



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



American Recovery and Reinvestment Act of 2009

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

Final Audit Report



South Carolina State House

ED-OIG/A04K0006

August 2011



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
ATLANTA REGION

August 23, 2011

David C. Seigler, CPA
Special Projects Manager, Office of State Budget
South Carolina Budget & Control Board
Edgar A. Brown Building
1205 Pendleton Street, Suite 529
Columbia, SC 29201

Dear Mr. Seigler:

This **final audit report, Control Number ED/OIG A04K0006**, presents the results of our review of the “South Carolina Governor’s Office: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act 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:

Ann Whalen
Deputy Director for Programs
Implementation and Support Unit
U.S. Department of Education
400 Maryland Ave., S.W., Room 7W206
Washington, DC 20202

Michael Yudin
Acting Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Ave., S.W., 3W315
Washington, DC 20202

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 M. Wempe
Regional Inspector General for Audit

Abbreviations, Acronyms, and Short Forms Used in this Report

Department	U.S. Department of Education
ESF	Education Stabilization Fund
FTE	Full-Time Equivalent
Governor's Office	South Carolina Governor's Office
GSF	Government Services Fund
OMB	Office of Management and Budget
Recovery Act	American Recovery and Reinvestment Act of 2009
SFSF	State Fiscal Stabilization Fund
SCDC	South Carolina Department of Corrections
USC	University of South Carolina

**U.S. Department of Education – Office of Inspector General
South Carolina Governor’s Office: Use of Funds and Data Quality for
Selected American Recovery and Reinvestment Act Programs
Control Number ED-OIG/A04K0006**

PURPOSE

The American Recovery and Reinvestment Act of 2009 (Recovery Act) places a heavy emphasis on accountability and transparency and, in doing so, increases the responsibilities of the agencies that are impacted by the Recovery Act. Overall, the U.S. Department of Education (Department) is responsible for ensuring that education-related Recovery Act funds reach intended recipients and achieve intended results. This includes effectively implementing and controlling funds at the Federal level; ensuring that recipients understand requirements and have proper controls in place over the administration and reporting of Recovery Act funds; and promptly identifying and mitigating instances of fraud, waste, and abuse of the funds. The South Carolina Governor’s Office (the Governor’s Office) is responsible for the administration of Recovery Act funds received from the Department.

The purpose of our audit was to determine whether the Governor’s Office (1) used Recovery Act funds in accordance with applicable laws, regulations, and guidance; and (2) reported accurate, reliable, and complete data in compliance with Recovery Act reporting requirements. This report provides the results of our audit of the Governor’s Office and two entities receiving Recovery Act funds: the University of South Carolina (USC), which is an institution of higher education, and the South Carolina Department of Corrections (SCDC), which is a State agency.

We focused our audit on the use of funds and data quality related to State Fiscal Stabilization Funds (SFSF) received through the Recovery Act. The SFSF consists of Education Stabilization Funds (ESF) and Government Services Funds (GSF). Our audit covered the period February 17, 2009, through June 30, 2010.

The results of our review of funds awarded to the South Carolina Department of Education are detailed in our audit report entitled “South Carolina Department of Education: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs,” Control Number ED-OIG/A04-K0005, April 20, 2011.

RESULTS

We found that Recovery Act funds were generally used in accordance with applicable laws, regulations, and guidance at the entities reviewed—the Governor’s Office, USC, and SCDC. The Governor’s Office required certifications on use of the Recovery Act funds and provided guidance to recipients and subrecipients. The Governor’s Office required each recipient and subrecipient to certify in writing that the funds would be used in accordance with Part III of the South Carolina Appropriation Act and Title XIV of the Recovery Act. The Governor’s Office also issued reimbursement guidance to recipients and subrecipients of Recovery Act funds. In addition, the State established the South Carolina Stimulus Oversight, Accountability, and Coordination Task Force as a centralized accountability group to oversee transparency and accountability requirements associated with Recovery Act funds.

SCDC and USC used Recovery Act funds for reimbursement of incurred payroll and nonpayroll expenditures from July 1, 2009, to September 30, 2009. Although the use of funds was generally in accordance with applicable laws, regulations, and guidance, we found that SCDC used \$8,287 of the Recovery Act funds to pay for unallowable expenditures.

In addition, we found that the Governor's Office did not report accurate job data to the Federal government in compliance with reporting requirements in Recovery Act Section 1512. However, Office of Management and Budget (OMB) guidance does not allow changes to prior reports for the number of jobs.¹ Therefore, no corrections are required to the Governor's Office reported data. The Recovery Act Section 1512 reporting discrepancies are detailed in the Other Matters section of this report.

In response to the draft audit report, the Governor's Office concurred with our finding. Based on its comments, we revised Recommendation 1.1 to allow SCDC to reobligate the disallowed costs to allowable costs rather than remitting those funds because the grant period is still open. The Governor's Office comments are summarized after the finding and the entire comments are included as an Enclosure.

BACKGROUND

The Recovery Act was signed into law on February 17, 2009, in an unprecedented effort to jumpstart the American economy. The Recovery Act 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 accountability and transparency in government spending. To ensure transparency and accountability of spending, recipients are required under Section 1512 of the Recovery Act to submit quarterly reports on Recovery Act awards, spending, and job impact. According to OMB, the reports must contain specific detailed information on the projects and activities funded by the Recovery Act in order to provide the public with 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 Recovery Act funds.

South Carolina Governor's Office

The Governor's Office was awarded a total of \$348 million in SFSF Recovery Act funds.² As shown in Table 1, the Governor's Office awarded \$185 million to the South Carolina Department of Education; \$78 million to 19 institutions of higher education; \$22 million to the Board of Technical and Comprehensive Education; and the remaining \$63 million to 22 State agencies. As of June 30, 2010, the Governor's Office had drawn down approximately \$254 million (73 percent) of the Recovery Act funds awarded. It has until September 30, 2011, to expend SFSF Recovery Act funds.

¹ OMB Memorandum M-10-34, issued September 24, 2010.

² The Governor's Office is the prime recipient of ESF and GSF Recovery Act funds.

Table 1: Governor’s Office SFSF Recovery Act Funding			
Entities	Total Amount Awarded	Drawdowns as of June 30, 2010	Percent of Total Award Drawn
South Carolina Department of Education	\$184,922,339	\$120,515,373	65
Institutions of higher education	\$78,111,085	\$55,104,824	71
Board of Technical and Comprehensive Education	\$21,811,254	\$15,125,987	69
State agencies	\$63,159,485	\$63,159,485	100
Total	\$348,004,163	\$253,905,669	73

The Governor’s Office awarded \$23,945,887 in ESF funds to USC, and \$22,000,000 in GSF funds to SCDC. Collectively, the two entities we reviewed received about \$46 million in Recovery Act funds.

FINDING

FINDING – Minor Noncompliance Related to Use of Recovery Act Funds

Although SCDC’s use of funds was generally in accordance with applicable laws, regulations, and guidance, we found that SCDC used \$8,287 of the Recovery Act funds to pay unallowable nonpayroll costs. For 1 of 50 SCDC expenditures reviewed,³ SCDC paid \$8,287 for nonpayroll charges on invoices submitted in December 2008 and January 2009, before the Recovery Act was enacted.⁴ The Governor’s Office did not detect the improper payments because SCDC had prepared journal entries to transfer the previously incurred costs to the SFSF fund. However, SCDC did not review the expenditures to ensure that the transferred costs included only allowable costs for reimbursement through the Recovery Act. In addition, the Governor’s Office did not monitor SCDC to ensure that the nonpayroll expenditures were accurate.

The “Guidelines for Grantees and Auditors State Fiscal Stabilization Fund Program,” dated December 24, 2009, states that the Department has authorized States to use SFSF funds to support allowable obligations that were incurred as of February 17, 2009, the date the Recovery Act was enacted. However, the Governor’s Office did not provide sufficient oversight and monitoring to ensure that expenditures were allowable and in accordance with applicable laws, regulations, and guidance. Without adequate oversight and monitoring, the Governor’s Office did not detect SCDC’s improper payments of \$8,287.

³ From SCDC’s universe of 268 nonpayroll expenditures representing more than \$15.5 million, we judgmentally selected a sample of 50 expenditures representing more than \$2.6 million. See Scope and Methodology section for additional detail.

⁴ The one expenditure with the error was related to 113 invoices totaling \$315,090. Of those 113 invoices, 8 invoices (totaling \$8,287) were submitted prior to the implementation of the Recovery Act.

RECOMMENDATIONS

We recommend that the Director for the Implementation Support Unit require the Governor's Office to—

- 1.1 Reobligate the \$8,287 in unallowable Recovery Act funds to allowable costs before the end of the award period.
- 1.2 Implement an oversight and monitoring plan to ensure that previously incurred costs that State agencies transferred to Recovery Act funds were incurred after enactment of the Recovery Act.

Auditee Comments

The Governor's Office concurred with the finding. The Governor's Office acknowledged that although SCDC certified that it had expended grants funds in accordance with applicable guidance, SCDC did not properly review those charges. In response to draft Recommendation 1.1, the Governor's office requested that SCDC be allowed to apply the \$8,287 in disallowed costs to allowable costs rather than remitting those funds because (1) the grant period is still open, and (2) SCDC incurred eligible expenditures for which they could have been reimbursed.

In response to Recommendation 1.2, the Governor's Office stated SCDC was appropriated an additional \$40.4 million of ARRA Stabilization Funds in Part III of the State's Annual Appropriations Act for FY 2010–2011. In addition, the Governor's Office stated that it is requiring SCDC to provide adequate documentation for expenditures, including invoice dates, to ensure charges are allowable and within the grant period.

OIG Response

Based on the Governor's Office's comments, we revised Recommendation 1.1 to allow SCDC to reobligate the disallowed costs to allowable costs before the end of the grant award period.

Regarding Recommendation 1.2, while the Governor's Office comments addressed future monitoring for SCDC, they did not address an oversight and monitoring plan for the remaining State agencies. Because SCDC is one of 22 State agencies receiving Recovery Act funds and the only one we reviewed, we maintain that the Governor's Office needs to implement an oversight plan to ensure that expenditures for the remaining 21 State agencies were incurred after implementation of the Recovery Act. As such, we did not make any changes to Recommendation 1.2.

OTHER MATTERS

The Governor's Office reported inaccurate job data to the Federal government. Specifically, we identified four State agencies—Clemson University Public Service Activities, South Carolina School for the Deaf and Blind, South Carolina Law Enforcement Training Council, and the State Library Commission—that reported a total of 28.17 full-time equivalent (FTE) jobs created or retained in the March 31, 2010, quarterly report to the Governor's Office. However, the Governor's Office reported 4 FTE jobs for the same reporting period to FederalReporting.gov, 24.17 FTE jobs fewer than what was reported to the State. In addition, for the quarter ending June 30, 2010, the Governor's Office reported 14 jobs as created or retained; however, the State agencies did not report any jobs created or retained for the same period. We are not recommending correcting the reported number of jobs because OMB Memorandum M-10-34, issued September 24, 2010, states that changes to prior reports may not be initiated for the "number of jobs" field.

The Governor's Office did not comment on the Other Matters section of the report.

SCOPE AND METHODOLOGY

The purpose of our audit was to determine whether the Governor's Office (1) used Recovery Act funds in accordance with applicable laws, regulations, and guidance; and (2) reported accurate, reliable, and complete data in compliance with Recovery Act reporting requirements. Our audit covered the period February 17, 2009, through June 30, 2010.

We performed this audit at the Governor's Office, USC, and SCDC. Our audit focused on the use of funds and data quality related to the SFSF funds received through the Recovery Act. For the use of funds, we reviewed claims and expenditures incurred from February 17, 2009, through June 30, 2010. For data quality, we reviewed Recovery Act Section 1512 quarterly reporting periods that ended December 31, 2009; March 30, 2010; and June 30, 2010.

To gain an understanding of the Recovery Act requirements applicable to these grants and the areas of use of funds and data reporting, we obtained background information on the grants and the audited entities. We also reviewed Federal laws, regulations, OMB Circulars, and Recovery Act-specific guidance issued by OMB and the Department.

To achieve our objectives, we did the following:

- reviewed the internal control structure, policies, and procedures the Governor's Office used to award, expend, and report Recovery Act funds;
- examined prior reviews conducted by the South Carolina State Auditor for the State's single audit report for the year ending June 30, 2008;
- reviewed the single audit report for USC and SCDC for the year ending June 30, 2010;
- reviewed the grant application from the Governor's Office;

- obtained from the Department the amount of Recovery Act SFSF grant funds the Governor's Office received;
- obtained a list of institutions of higher education and State agencies that received SFSF Recovery Act funding from February 17, 2009, through June 30, 2009;
- reviewed the award documents and certifications for the State, USC, and SCDC;
- interviewed officials at other State agencies, including the South Carolina Office of the State Auditor, the Office of the State Treasurer, and the Office of the State Comptroller;
- reviewed and tested Governor's Office controls for requesting, receiving, managing, and disbursing Recovery Act funds to subrecipients;
- reviewed and tested Governor's Office procedures for collecting and reporting data required by Section 1512 of Recovery Act data to FederalReporting.gov;
- interviewed key program, accounting, and reporting officials at USC and SCDC; and
- reviewed and tested supporting documentation for payroll and nonpayroll expenditures at USC and SCDC.

To assess the control structure of the use of Recovery Act funds, we reviewed the procedures for approving and accounting for expenditures and interviewed officials responsible for procurement, accounting, payroll, and personnel. To determine whether the Governor's Office awarded and reported Recovery Act funds correctly, we judgmentally selected one institution of higher education and one State agency from a list of all subrecipients and State agencies that received Recovery Act SFSF funding. We selected these two recipients because each was awarded the largest amount of SFSF Recovery Act funds and, at the time of our review, had expended the majority of the allocated amounts. We also reviewed the expenditures of the SFSF Recovery Act grant and tested data to ensure that the data were being reported correctly on quarterly reports.

To test the SFSF grant expenditures at USC, we selected a random sample of 64 of 307 payroll and 15 of 1,496 nonpayroll expenditures from two departments. To determine the reliability of the payroll data, we reviewed employee hardcopy files, human resources records, and employee pay stubs. For SCDC, we selected a random sample of 72 of 903 payroll expenditures from 6 of 33 correctional facilities selected for testing and 50 of 268 nonpayroll expenditures from all 33 correctional facilities. (See Table 2.) To determine whether the employee data were reliable, we reviewed a judgmental sample of 26 employee hardcopy files.

Table 2: Universe and Sampling			
Entities	Dollar Universe	Sample Dollars	Sample Size
USC			
Payroll	\$8,125,675	\$2,951,699	64
Nonpayroll	\$9,228,704	\$1,253,398	15
SCDC			
Payroll	\$1,462,296 ⁵	\$509,854	72
Nonpayroll	\$15,511,744	\$2,613,677	50

For the sampled payroll expenditures, we reviewed personnel files, earnings statements, timesheets, and employee certifications to verify that the employees existed and that their salary charges were supported and allowable. For the sampled nonpayroll expenditures, we reviewed purchase orders, invoices, payment batches, receiving reports, and cancelled checks to verify that the expenditures were supported and allowable.

We also reviewed the Governor’s Office procedures for collecting and reporting data required by Section 1512 of the Recovery Act and traced data to source documentation. Specifically, we reviewed and tested data elements to include the amount of the subaward, disbursements, jobs created or retained, and vendor payments.

To determine whether the data reported were accurate, reliable, complete, and in compliance with Recovery Act reporting requirements, we compared data in supporting documents provided by the Governor’s Office, USC, and SCDC with data reported in FederalReporting.gov. In addition, we reviewed all the 1512 data from the institutions of higher education and State agencies. The South Carolina Comptroller’s Office developed a Lotus-based spreadsheet to collect and consolidate data from the State agencies. The South Carolina Department of Education used a web-based spreadsheet to collect and consolidate data from the subrecipients.⁶ We assessed the reliability of data contained in the spreadsheets by tracing reported data from USC and SCDC to the South Carolina Comptroller’s Office and South Carolina Department of Education consolidation reports and to Recovery.gov. Based on the work performed, we concluded that the data were sufficiently accurate and reliable for the purposes of the audit.

We relied on computer-processed data contained in the accounting systems of the Governor’s Office, USC, and SCDC for the purposes of testing expenditures for payroll and nonpayroll transactions. We assessed the reliability of these data by tracing selected expenditures to source documents. Based on our testing, we determined that the computer-processed data were sufficiently reliable for the purposes of this audit.

⁵ The total dollar universe was \$6,519,378. However, SCDC used only 22.43 percent of its Recovery Act funds on payroll, which reduced the total payroll universe to \$1,462,296.

⁶ The institutions of higher education submitted Section 1512 Recovery Act data to the Commission of Higher Education, which consolidated the reports and submitted them to the South Carolina Department of Education.

We conducted our work at the Governor's Office, SCDC, USC, and our offices from January 2010 through April 2010 and from November 2010 through February 22, 2011. We discussed the results of our review and recommendations with officials from the Governor's Office, USC, and SCDC on May 24, 2011.

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.

Enclosure



Richard Eclstrom, CPA
Comptroller General
Co-Chair

State of South Carolina
**Stimulus Oversight, Accountability
and Coordination Task Force**

Curtis M. Loftis, Jr.
Treasurer
Co-Chair

July 26, 2011

MANAGEMENT'S RESPONSE

Ms. Denise Wempe
Regional Inspector General for Audit
U.S. Department of Education
OIG - Office of Audit Services
61 Forsyth Street SW, Suite 19T30
Atlanta, Georgia 30303

Dear Ms. Wempe:

This is response to the finding noted in your examination of the *State of South Carolina Governor's Office: Use of Funds and Data Quality for selected American Recovery and Reinvestment Act Programs, Control Number ED-OIG/A04K0006*, for the period February 19, 2009 through June 30, 2010.

Finding – Minor Noncompliance Related to Use of Recovery Act Funds

We concur with your finding that South Carolina's Department of Corrections (SCDC) incorrectly charged \$8,287 of non-payroll expenditures related to invoices submitted prior to February 19, 2009 (before the Recovery Act was enacted). Although the SCDC certified to us that the reimbursable expenditures were allowable and within the grant period, they failed to perform a proper review of those charges.

The SCDC was appropriated an additional \$40,428,008 of ARRA Stabilization Funds in Part III of the State's Annual Appropriations Act for FY2010-11. We are requiring that SCDC provide adequate documentation of these expenditures, including invoice dates, in order to ensure those charges are allowable and within the grant period.

Rather than remitting the \$8,287 of disallowed costs, we are requesting that SCDC be allowed to apply those funds to allowable costs since the grant period is still open and because SCDC incurred millions of dollars in eligible expenditures for which they could have been reimbursed.

Thank you for your cooperation and assistance in this matter.



State of South Carolina
**Stimulus Oversight, Accountability
and Coordination Task Force**

Richard Eckstrom, CPA
Comptroller General
Co-Chair

Curtis M. Lottis, Jr.
Treasurer
Co-Chair

Respectfully,

A handwritten signature in black ink that reads "David C. Seigler".

David C. Seigler, CPA
Special Projects Manager, South Carolina Office of State Budget
(Acting Administrator of ARRA State Fiscal Stabilization Funds for the State of South Carolina)

cc: Ms. Jamie Shuster – Governor’s Office
Ms. Jennifer Muir – Comptroller General’s Office
Mr. Frank Rainwater – State Treasurer’s Office
Ms. Marcia Adams – Executive Director’s Office
Mr. Les Boies – Office of State Budget

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