed between the transfer of the funds and the disbursement when advancing funds and to remit interest earned on cash advances promptly, at least quarterly, to the Department. However, SCDOE did not have policies and procedures to ensure that interest earned on Title I ARRA advances was remitted in accordance with Federal regulations. SCDOE's Title I Rules and Regulations Handbook, as well as the Title I application SCDOE used, did not include the requirement to remit any interest earned or explain how LEAs should comply with the requirement.¹² Despite the lack of guidance, both LEAs calculated the monthly interest earned using interest rates provided by the South Carolina Office of the State Treasurer and maintained

⁹ Charleston submitted its first expenditure report for \$1,438,860 in February 2010, just prior to the report used in Table 3. Greenville submitted two expenditures reports in October 2009, and December 2009, totaling \$1,970,116.

¹⁰ The highlighted LEAs were covered by our review.

¹¹ Several LEAs have the same name and are distinguished by the district code.

¹² The Title I ARRA application used by SCDOE did not include the requirement either.

documentation on how the interest amounts were computed. In response to our concern, both Charleston and Greenville remitted interest earned on the Title I ARRA advances to SCDOE in June 2010.

As a result of our review, SCDOE revised the procedures for advancing Title I funds to subgrantees. Effective June 25, 2010, SCDOE suspended the practice of issuing cash advances for Federal funds. SCDOE provided an excerpt from the Title I Rules and Regulations Handbook that reflects the change in policy. In addition, SCDOE added a policy to its Annual Audit Guide for 2010 requiring LEAs to remit interest earned when an LEA generates interest on revenue from a Federal grant.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education require that SCDOE –

- 1.1 Identify subgrantees with existing advance balances and ensure that subgrantees minimize the time between transfer of funds and disbursement.
- 1.2 Determine whether interest was earned on Title I ARRA advances given to the remaining 19 school districts; and obtain any interest amounts from those school districts and remit to the Department.

Auditee Comments

SCDOE concurred with the findings and noted that it changed its policy for advancing funds to LEAs prior to the release of this report. SCDOE added that it is in the process of determining whether the remaining LEAs earned interest on paid cash advances; and, if so, it will request reimbursement and remit the interest to the Department.

FINDING NO. 2 – Procurement Practices for ARRA Funded Contracts Need Improvement

Charleston did not follow budget amendment and contract modification procedures in a contract with Communities in School (CIS) for after-school programs. In addition, documentation was not available to support that two ARRA funded contracts were awarded and administered in accordance with district, State, and/or Federal procurement requirements. Specifically, we found that a contractual price increase in Charleston's contract with Wings for Kids, Inc. (WFK) for after-school programs; and a sole-source contract at Spartanburg with Hatchette Consulting, LLC, for consulting services were not supported.

Charleston's CIS Contract. Charleston did not follow budget amendment procedures or contract modification procedures in its contract for an after-school program provided by CIS. Charleston's approved Title I budget included \$65,000 for elementary school initiatives for after-school programs. However, we found two payments¹³ to CIS, totaling \$337,520. As a result, Charleston expended \$272,520 (\$337,250 less \$65,000) in excess of its approved Title I ARRA budgeted amount for these services as of December 2009.

SCDOE's Title I Rules and Regulations Handbook allows LEAs to expend up to 10 percent above the current budget in an individual category without requesting an amendment. However, any change in a

¹³ We identified these two payments in our review of a judgmentally selected sample of 10 Title I ARRA non-payroll expenditures at Charleston for the July 2009 through December 2009 period.

budgeted item amount that exceeds the 10 percent threshold requires a budget amendment with prior approval from the State Educational Agency (SEA). According to the handbook, the

[b]udget amendment must be submitted to [SCDOE's] Office of Federal and State Accountability and approved before making obligations or expenditures above the previously approved budget.

Charleston's Title I Director acknowledged that an amendment to the budget should have been approved by SCDOE before the school district expended the funds and indicated that the school district was in the process of amending the budget at the time of our review.

In addition, the contract between Charleston and CIS, dated September 22, 2009, was for an amount not to exceed \$420,000. However, the invoice, dated November 20, 2009, indicated that Charleston was to pay CIS four payments of \$168,760, totaling \$675,040, exceeding the total contract amount by \$255,040 (\$675,040 less \$420,000). Charleston's Title I Director stated that the cost for CIS' services increased because the program was expanded to include more schools. According to the CIS contract agreement, services were to be provided to seven elementary and high schools. The CIS invoice indicated that it placed a student support specialist at 14 schools, supporting the Title I Director's explanation of the increased cost. However, absent any contract modification or amendment, there was no evidence that the expanded services had been approved.

Charleston's Wings for Kids, Inc. (WFK) Contract. Wings for Kids, Inc. increased its service price by \$10,000 for three area schools served in Charleston. Although the price increase resulted in WFK's receiving an additional \$30,000 in Title I ARRA funds, Charleston did not formally revise the three WFK contracts or document the reason for the price increase. During the 2009-2010 school year, WFK provided after-school program services to three elementary schools – North Charleston, Chicora, and Memminger. A separate contractual agreement¹⁴ exists for each school in the amount of \$240,000 each. The contracts state that WFK, Charleston, and the individual schools are to contribute to the total cost of each contract. Only the amount paid by Charleston – \$20,000 per contract – was funded by the Title I ARRA grant. However, Charleston paid WFK \$30,000 per contract, \$10,000 above the documented contractual amount to be paid by the school district for the period of July through December 2009. Although WFK informed Charleston that the cost of services would increase in FY 2010, Charleston did not formally amend the WFK contracts to reflect the revised price. The signed contractual agreements with WFK reflected a price of \$20,000 (attributed to ARRA funds) without any change to one contract and only hand-written changes on the other two.¹⁵ According to 34 C.F.R. § 80.36(b)(9), grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. Modifying the price of a contract would be considered an important part of the procurement history.

In response to our finding, Charleston stated –

We concur that a more rigorous contract administration system is needed to ensure performance by the provider as agreed upon in the contract. The District has already moved to a proposal process whereby after-school providers submit a proposal for services to be delivered to our students. The proposal will include an evaluation process and all contract documents will flow through the procurement office. Schools will no longer be permitted to initiate contracts for these services individually.

¹⁴ The contract with North Charleston was dated January 29, 2009. The contracts with Chicora and Memminger were dated April 20, 2009.

¹⁵ *North Charleston* - The contract was not revised or annotated; *Chicora* - The \$30,000 was written below the \$20,000 along with printed initials of the contractor's signatory and a date; and *Memminger* - The number 3 was written over the number 2 in \$20,000 without any initials and/or dates.

Spartanburg’s Hatchette Consulting, LLC Contract. Spartanburg awarded a sole-source contract to Hatchette Consulting, LLC, in August 2009, funded with IDEA ARRA funds. However, Spartanburg could not provide any documentation to support its decision to use a sole-source procurement nor could it provide information necessary to monitor contract compliance. The purpose of the contract with Hatchette Consulting, LLC, was to develop policies and procedures for the district’s Special Services¹⁶ program. Spartanburg provided a copy of the contract – a one page, one paragraph, Memorandum of Understanding, dated August 1, 2009, that was signed by both parties on August 10, 2009. The memorandum represented all supporting documentation maintained by Spartanburg for procuring services from Hatchette Consulting, LLC. No additional documentation was provided to show information such as delivery date for the final or draft policies and procedures (i.e., the contract deliverables), rationale for the method of procurement, basis for the contract price, and performance period. The memorandum only stated that –

Hatchette Consulting LLC agrees to provide written policies and procedures consistent with state and federal regulations for the operation of special services in Spartanburg District Two. Billing for providing this service will be at the rate of \$100.00 per hour and will not exceed \$10,000.

According to 34 C.F.R. § 80.36(b)(9), grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include the rationale for the method of procurement; selection of contract type; contractor selection or rejection; and the basis for the contract price. In addition, Section 1554 of ARRA limits use of sole-source procurements by grantees.

District regulations require support for selecting a sole-source method of procurement. Section 2-105 (1) of Spartanburg’s Procurement Code states –

[Sole source] procurement is the least competitive and, therefore, should have limited use. In those instances, however, where the district’s needs can only be met by one method, means or item, sole source is an appropriate and necessary method of procurement...Such determination as to whether procurement shall be made as a sole source shall be made by the school district. Such determination and the basis thereof shall be in writing and shall include an explanation as to why no other source will be suitable or acceptable to meet the need.

Spartanburg’s procurement records did not include any information documenting the use of the sole-source procurement method for securing the services of Hatchette Consulting, LLC. In addition, Spartanburg’s contract (Memorandum of Understanding) for those services lacked sufficient information to monitor the contractor’s performance. According to 34 C.F.R. § 80.36(b)(2) –

Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

The lack of additional information related to the contract terms may limit Spartanburg’s ability to ensure it is not overbilled for excess hours and to ensure timely performance. In response to our findings, Spartanburg stated that additional documentation had been filed with the [Hatchette Consulting, LLC] contract. In addition, the school district had amended operational procedures to reflect appropriate documentation prior to approval in contractual issues.

¹⁶ The district’s Special Services are services provided to individuals with disabilities or special educational needs.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education and the Assistant Secretary for Special Education and Rehabilitative Services require that SCDOE ensure that —

- 2.1 Charleston obtains approval for budget amendments in excess of SCDOE's 10 percent threshold.
- 2.2 Charleston's CIS contract is properly managed by requiring that the contract be amended to include changes or adjustments in price or number of schools served.
- 2.3 Charleston's WFK contracts are properly managed by requiring that the contracts are amended to include price adjustments.
- 2.4 Spartanburg's contract with Hatchette Consulting, LLC, complies with Federal and district procurement regulations for sole-source contracts.
- 2.5 Spartanburg's contracts include contract terms and performance measures needed to monitor contracts.
- 2.6 It reminds LEAs about the importance of following correct procurement procedures and that it places emphasis on review of LEA contract administrative controls during monitoring site visits.

Auditee Comments

SCDOE concurred with the findings and added that it has taken steps to ensure a more rigorous contract monitoring system. Specifically, SCDOE 1) reviewed Charleston's CIS and WFK contracts, both of which have been amended as required; 2) consulted with Charleston on when to obtain approval for Title I budget amendments; 3) discussed with Charleston the importance of including contract terms and performance measures in its contracts; 4) provided training in March 2011 on the importance of following district procurement procedures; and 5) developed monitoring protocols related to financial management and internal controls at the LEA level. Although Spartanburg requested a revised agreement from Hatchette Consulting, LLC, to allow verification of billing hours and timely performance, Spartanburg is in the process of terminating the agreement. Spartanburg's new Director of Special Services will evaluate the LEA's special education programs and revise and further develop policies and procedures without the use of a consultant.

FINDING NO. 3 – SCDOE's Policies and Procedures over the LEA Reimbursement Process Need Improvement

SCDOE had not revised its policies and procedures to sufficiently address SCDOE's ARRA reimbursement process. Specifically, SCDOE lacked procedures for approving ARRA claimed costs and for communicating to its LEAs the results of its reconciliation of expenditure reports to reimbursements. In addition, Greenville lacked procedures to reconcile its expenditure reports to the funds received from SDCOE.

Although SCDOE primarily used the reimbursement funding method for its Title I subgrantees, it lacked formal procedures for approving claims. According to 34 C.F.R. § 80.20(a), SCDOE is required to establish fiscal control and accounting procedures in accordance with State laws and procedures.

SCDOE adjusted two Title I ARRA expenditure reports submitted by Greenville; however, those adjustments were not reflected in Greenville's expenditure reports. For expenditure reports dated October 2009 and December 2009, SCDOE disallowed \$11,894 and \$485, respectively, to exclude costs claimed in unapproved Title I ARRA budget categories, which were not part of the school district's approved budget. However, SCDOE did not have documentation supporting that the two adjustments had been communicated to Greenville's Title I accounting personnel. Greenville's Title I Financial Services Analyst confirmed that she was not aware of the adjustments and, as a result, Greenville's expenditure report records did not match the reimbursement paid by SCDOE. Because Greenville's procedures did not require that it reconcile its expenditure reports submitted to SCDOE to the funds received, the discrepancy in the LEA and State records went undetected until our review.

In addition, SCDOE incorrectly computed the expenditure total on the October 2009 expenditure report. SCDOE incorrectly recorded a total approved expenditure amount of \$539,270 rather than the correct amount of \$536,270, resulting in a \$3,000 overstatement. After we identified the error, SCDOE indicated that it would correct its records. However, according to SCDOE, the keying error would have been identified during the year-end reconciliations.

Based on the identified findings, SCDOE and Greenville revised procedures for reviewing expenditure reports to ensure that subgrantees' expenditure report records accurately reflect reimbursements. Specifically, effective June 25, 2010, SCDOE no longer makes adjustments to the subgrantees' expenditure reports for Federal projects. Under the revised procedures, if SCDOE identifies a budget issue with any of the expenditure categories, it will return the claim to the LEA for correction. As such, SCDOE should no longer be making adjustments to LEA expenditure reports. In addition, effective June 24, 2010, Greenville revised its procedures to require reconciliation of its expenditure claims with amounts reimbursed by SCDOE.

RECOMMENDATION

We recommend that the Assistant Secretary for Elementary and Secondary Education require that SCDOE –

- 3.1 Verify the implementation of improved and/or new processes for claims processing and confirm corrections have been made at Greenville.

Auditee Comments

SCDOE concurred with the findings and stated that Greenville and SCDOE revised procedures for reviewing expenditure reports to ensure accuracy and that SCDOE staff verified that the required adjustments were made in Greenville.

SCOPE AND METHODOLOGY

The purpose of our audit was to determine whether South Carolina and its subrecipients (1) used ARRA funds in accordance with applicable laws, regulations, and guidance; and (2) reported accurate, reliable, complete data in compliance with ARRA reporting requirements. We performed this audit at SCDOE and three LEAs –Charleston, Greenville, and Spartanburg. Our audit work focused on the ARRA, Title I, IDEA, and SFSF ESF grants disbursed to the entities reviewed. For use of funds, we reviewed claims and expenditures incurred from February 17, 2009, through December 31, 2009. For data quality, we reviewed the quarterly reporting periods ended September 30, 2009, and December 31, 2009.

To gain an understanding of the ARRA requirements applicable to these grants and the areas of use of funds and data reporting, we obtained background information about the grants and organizations being audited; and we reviewed Federal laws, regulations, OMB Circulars, and ARRA-specific guidance issued by OMB and the Department.

To achieve our objectives, we —

- Examined prior reviews conducted by the South Carolina State Auditor for the Statewide Single Audit Report of the State of South Carolina and the SCDOE’s State Audit Report for year ended June 30, 2008.
- Reviewed the single audit report for each of the three LEAs visited for the year ended June 30, 2009.
- Reviewed the grant applications from the Department to SCDOE.
- Reviewed SCDOE’s application process in awarding, approving, and monitoring ARRA funds to LEAs for each of the programs reviewed;
- Interviewed key program, accounting, and reporting officials at SCDOE and the three LEAs;
- Interviewed officials at other State agencies including the South Carolina Office of the State Auditor, the Office of the State Treasurer, and Office of State Comptroller.
- Requested and reviewed supporting documentation for expenditures.
- Reviewed quarterly reports and Title I expenditure reports to ensure compliance with ARRA grant requirements.
- Obtained from the Department’s payment system, the amount of ARRA Title I, IDEA, and SFSF grant funds South Carolina received.
- Reviewed and tested SCDOE’s controls for requesting, receiving, managing, and disbursing ARRA funds to subrecipients.
- Reviewed and tested SCDOE’s procedures for collecting and reporting data required by Section 1512 data to Recovery.gov.

To perform our work at the local level, we considered such factors as the total amount of ARRA funds allocated and any risk designations by the Department. We stratified LEAs according to grant allocations – 8 LEAs were allocated over \$10 million and 25 LEAs were allocated between \$3.9 million and \$10 million. We judgmentally selected two LEAs with the largest allocation from the first group and randomly selected one LEA from the second group. We performed audit steps to ensure compliance with Federal requirements in the following areas for the entities reviewed – SCDOE, Charleston, Greenville, and Spartanburg.

Use of Funds: To assess the control structure of the use of ARRA funds, we reviewed the procedures for approving and accounting for expenditures; and we interviewed officials responsible for procurement, accounting, payroll and personnel, and technology. We reviewed and tested SCDOE’s policies and procedures for correctly calculating and timely remitting interest earned on Federal cash balances; the drawdown and reimbursement request process for the ARRA Title I, IDEA, and SFSF ESF grants; the auditees’ ability to separately account for ARRA funds; and the monitoring of ARRA funding at the SEA level. At each LEA, we sampled payroll and non-payroll transactions and traced back to supporting documentation. Table 4 provides the universe and sample information for each of the samples reviewed during the audit.

Table 4: Universe and Sample Information for Use of Funds Testing at LEAs ^(a)						
LEA	Personnel Costs			Non-Personnel Costs		
	Title I	IDEA	SFSF ^(b)	Title I	IDEA	SFSF ^(b)
<u>Charleston</u>		(d)	(d)		(d)	(d)
Dollar Universe	\$1,057,819	\$0	\$0	\$588,960	\$0	\$0
Sample Dollars	\$82,081	\$0	\$0	\$584,189	\$0	\$0
Sample Size	11 ^(c)	0	0	10	0	0
<u>Greenville</u>			(e)			
Dollar Universe	\$1,760,185	\$5,879,203	\$0	\$471,010	\$374,579	\$7,502,339
Sample Dollars	\$128,526	\$178,546	\$0	\$400,784	\$144,747	\$931,605
Sample Size	14 ^(c)	11 ^(c)	0	9	15	19
<u>Spartanburg</u>						(e)
Dollar Universe	\$114,881	\$73,150	\$1,273,091	\$293,301	\$127,563	\$0
Sample Dollars	\$114,881	\$73,150	\$192,474	\$293,301	\$127,563	\$0
Sample Size	4 ^(c)	3 ^(c)	15 ^(c)	37	27	0

(a) The number of transactions tested at each LEA varied depending on the amount of personnel and non-personnel cost charged to each grant. In some cases, the LEA did not expend grant funds during our audit period. Samples were judgmentally selected.
 (b) SFSF Education Stabilization funds.
 (c) Number of employees reviewed.
 (d) No cost charged for this program during the audit period.
 (e) No SFSF funds budgeted for these costs.

We relied on computer-processed data contained in the accounting systems of SCDOE and three LEAs for the purposes of testing expenditures for payroll and non-payroll transactions. Based on our testing as described, we determined that the computer-processed data were sufficiently reliable for the purposes of this audit.

Data Quality: We reviewed SCDOE’s procedures to collect and report data required by Section 1512 and traced data back to source documentation. Specifically, we reviewed and tested data elements to include amount of sub-award, sub-award disbursed, jobs created and retained, and vendor payments of more than \$25,000. To determine whether the data reported were accurate, reliable, complete, and in compliance with ARRA reporting requirements, we compared supporting documents provided by the sampled LEAs and SCDOE’s Office of Finance to data reported in FederalReporting.gov.

SCDOE developed a web-based spreadsheet to collect and consolidate data from the subrecipients. We performed an assessment of the reliability of data contained in the spreadsheets by tracing reported data from the subrecipient, to SCDOE’s consolidation, and to Recovery.gov. We concluded that the data were sufficiently accurate and reliable for the purposes of the audit.

We conducted our work at SCDOE, the three LEAs, and our offices from January 2010 through October 2010. We discussed the results of our review and recommendation with officials of SCDOE and the three LEAs on October 20, 2010.

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.

Appendix

LEA Specific Results at Charleston, Greenville, and Spartanburg

At the three LEAs reviewed, we identified issues relating to district-level accounting, payroll expenditures, and Section 1512 ARRA reporting of jobs and vendor data. All three LEAs have made changes to facilitate more accurate reporting in the future. The specific issues identified in our review of the LEAs are detailed in the respective sections below.

Lack of Formal Procedures for District-Level Accounting

Spartanburg lacked formal procedures for district-level accounting. According to 34 C.F.R. § 80.20(a), fiscal control and accounting procedures of subgrantees must be sufficient to permit (1) preparation of reports required by this part and the statutes authorizing the grant, and (2) 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. Spartanburg had not developed formal district-level accounting and operational policies and procedures to ensure consistent records of the district's day-to-day operations and activities. According to Spartanburg's Finance Officer, the school district was in the process of developing a policies and procedures manual that focused on segregation of duties and cross-training.

Salary Overpayments and Incorrect Allocation of Salary Costs

At Charleston and Greenville, we found examples of salary overpayments and/or cost allocation errors related to ARRA grants. According to the Office of Management and Budget (OMB) Circular A-87, an allowable cost must be allocable to a particular Federal award. In addition, the Circular states that –

[a] cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

We reviewed payroll expenditures for the ARRA Title I, ARRA IDEA, and SFSF ESF programs. For Charleston, we tested payroll expenditures for 11 ARRA Title I employees. For Greenville, we tested payroll expenditures for 14 ARRA Title I employees and 11 ARRA IDEA employees. There were no payroll expenditures for SFSF ESF programs at these two LEAs. We identified the following payroll concerns at Charleston and Greenville.

- ***Charleston.*** For the July 2009 – December 2009 period, Charleston erroneously paid two employees with Title I ARRA funds, resulting in a grant overcharge of \$827. In the first instance, an employee was paid \$648 when the wages of another employee were posted to her social security number (SSN). Charleston determined that the Title I program office sent the wrong SSN to the payroll office for payment of wages and incorrectly paid the intended employee with Title I ARRA funds; however, the wages paid in error were not reversed. In the second instance, Charleston paid another employee \$179 in Title I ARRA funds even though he had transferred and no longer worked under the Title I program. The payment occurred because the payroll office had not changed the payroll account number from Title I ARRA to Title I Regular. Charleston corrected this overpayment after we brought the error to its attention.

- **Greenville.** For the July 2009 – December 2009 period, two employees’ salaries were computed with incorrect allocation rates. For 4 of the 14 employees in our sample, Greenville paid part of their salary with Title I ARRA funds and part from Greenville’s General fund. Greenville uses a form titled “Semi-Annual Certification of Part-Time Employment Under Title I,” to document the number of courses taught under Title I and calculate the percentage of time to charge. Allocations of salaries for two of the employees to the Title I ARRA grant were in error, resulting in a net overcharge of \$1,948 to the grant. Greenville used an allocation rate of 50 percent versus the correct rate of 40 percent for one employee and used an allocation rate of 50 percent versus the correct rate of 60 percent for another employee. Greenville determined that the correct allocation rates were not entered into its financial system before our March 2010 onsite visit. However, corrections were made in the school district’s system in August 2010.

For the July 2009 – December 2009 period, one employee’s salary of \$4,305 was charged totally to the IDEA ARRA grant even though her job responsibilities were not entirely program related. The employee served as Greenville’s State Fiscal Stabilization Fund Coordinator and worked on a special project for the school district’s IDEA program office. However, payroll records did not reflect an allocation of the employee’s salary between the SFSF and IDEA ARRA grants based on the amount of time spent on each project. Greenville stated that the allocation was corrected June 24, 2010, and that a journal entry was posted to reallocate expenses charged to the appropriate expenses accounts based on the time spent on each project.

Reporting Issues Related to Section 1512 Data

Charleston and Greenville reported incomplete or unsupported job and vendor data for the Title I and SFSF ESF ARRA grants under Section 1512 ARRA reporting requirements for the September 30, 2009, and December 31, 2009, reporting periods. Specifically, Charleston reported incomplete and unsupported Title I job data; Charleston transferred \$1.3 million of Title I ARRA job and vendor expenditures to the regular Title I program; both Charleston and Greenville underreported Title I vendor payments of more than \$25,000; and Charleston changed its initial planned use of the SFSF ESF grants, resulting in an overstatement of jobs. Although the issues identified resulted in inaccurate reporting of both job and vendor data, none of the errors resulted in a material misstatement of information as defined in the most recent OMB guidance. OMB Memorandum M-10-34 defines an error as material if the omission or misstatement in the prior period report could mislead the public on how ARRA funding is being expended.

SCDOE, as the prime recipient for Title I and IDEA and an SFSF subrecipient, owns the data submitted for these ARRA programs and is responsible for the quality of the information submitted. Section 4.2 of OMB Memorandum M-09-21, “Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009” (June 22, 2009), outlines prime and subrecipients’ responsibilities as they relate to the quality of Section 1512 data. In addition, Section 5.2 of OMB Memorandum, M-10-08, “Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates” (December 18, 2009), defines a funded job “as one in which the wages or salaries are either paid for or will be reimbursed with Recovery Act funding.” The guidance further requires prime recipients and subrecipients to report vendor payments greater than \$25,000.

Table 5 provides a summary of Section 1512 reporting discrepancies identified.

Table 5: Summary of Section 1512 Reporting Discrepancies						
LEA	September 30, 2009 Reporting Period			December 31, 2009 Reporting Period		
	Reported by LEA to SCDOE	Reported by SCDOE to Recovery.gov	Supported	Reported by LEA to SCDOE	Reported by SCDOE to Recovery.gov	Supported
Job Data^(a)						
Charleston						
Title I	54.9	54.9	43.5 ^(b)	54.9	54.9	43.5 ^(b)
SFSF	49.3	49.3	49.3 ^(c)	49.3	49.3	49.3 ^(c)
Vendor Data						
Charleston						
Title I	5	5	0	0	0	5
Greenville						
Title I	1	1	2	1	1	1
(a) No discrepancies in job data were noted for Greenville and Spartanburg. (b) Supported by actual job data documentation; subsequently funded by the Title I Regular grant as discussed in the narrative below. (c) Not supported by job documentation, but reported as initial planned use of SFSF ESF funds; funds were actually used for utilities as discussed in the narrative below.						

Charleston’s reporting of Title I Job Data. We found that Charleston could not provide documentation for its reported Title I job data and provided incomplete Title 1 job data. In addition, Charleston transferred \$1.3 million of Title I ARRA expenditures to the regular Title I program.

- Charleston’s Title I Job Data Unsupported and Incomplete.** We found that 11.4 FTEs of ARRA Title I jobs reported to SCDOE by Charleston were not supported. In addition, Charleston did not report 29 employees whose summer or after-school stipends were paid with Title I funds. According to Charleston’s Title I Director, jobs reported as created/retained were obtained by going through each program and counting positions that would be paid for with Title I ARRA funds. Charleston’s Accounting Office provided a list of all employees paid with Title I ARRA funds, and Charleston’s Title I office indicated the Full-time Equivalents (FTE) for each employee listed. The total FTEs provided on the list were 43.5, 11.4 FTEs fewer than the 54.9 FTEs reported by SCDOE. Although the jobs data did not include the 29 employees whose summer or after-school stipends were paid for by Title I ARRA funds, we are not able to determine the actual FTE that should have been reported related to these employees because the Charleston Title I office did not provide documentation of the FTE calculations for the 29 employees.

In response to the unsupported FTEs reported, Charleston stated –

[The] ARRA Coordinator did not verify the data in the accounting system to ensure that changes made to the funding plan or information reported through the [district’s] program offices was complete and accurate...and used the information from the program offices as the information to be reported. [Charleston]’s report indicating the number of jobs created/retained under the Title I, Part A ARRA grant include[d] those positions which ha[d] yet to be filled. They were positions created under this funding but ha[d] not been 100% filled by staff. The reporting of these positions in this manner does indicate that jobs were created which was the intent. The Title I program office was not instructed or trained to calculate . . . FTEs (for the 29 positions), that was done by the ARRA Coordinator and all jobs were included in the December 2009 report.

Charleston's Transfer of Title I ARRA Expenditures. Subsequent to reporting job and vendor data, Charleston transferred \$1,290,063 of Title I ARRA expenditures to the Title I Regular grant at the end of May 2010. Charleston's Director of Financial Services indicated that the transfer was made to bring the Title I Regular carryover below the 15 percent carryover limitation.¹⁷ The school district believed the carryover provision would be applied to both the Title I Regular and Title I ARRA allocations, but the school district was later instructed that only the Title I Regular allocation could have carryover. In August 2010, SCDOE approved Charleston's revised Title I ARRA budget detailing how the ARRA funds would now be used. As a result of the transfer of expenditures from Title I ARRA to Title I Regular, the 54.9 jobs initially reported by SCDOE for Charleston are no longer valid. The funds transferred also included vendors payments, which would affect the reporting of those payments as well.

Charleston Changed the Planned Use of SFSF ESF Grant Funds. For the September 30, 2009, and December 31, 2009, reporting periods, SCDOE reported 49.3 jobs created/retained under the SFSF ESF grant for Charleston. Although Charleston originally planned to use SFSF ESF funds for payroll expenses, it later concluded that the use of these funds for payroll expenses would adversely impact the district.¹⁸ Charleston revised its plans and decided to use its SFSF ESF funds for utility expenses instead of payroll. Charleston received SCDOE approval for its revised budget on May 25, 2010. As a result of the approved revisions, SCDOE's reported job estimates for Charleston's SFSF ESF grant are no longer valid. In response to the change in use of the SFSF ESF funds, Charleston stated that they had discussed this with SCDOE and a journal entry could be made to correct this issue.

Inaccurate Title I Vendor Payments of more than \$25,000. We found that both Charleston and Greenville underreported Title I vendor payments of more than \$25,000. Specifically, Charleston's accounting records did not support five vendor payments reported in the September 30, 2009, reporting period; Charleston did not report five vendor payments for the December 31, 2009, reporting period; and Greenville did not report one vendor payment for the September 30, 2009, reporting period. The results are summarized in Table 5.

The clarification of M-10-08 Memorandum (dated December 18, 2009) requires prime recipients and subrecipients to report vendor payments greater than \$25,000. The Department's "Clarifying Guidance on American Recovery and Reinvestment Act of 2009 Section 1512 Quarterly Reporting" (revised April 2, 2010) further states that the--

\$25,000 threshold is triggered by individual payments to a vendor within a quarter and not cumulative payments to a vendor over the life of the project.

- ***Charleston's Vendor Payments.*** For the September 30, 2009, reporting period, SCDOE reported five Title I vendor payments greater than \$25,000 on behalf of Charleston. Charleston reported to SCDOE payments greater than \$25,000 for five vendors – College of Charleston, Durham School Services, Medical University of South Carolina – School of Nursing, Scholastic, and Voyager Expanded Learning. However, Charleston's accounting records did not contain any evidence of payments greater than \$25,000 to vendors during the quarter ending September 30, 2009.

¹⁷ Section 1127(a) of Title I of the Elementary and Secondary Education Act limits the amount of Title I, Part A funds an LEA may carryover from one fiscal year's allocation to not more than 15 percent of the total Title I, Part A funds allocated to the LEA for that fiscal year.

¹⁸ Because South Carolina subsidizes teachers' salaries based on a methodology used to assist all LEAs, if SFSF-ESF funds were used for payroll, the district would have lost approximately \$90,000 in loss of the State funding subsidy.

For the December 31, 2009, reporting period, SCDOE reported no Title I vendor payments greater than \$25,000 for Charleston. However, Charleston's accounting records showed five vendor payments greater than \$25,000 for the quarter ending December 31, 2009--one payment to Communities in Schools, one payment to Durham School, and three payments to WFK. Only one of these vendors, Durham School Services, was previously reported by SCDOE in the September 30, 2009, reporting period, which would indicate that the discrepancy was not a posting error from the previous quarter. Charleston's vendor reporting errors resulted from its lack of internal verification procedures. Charleston's ARRA Coordinator stated that she relied on the Title I Director to provide her with the data needed to complete the Section 1512 vendor section. In addition, the Coordinator did not verify the data provided back to the general ledger.

- **Greenville.** For the September 30, 2009, reporting period, SCDOE reported Pearson Digital as the only Title I vendor payment greater than \$25,000 at Greenville. However, Greenville's Title I ARRA accounting records recorded two vendors--Dell Marketing and Pearson Digital--with payments greater than \$25,000 for the quarter ending September 30, 2009. Greenville's ARRA Coordinator confirmed that she neglected to include Dell Marketing in the vendor listing provided to SCDOE.

According to OMB Memorandum M-10-08, "Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates," (December 18, 2009) –

...Corrections for prior quarters will be handled as follows:

- Federal agencies subject to this Guidance shall instruct recipients to maintain within their administrative records comprehensive information on any and all necessary corrections to prior quarter data.
- Recipients will be required, at a time and process to be specified in the future, to submit this information to the Federal government, after which the Recovery and Accountability Transparency Board will determine the best approach for making this information available on Recovery.gov.

The most recent guidance, OMB Memorandum M-10-34, "Updated Guidance on the American Recovery and Reimbursement Act" (dated September 24, 2010), is an update of the requirements set forth in OMB Memorandum M-10-08 regarding correcting Section 1512 data from previous reporting quarters. Effective September 24, 2010, an ARRA recipient or Federal agency "may initiate the change to a prior reporting process if they deem it to be appropriate." However, the Federal agency must have documentation to support the requested change and must deem that the change is "material" that is, the omission or misstatement in the prior period report could mislead the public on how ARRA funding is being expended. In addition, changes cannot be initiated for the "Number of Jobs field."

Enclosure:
SCDOE's Comments on Preliminary Version of Report



STATE OF SOUTH CAROLINA DEPARTMENT OF EDUCATION

Mick Zais
Superintendent

1429 Senate Street
Columbia, South Carolina 29201

March 28, 2011

VIA ELECTRONIC MAIL

Ms. Denise M. Wempe
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
61 Forsyth SW, MR 19T30
Atlanta, GA 30303

Dear Ms. Wempe:

The South Carolina Department of Education (SCDOE) appreciates the opportunity to provide a response to the United States Department of Education (Department), Office of Inspector General's draft audit report regarding South Carolina's Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act (ARRA) Programs. The SCDOE is committed to ensuring that the tenets of the ARRA are implemented effectively and efficiently and concurs with the OIG's findings and recommendations. As set forth more fully below and noted in the draft report, many of the issues raised by the OIG during the audit have been addressed by the SCDOE and local educational agencies (LEAs) involved in the process.

Finding No. 1: SCDOE's Case Management and Monitoring Procedures for Title I ARRA Cash Advances Need Improvement

RECOMMENDATIONS:

1.1 Identify subgrantees with existing advance balances and ensure that subgrantees minimize the time between transfer of funds and disbursement.

1.2 Determine whether interest was earned on Title I ARRA advances given to the remaining 19 school districts; and obtain any interest amounts from those school districts and remit to the Department.

RESPONSE:

The SCDOE changed its policy related to cash advances to LEAs for all Title I funds. Funds are currently distributed on a reimbursement basis as reflected in the revised Title I Rules and Regulations Handbook which provides:

The South Carolina Department of Education has been advised to discontinue the practice of issuing cash disbursements prior to actual expenditures. All cash disbursements will be on a reimbursement basis.

In addition, the SCDOE notified LEAs in its Annual Audit Guide that if interest is earned on any reimbursed funds, it must be remitted to the SCDOE. Recently, the SCDOE's Finance Director reiterated these procedures and the requirements of the Cash Management Improvement Agreement to school business officials during the S.C. Association of School Business Official's March 2011 conference.

The SCDOE's Office of Finance is in the process of determining whether the remaining LEAs earned interest on the cash advances that were paid. If it is determined that the funds were not expended within 72 hours, the SCDOE will request reimbursement for any interest earned on the funds and remit the interest to the Department. Interest payments were received from the Greenville County School District (Greenville) and Charleston County School District (Charleston) as noted in the finding.

Finding No. 2: Procurement Practices for ARRA Funded Contracts Need Improvement

RECOMMENDATIONS:

- 2.1 Charleston obtains approval for budget amendments in excess of SCDOE's 10 percent threshold.
- 2.2 Charleston's Communities in School (CIS) contract is properly managed by requiring that the contract be amended to include changes or adjustments in price or number of schools served.
- 2.3 Charleston's Wings for Kids, Inc. (WFK) contracts are properly managed by requiring that the contracts are amended to include price adjustments.
- 2.4 Spartanburg County School District Two's (Spartanburg) contract with Hatchette Consulting, LLC, complies with Federal and district procurement regulations for sole-source contracts.
- 2.5 Spartanburg's contracts include contract terms and performance measures needed to monitor contracts.
- 2.6 It reminds LEAs about the importance of following correct procurement procedures and that it places emphasis on review of LEA contract administrative controls during monitoring site visits.

RESPONSE:

The SCDOE's Office of Federal and State Accountability has developed more rigorous Title I monitoring protocols related to financial management and internal controls at the LEA level. The Charleston contracts with CIS and WFK have been scrutinized by SCDOE staff and have been amended as required. The SCDOE consulted with Charleston regarding the requirement that it obtains approval for budget amendments in excess of the SCDOE's 10-percent threshold in accordance with the SCDOE's Title I Administrative Manual.

With regard to recommendations concerning Spartanburg, the LEA requested a revised agreement from Hatchette Consulting, LLC, which allows verification of billing hours and timely performance; however, Spartanburg is in the process of terminating the agreement because its new Director of Special Services will evaluate the LEA's special education programs and review, revise, and further develop its special education policies and procedures without the use of a consultant. As a result, the specific concerns cited in the draft report regarding the agreement between Spartanburg and Hatchette Consulting, LLC, may be considered moot once the agreement is terminated. As noted in the draft report, Spartanburg amended its operational procedures to reflect appropriate documentation prior to approval in contractual issues. In addition, the SCDOE discussed with Spartanburg the importance of including in its contracts contract terms and performance measures needed to monitor contracts.

As part of the SCDOE's Title I Rules and Regulations meeting held on March 15–16, 2011, and the Office of Exceptional Children (OEC) Spring Administrators Conference held on March 23–24, 2011, staff presented information pertaining to the importance of following district procurement procedures. Information related to contract modification was discussed including contract modifications, extensions and changes in scope, sole source support and contract deliverables. In addition, the SCDOE's OEC developed monitoring protocols related to financial management and internal controls at the LEA level.

Finding No. 3: SCDOE's Policies and Procedures over the LEA Reimbursement Process Need Improvement

RECOMMENDATIONS:

3.1 Verify the implementation of improved and/or new processes for claims processing and confirm corrections have been made at Greenville.

RESPONSE:

As stated in the draft report, Greenville and the SCDOE revised procedures for reviewing expenditure reports to ensure accuracy. SCDOE staff verified that the required adjustments were made in Greenville. Greenville currently utilizes a comprehensive spreadsheet to track claims filed and reimbursements received from the SCDOE and is in the process of developing a new department operational instruction document.

OTHER MATTER—ARRA Programs Should Be Covered by South Carolina’s Treasury-State Management Agreement

RESPONSE:

Please see the attached comments from Paul Jarvis, Jr., Senior Assistant State Treasurer–Treasury Management in response to this matter.

SUGGESTIONS:

The SCDOE received two suggestions from Greenville regarding the draft report. The first suggestion concerns including language with Table 2 on page 3 that the ARRA allocations are for fiscal year (FY) 2010, as the report will be published during FY 2011 and the LEAs have received additional funds since the FY 2010 allocation. The second suggestion is regarding the addition of a statement to the second paragraph on page 15, concerning an employee’s salary charged to the Individuals with Disabilities Education Act ARRA grant, to include that a journal entry was posted to reallocate the expenses charged to the appropriate expense accounts based on the time spent on each project.

Thank you for the opportunity to respond to the draft report. If you have any questions or need additional information, please contact Karla Hawkins, SCDOE Deputy General Counsel, at 803-734-8783 or khawkins@ed.sc.gov.

Sincerely,

/s/

Mick Zais, Ph.D.
State Superintendent of Education

MZ/kmh

Attachment

c: Jamie Shuster, Director of Budget and Policy, Office of the Governor
Curtis M. Loftis, Jr., State Treasurer
Paul D. Jarvis, Jr., Senior Assistant State Treasurer–Treasury Management
Elizabeth Carpentier, SCDOE Deputy Superintendent of Innovation and Support
Karla M. Hawkins, SCDOE Deputy General Counsel



Attachment

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

March 21, 2011

To Whom It May Concern:

We have been asked to provide comments in response to a matter raised by the Office of Inspector General concerning the coverage of ARRA programs under the Treasury-State Cash Management Agreement (TSA) pursuant to the Cash Management Improvement Act of 1990 (CMIA).

Given the timing of when ARRA funds were first received by South Carolina and the provisions of our TSA, we anticipate that next fiscal year will be the first year we are required to include ARRA funds in our TSA.

Under the TSA, federal assistance programs which are to appear in the TSA are determined based upon the State's most recent Single Audit. The most recent Single Audit is dated April 5, 2010 and is for the fiscal year ended June 30, 2009. During this period, no ARRA funds were received and thus none have been included in the TSA.

ARRA Funds were first received by the state during the July 1, 2009 to June 30, 2010 fiscal year and the Single Audit covering this period is currently in progress but not yet complete. Assuming this Single Audit is completed in its normal time frame, this audit will provide the basis for our amending our TSA beginning July 1, 2011 to include ARRA funds.

We hope this information is helpful to your analysis. We have had several conversations with our Treasury contact over the past eighteen months regarding ARRA funds and the TSA and he believes our reports have been properly filed.

Thank you for the opportunity to share our comments regarding this report and if we may be of any further assistance, please do not hesitate to contact us.

Sincerely,

Paul D. Jarvis, Jr.
Senior Assistant State Treasurer-Treasury Management
South Carolina Office of State Treasurer
PO Drawer 11778
Columbia, SC 29211

Office Phone Number: (803)734-2654
e-mail Address: paul.jarvis@sto.sc.gov

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