

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

**American Recovery and  
Reinvestment Act of 2009**

**Missouri: Use of and Reporting on Selected  
American Recovery and Reinvestment Act of 2009 Program Funds**

**Final Audit Report**



**Missouri State Capitol**

**ED-OIG/A07K0002**

**June 2011**

## **Abbreviations, Acronyms, and Short Forms Used in this Report**

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C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
DESE	Missouri Department of Elementary and Secondary Education
FTE	Full-time equivalent
IDEA	Part B of the Individuals with Disabilities Education Act, as amended
IHE	Institution of Higher Education
Kansas City	Kansas City Missouri School District
LEA	Local educational agency
Office of Administration	Missouri Office of Administration
OMB	Office of Management and Budget
Recovery Act	American Recovery and Reinvestment Act of 2009
SFSF	State Fiscal Stabilization Fund
SFSF-Education	State Fiscal Stabilization Fund, Education Stabilization Fund
SFSF-Government	State Fiscal Stabilization Fund, Government Services Grant
St. Louis	St. Louis Public Schools
Title I	Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended
TSA	Treasury-State Agreement
Treasury Office	State of Missouri Treasury Office
University of Missouri	University of Missouri System



**UNITED STATES DEPARTMENT OF EDUCATION**  
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES  
Chicago/Kansas City Audit Region

June 7, 2011

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Missouri Department of Elementary  
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Budget Director  
Office of Administration  
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P.O. Box 809  
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Dear Dr. Nicastro and Ms. Luebbering:

Enclosed is our **final audit report**, Control Number ED-OIG/A07K0002, titled "Missouri: Use of and Reporting on Selected American Recovery and Reinvestment Act of 2009 Program Funds." This report incorporates the comments you provided in response to the draft 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 Department of Education officials, who will consider them before taking final Departmental action on this audit:

Ann Whalen  
Deputy Director for Programs  
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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.

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

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

Sincerely,

/s/

Gary D. Whitman  
Regional Inspector General for Audit

**U.S. Department of Education – Office of Inspector General  
Missouri: Use of and Reporting on Selected  
American Recovery and Reinvestment Act of 2009 Program Funds**

Control Number ED-OIG/A07K0002

## **PURPOSE**

The American Recovery and Reinvestment Act of 2009 (Recovery Act) placed a heavy emphasis on accountability and transparency and, in doing so, increased 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 of and reporting on Recovery Act funds; and promptly identifying and mitigating instances of fraud, waste, and abuse of the funds.

The objectives of our audit were to determine whether Missouri and its subrecipients (1) used Recovery Act funds in accordance with applicable laws, regulations, and guidance; and (2) reported Recovery Act data that were accurate, reliable, complete, and in compliance with Recovery Act reporting requirements. This report provides the results of the audit we conducted at the Missouri Department of Elementary and Secondary Education (DESE), the Missouri Department of Higher Education, Kansas City Missouri School District (Kansas City), St. Louis Public Schools (St. Louis), and the University of Missouri System (University of Missouri). We focused our audit on State-level and local-level uses of funds and data quality related to Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (Title I); Part B of the Individuals with Disabilities Education Act, as amended (IDEA); and State Fiscal Stabilization Fund (SFSF) grant funds received through the Recovery Act. For use of funds, we reviewed expenditures incurred from July 2009 through February 2010. For data quality, we reviewed data for the quarterly reporting periods that ended September 30, 2009, and December 31, 2009.

## **RESULTS IN BRIEF**

Missouri made proactive efforts to ensure subrecipients' compliance with Recovery Act requirements. These efforts included the timely distribution of information and guidance to assist local educational agencies (LEA) and institutions of higher education (IHE) in understanding their Recovery Act responsibilities. Missouri also required LEAs and IHEs to provide assurances that funds would be used only for activities authorized by the Recovery Act. LEAs and IHEs also were required to provide assurances that they would be accountable and transparent in the reporting of their data. Although these assurances were provided, subrecipients in Missouri might not have used Recovery Act funds for authorized activities and did not always report accurate, reliable, and complete data.

We found that

- three subrecipients we visited did not properly account for \$59.8 million in SFSF funds;
- Missouri and its subrecipients did not always follow Federal cash management requirements; and
- data reported to the Federal government were not always accurate, reliable, and complete.

To reduce the likelihood of such problems occurring in the future, Missouri and its subrecipients need to improve their systems of internal control to provide reasonable assurance that

- SFSF funds are accounted for properly;
- cash management procedures are aligned with Federal regulations; and
- data reported to the Federal government are accurate, reliable, and complete.

We provided the draft of this report to Missouri for review and comment on January 20, 2011. On February 15, 2011, the Missouri Office of Administration (Office of Administration)<sup>1</sup> provided comments on behalf of itself, DESE, and the Missouri Department of Higher Education, stating that Missouri did not entirely concur with Finding Nos. 1, 2, and 3. Missouri concurred or partially concurred with draft Recommendations 1.1, 1.3, 2.1, 2.2, and 3.1 and explained its corrective plans for these five recommendations. (Missouri completed corrective action on draft Recommendation 1.3; therefore, we did not include the recommendation in this final audit report.) Missouri's comments are summarized at the end of each finding and are included in their entirety as an Enclosure.

Based on Missouri's comments and subsequent documentation received from the Office of Administration and DESE, we revised our findings and recommendations. We removed our finding that two subrecipients we did not visit used Recovery Act funds for unallowable purposes. We also deleted references to formal interagency agreements in Finding Nos. 1 and 3 and removed draft Recommendations 1.2 and 3.2. We agree with Missouri that interagency agreements between the Office of Administration and the State agencies receiving SFSF funds would not be practical at this time because Missouri's subrecipients already have expended the majority of their SFSF funds. We did not make any other significant changes to our findings or recommendations.

In the draft of this report, we reported in the Other Matters section that Recovery Act programs should be covered by Missouri's Treasury-State Agreement (TSA), but Missouri's TSA did not list Recovery Act Title I, IDEA, or SFSF as major programs even though they each exceeded the major program threshold as defined by Missouri's TSA. However, based on Missouri's comments and follow-up communications that we had with the U.S. Department of the Treasury, we concluded that Missouri's TSA covering the fiscal year that ended June 30, 2009, was not required to include Recovery Act programs because the programs were not identified as major

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<sup>1</sup> The grantee project director for SFSF, as listed on the grant award notification, is the Missouri Budget Director, Office of Administration, Division of Budget and Planning.

Federal assistance programs in Missouri’s most recent Single Audit.<sup>2</sup> Therefore, we removed from the Other Matters section the suggestion that Recovery Act programs should be covered by Missouri’s TSA.

**BACKGROUND**

The Recovery Act was signed into law on February 17, 2009, and had 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 Recovery Act spending, recipients are required to submit quarterly reports on Recovery Act awards, spending, and jobs impact (§ 1512 of the Recovery Act). According to the Office of Management and Budget (OMB), the reports should contain detailed information on the projects and activities funded by the Recovery Act and will provide the public with transparency into how Federal dollars are being spent. The reports also will help drive accountability for the timely, prudent, and effective spending of Recovery Act funds.

Missouri was awarded more than \$1 billion in education-related Recovery Act funds. As of July 19, 2010, Missouri had received more than \$750 million. Table 1 shows the amount of funds awarded to and received by the Executive Office of the State of Missouri and DESE (data are limited to Recovery Act funding related to the Title I, IDEA, and SFSF programs).

**Table 1. Recovery Act Funding for Selected Programs in Missouri, as of July 19, 2010**

Program	Awarded	Received	Percentage of Award Received (%)
SFSF-Education	\$753,172,335	\$504,625,464	67
SFSF-Government	\$167,576,241	\$62,645,285	37
<b>SFSF Subtotal</b>	<b>\$920,748,576</b>	<b>\$567,270,749</b>	62
Title I	\$146,140,449	\$75,312,487	52
IDEA	\$227,175,274	\$107,482,112	47
<b>TOTAL</b>	<b>\$1,294,064,299</b>	<b>\$750,065,348</b>	58

Table 2 shows the amounts awarded to the three subrecipients we included in this audit. Table 2 also includes the amounts of Recovery Act Title I and IDEA funds expended by the subrecipients and the percentage of the awarded amounts that each subrecipient had expended during the time period reviewed. The three subrecipients we included in this audit were awarded approximately 11 percent of the Recovery Act funding awarded to Missouri.

<sup>2</sup> Treasury regulations at Title 31 Code of Federal Regulations (C.F.R.) § 205.5(e) provide that “unless specified otherwise, major Federal assistance programs must be determined from the most recent Single Audit data available.” All regulatory citations are to the July 1, 2009, volume unless otherwise specified.

<b>Table 2. Recovery Act Awards and Expenditures by Subrecipient</b>				
<b>Program</b>	<b>Amount Awarded</b>	<b>Amount Expended</b>	<b>Percentage of Award Expended (%)</b>	<b>Time Period Reviewed</b>
<b>Kansas City</b>				
Title I	\$8,678,293	\$1,670,424	19	7/1/09-2/28/10
IDEA	\$5,887,978	\$1,135,313	19	7/1/09-2/28/10
<b>Subtotal</b>	<b>\$14,566,271</b>	<b>\$2,805,737</b>	19	
SFSF-Education	\$16,844,861	N/A	N/A	N/A
SFSF-Government	\$162,400	N/A	N/A	N/A
<b>Subtotal</b>	<b>\$17,007,261</b>	<b>N/A</b>	<b>N/A</b>	
<b>St. Louis</b>				
Title I	\$15,198,339	\$4,207,810	28	7/1/09-2/28/10
IDEA	\$8,587,603	\$1,497,919	17	7/1/09-2/28/10
<b>Subtotal</b>	<b>\$23,785,942</b>	<b>\$5,705,729</b>	24	
SFSF-Education	\$17,373,473	N/A	N/A	N/A
SFSF-Government	\$32,000	N/A	N/A	N/A
<b>Subtotal</b>	<b>\$17,405,473</b>	<b>N/A</b>	<b>N/A</b>	
<b>University of Missouri</b>				
SFSF-Education	\$49,772,727	N/A	N/A	N/A
SFSF-Government	\$24,278,199	N/A	N/A	N/A
<b>Subtotal</b>	<b>\$74,050,926</b>	<b>N/A</b>	<b>N/A</b>	
We could not identify SFSF-Education or SFSF-Government expenditures, because the three subrecipients did not establish expenditure codes for the programs. (See Finding No. 1.)				

The Missouri legislature and Governor determined that a portion of the State’s primary funding formula for elementary and secondary education would be funded from SFSF-Education Stabilization Fund (SFSF-Education) funds. The legislature and Governor also authorized SFSF-Government Services Fund (SFSF-Government) funds for other elementary and secondary education purposes. SFSF-Education and SFSF-Government funds also were assigned to the Missouri Department of Higher Education for specific IHEs.

The Governor designated DESE as the payee for SFSF-Education and SFSF-Government funds. DESE draws Federal funds on a monthly basis and deposits all education-related funds in the State account at Missouri’s Treasury Office (Treasury Office). DESE disburses payments to the subrecipients from the Treasury Office account.



## FINDINGS AND RECOMMENDATIONS

### **FINDING NO. 1 – Not All Missouri Subrecipients Accounted for SFSF in Accordance with Applicable Laws, Regulations, and Guidance**

As of December 31, 2009, the three subrecipients we visited had received \$47.8 million in SFSF-Education funds and \$12 million in SFSF-Government funds. However, none of the three subrecipients adequately accounted for their SFSF funds. The subrecipients transferred their SFSF funds into general accounts and did not maintain contemporaneous records sufficient to demonstrate how SFSF funds were specifically used.

#### **Inadequate Accounting for SFSF Funds**

##### ***Kansas City Missouri School District***

Kansas City was awarded \$16.84 million in SFSF-Education and \$162,400 in SFSF-Government funds. By December 31, 2009, DESE had provided \$11.2 million in SFSF-Education and \$162,400 in SFSF-Government funds to Kansas City. However, Kansas City did not establish specific accounting codes for SFSF fund expenditures, which would have clearly identified the expenditures that were supported by SFSF revenues.

When we asked for a list of specific personnel and non-personnel expenditures paid with SFSF funds, Kansas City could not identify in its accounting records the specific expenditures that it charged against SFSF revenue. Instead, Kansas City's Grant Compliance and Financial Reporting Manager ran a report that included certified employees, sorted the list in descending order by annual salary amount, and selected the highest salaried employees until 252 employees were selected. The 252 employees' total salaries were about \$3,000 less than Kansas City's total SFSF-Education allocation. The Grant Compliance and Financial Reporting Manager selected the 252 employees to represent employees paid with SFSF-Education, because Kansas City reported 252 jobs as created or retained by SFSF-Education funds on its quarterly report for the period that ended December 31, 2009. However, Kansas City reported the number of jobs created or retained using SFSF-Education funds based on dividing its SFSF revenue by the average teacher salary. As illustrated above, Kansas City did not identify the individuals whose salaries were paid with the SFSF funds; therefore, Kansas City could not determine the "actual hours worked in funded jobs" needed for reporting jobs created or retained. (See Finding No. 3 on page 14 of this report.) Kansas City also identified selected non-personnel expenditures that approximately amounted to the SFSF-Government funds received from DESE to represent costs funded by SFSF-Government funds. Although the expenditures Kansas City selected generally would be appropriate uses of SFSF, because the identified expenditures were not reflected in Kansas City's accounting records as being funded by SFSF, we cannot be assured that they are the actual expenditures paid with SFSF funds.

##### ***St. Louis Public Schools***

St. Louis was awarded \$17.4 million in SFSF-Education and \$32,000 in SFSF-Government funds. By December 31, 2009, DESE had provided \$12.4 million in SFSF-Education and \$32,000 in SFSF-Government funds to St. Louis. When we asked for a list of specific personnel

expenditures paid with SFSF funds, St. Louis provided a record that showed it used \$1,865,138 of its SFSF-Education funds for administrative salaries, \$14,026,418 for teacher salaries, and \$1,481,918 for support services salaries. However, the records neither specified the individuals who were paid with SFSF-Education funds nor identified a pool of employees whose salaries were paid with SFSF-Education funds (for example, all regular teachers at a particular high school for a specific month). Because the records were not sufficiently detailed, St. Louis could not show whether the individuals (a) worked sufficient hours to justify the salaries, (b) received salaries similar to other employees who performed similar work and were paid from other sources, and (c) were not paid more than once for the same work. Without such records, St. Louis was not able to demonstrate that the salaries paid with SFSF-Education funds were reasonable and necessary.

In addition, St. Louis did not establish specific accounting codes for SFSF-Government fund expenditures, which would have clearly identified the expenditures that were supported by SFSF revenues. When we asked for a list of specific non-personnel expenditures paid with SFSF-Government funds, St. Louis identified selected non-personnel expenditures that approximately amounted to the SFSF-Government funds received from DESE to represent costs funded by SFSF-Government funds. Although the non-personnel expenditures that St. Louis selected generally would be appropriate uses of SFSF-Government funds, because the identified expenditures were not reflected in St. Louis' accounting records as being funded by SFSF, we cannot be assured that they are the actual expenditures paid with SFSF-Government funds.

### ***The University of Missouri***

The University of Missouri was awarded \$49.8 million in SFSF-Education and \$24.3 million in SFSF-Government funds. By December 31, 2009, the Missouri Department of Higher Education had provided \$24.1 million in SFSF-Education and \$11.8 million in SFSF-Government funds to the University of Missouri. However, the University of Missouri did not establish specific accounting codes for SFSF fund expenditures, which would have clearly identified the expenditures that were supported by SFSF revenues.

When we asked for a list of specific personnel and non-personnel expenditures paid with SFSF funds, the University could not identify in its accounting records the specific expenditures that it charged against SFSF revenue. Instead, the University identified \$48,281,536 in general operating personnel expenditures to represent personnel expenditures paid with SFSF-Education funds and identified \$23,550,390 in general operating scholarship expenses to represent non-personnel expenditures paid with SFSF-Government funds. However, the documentation provided to support the expenses indicated that the expenses were funded by the University's general revenue pool. Therefore, the campus expending funds for salaries would be able to show only that the salaries were funded from the general revenue pool and not specifically from SFSF-Education funds. In addition to the SFSF funds, the general revenue pool contained revenue from lottery proceeds, tuition and fees, and investments. The University did not provide any documentation to show that separate expenditure codes were established for SFSF fund expenditures or to show that an adjusting journal entry was done to apply the identified expenditures to a unique SFSF expenditure account. Although the expenditures the University selected generally would be appropriate uses of SFSF funds, because the identified expenditures

were not reflected in the University's accounting records as being funded by SFSF, we cannot be assured that they are the actual expenditures paid with SFSF funds.

### **Federal Regulations Require Entities to Adequately Account for Federal Funds**

Before receiving SFSF funds, Missouri stated on its "Application for Initial Funding under the State Fiscal Stabilization Fund Program" that the State and other entities would comply with 34 C.F.R. Parts 74, 76, and 80. According to 34 C.F.R. § 74.21(b), recipients' financial management systems shall provide for records that adequately identify the source and application of funds for federally sponsored activities. Fiscal control and fund accounting requirements are prescribed by 34 C.F.R. § 76.702, which states that States and subgrantees "shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds." According to 34 C.F.R. § 76.730, records related to grant funds maintained by States and subgrantees should fully show the amount of funds under the grant or subgrant, how the State or subgrantee used the funds, total cost of the project, the share of that cost provided from other sources, and other records to facilitate an effective audit.

The Department's "Guidance for Grantees and Auditors, State Fiscal Stabilization Fund Program" (December 24, 2009) states that

the LEA must assure that it will (1) administer the program in accordance with all applicable statutes and regulations; and (2) use fiscal control and fund accounting procedures that will ensure proper disbursement of, and accounting for, the funds.

In other words, an entity that receives SFSF funds must maintain records that clearly account for those funds.

The Department's SFSF guidance also advises that, in accordance with the requirements of Section 443(a) of the General Education Provisions Act (20 U.S.C. § 1232f(a)), each recipient of SFSF funds must maintain records that fully disclose how those funds were used, the total cost of the activity for which the funds were used, the share of that cost provided by other sources, and such other records as will facilitate an effective audit. For instance, it would be impermissible for an entity to maintain documentation that the SFSF funds were transferred into a general account without further documenting how the SFSF funds were specifically used.

The Department's SFSF guidance further states that States, LEAs, and IHEs must maintain documentation that demonstrates the amount of SFSF funds used to support salaries. Entities may demonstrate, at a minimum, that an aggregate amount of funds was used to support a group of salary expenditures. However, to show that these costs are reasonable and necessary, the entities must maintain contemporaneous documentation to show that individuals for whom salary is paid worked sufficient hours to justify the salary, the levels of salaries were similar to other employees who performed similar work and were paid from other sources, and that the individuals were not paid more than once for the same work.

### **Missouri's and Its Subrecipients' Systems of Internal Control over Monitoring Recovery Act Funds Should Be Enhanced**

The three subrecipients did not properly account for SFSF funds in part because of weaknesses in Missouri's system of internal control over Recovery Act funds. Pursuant to 34 C.F.R. § 80.40(a), "Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

We concluded that stronger oversight of subrecipients is needed. The Office of Administration is the SFSF grantee yet plays a minimal role in the administration and oversight of the SFSF funds. Instead, the responsibility for SFSF falls to the individual State agencies receiving the grants. However, DESE's monitoring of the LEAs' uses of SFSF-Education funds was limited to reviewing LEAs' A-133 audit reports and year-end financial summaries. Additionally, the Missouri Department of Higher Education did not have an audit function and had a decentralized structure that was not conducive to effective monitoring of the IHEs' use of SFSF funds.

The subrecipients we visited did not adequately account for SFSF expenditures for a variety of reasons. Kansas City's Grant Compliance and Financial Reporting Manager indicated that Kansas City believed it was sufficient to simply select personnel and non-personnel expenditures to represent the costs paid with SFSF funds. St. Louis' Director of Federal Grants believed that the SFSF guidance, which states that an entity may demonstrate that an aggregate amount of funds was used to support a group of salary expenditures, allowed for the method St. Louis used to account for SFSF-Education fund expenditures. The University of Missouri's Assistant Controller, Sponsored Programs Administration, considered it sufficient to elect to include SFSF funds in the general operating pool and use the SFSF funds first to support personnel and scholarship costs. However, because the University of Missouri did not code SFSF fund expenditures, we could not determine whether SFSF funds were in fact expended first.

Because the SFSF expenditures that the subrecipients selected were not clearly identified in the subrecipients' accounting records, we could not determine whether the individuals (a) worked sufficient hours to justify the salaries, (b) received salaries similar to other employees who performed similar work and were paid from other sources, and (c) were not paid more than once for the same work. We also could not determine whether the subrecipients used the SFSF funds only for allowable costs and not for costs prohibited by the Recovery Act. As a result, about \$84 million in SFSF-Education funds and more than \$24 million in SFSF-Government funds were at increased risk of fraud, waste, and abuse. Given the current economic climate, subrecipients might be experiencing tight budget constraints, increasing the risk of unallowable or inadequately documented expenditures or misuse of funds related to Recovery Act programs.

## RECOMMENDATION

We recommend that the Director of the Implementation and Support Unit require Missouri to—

- 1.1 Instruct all Missouri subrecipients to (a) clearly account for the receipt and expenditure of all SFSF funds and (b) provide Missouri with written assurances that they have adequately accounted for all SFSF funds.

### Auditee Comments

Missouri stated that it did not entirely concur with the finding.

Missouri concurred with draft Recommendation 1.1, stating that DESE and the Missouri Department of Higher Education will provide guidance to subrecipients concerning accounting for the receipt and expenditure of SFSF funds. In addition, the Office of Administration will require subrecipients to provide written assurances that they have adequately accounted for all SFSF funds by March 31, 2011. On March 28, 2011, the Office of Administration informed us that it had received written assurances from the LEAs, which stated that the LEAs had adequately accounted for all SFSF funds.

Missouri did not concur with draft Recommendation 1.2, which instructed Missouri to develop formal interagency agreements between the Office of Administration and the State agencies receiving SFSF funds. Missouri stated that formal interagency agreements between the Office of Administration and the State agencies receiving SFSF funds are not necessary to administer the SFSF grants. The State agencies (Office of Administration, DESE, and Missouri Department of Higher Education) are part of the Executive branch of State government, and there can be seamless cooperation on financial oversight without formal agreements. However, the Office of Administration will continue to work closely with the State agencies to ensure that the State agencies are aware of their roles and responsibilities for monitoring subrecipients' accounting for and use of SFSF funds.

Missouri partially concurred with draft Recommendation 1.3, which instructed Missouri to return to the Department \$272,627 in SFSF-Education funds that were used for the payment of potentially unallowable maintenance costs. However, instead of returning to the Department the SFSF funds that possibly were used for unallowable purposes, Missouri stated that DESE would provide us with documentation showing that the LEAs reclassified the \$272,627, charging the costs to State and local sources instead of SFSF funds. DESE provided us the supporting documentation on March 28, 2011.

### OIG Response

We made changes to the finding and removed draft Recommendations 1.2 and 1.3. By April 2011, Missouri had received and expended the majority of its SFSF-Education and SFSF-Government funds. Because it would be impractical for the Office of Administration to put interagency agreements in place for the administration of SFSF funds after the majority of SFSF funds have been expended, we removed the recommendation pertaining to interagency agreements. We also examined the supporting documentation that DESE provided and determined that the \$272,627 in maintenance costs that subrecipients originally charged to

SFSF-Education funds were reassigned to non-SFSF sources in the subrecipients' accounting records. Therefore, we removed references to the \$272,627 from the final audit report.

## **FINDING NO. 2 – Missouri and Its Subrecipients Did Not Always Follow Federal Cash Management Requirements**

Neither DESE's nor the three subrecipients' cash management policies and procedures were aligned with Federal cash management requirements. DESE did not monitor whether subrecipients had positive cash balances on hand before it disbursed the subrecipients' next Recovery Act monthly payments. In addition, all three of the subrecipients (Kansas City, St. Louis, and the University of Missouri) we visited did not adequately monitor their SFSF accounts for excess cash.

### **Noncompliance with Cash Management Requirements at the Prime Recipient-Level**

DESE did not have an adequate process for monitoring subrecipients' cash balances on hand before it disbursed the subrecipients' next Recovery Act monthly payments. DESE considered monitoring LEAs for excess cash as part of its program monitoring for Title I and IDEA, which is conducted using a risk-based approach, as sufficient control. As required by the Missouri School Improvement Program, DESE conducts on-site monitoring of its Title I program at every LEA at least once every 5 years (currently, SFSF is not included in DESE's monitoring protocols). Some LEAs are monitored more frequently than every 5 years using a risk assessment based on size, audit issues, allegations, and failure to meet maintenance of effort requirements. However, using this risk-based approach, some LEAs that are considered lower risk could maintain excess cash balances for 5 years until DESE would detect the balances. Whether LEAs are monitored every 5 years or more frequently, LEAs' cash balances should be monitored on an on-going basis rather than periodically to provide reasonable assurance that Recovery Act payments are not made too far in advance of LEAs' needs.

### **Noncompliance with Cash Management Requirements at the Subrecipient-Level**

We found the following instances of non-compliance with Federal cash management requirements at the three subrecipients we visited.

#### ***Kansas City Missouri School District***

Kansas City received SFSF funds from DESE beginning in July 2009. SFSF-Education funds were disbursed to Kansas City based on a funding formula rather than based on actual cash needs. Also, as discussed in Finding No. 1, Kansas City recorded the SFSF-Education and SFSF-Government funds as revenue but did not create accounting codes to separately account for SFSF-Education and SFSF-Government expenditures. Because it did not create separate accounting codes for its SFSF expenditures, Kansas City did not have the means to detect whether it had excess cash balances on hand before it received subsequent disbursements of SFSF funds.

#### ***St. Louis Public Schools***

St. Louis' interest calculations included the Recovery Act Title I and IDEA programs. However, St. Louis did not accurately calculate cash balances when it determined the amount of interest to

remit to the Department.<sup>3</sup> When St. Louis calculated its monthly cash balances to determine whether interest was due, it

- included revenue from other programs (Safe Schools, Homeless Education, and Title II) with revenue for the Recovery Act Title I program;
- deducted Recovery Act Title I salary expenditures at the end of each month instead of when the salaries were actually paid or expended;
- deducted indirect costs inconsistently at the end of each quarter or month instead of when the indirect costs were actually incurred;
- included unidentified credits in its Recovery Act Title I expenditures for March 2010, which increased St. Louis' monthly cash balance on hand; and
- completed its interest calculations to determine the amount of interest it must remit to the Department for the Recovery Act Title I and IDEA programs annually, even though Federal regulations stipulate that LEAs must remit interest at least quarterly.

St. Louis received SFSF funds from DESE beginning in July 2009, but it did not establish accounting codes to separately account for its SFSF-Government expenditures. It established accounting codes for SFSF-Education funds, which it used for personnel costs, but it did not maintain records sufficient to identify the specific employees or pool of employees paid with SFSF funds.

St. Louis officials believed that the disbursements from DESE were reimbursing the district for previous expenditures. Therefore, they did not believe that they needed a process to detect whether St. Louis had cash balances on hand before receiving subsequent disbursements. However, our recalculations of St. Louis' monthly cash balances for the Recovery Act Title I program showed that St. Louis might have had cash balances on hand during 6 of the 9 months tested yet still received its next scheduled transfer of funds from DESE. For example, during January 2010, records indicated that St. Louis had a cash balance on hand of as much as \$1.2 million. Because of the inaccuracies and inconsistencies noted above, we could not determine definitively whether St. Louis had positive cash on hand.

### *The University of Missouri*

The University of Missouri received SFSF funds from the Missouri Department of Higher Education beginning in September 2009. The University of Missouri established revenue codes for the SFSF funds but did not establish accounting codes to separately account for SFSF expenditures. The University of Missouri considered itself on the reimbursement method, because it did not receive its first SFSF funds until September 2009. The September 2009 disbursement included monthly disbursements for July and August 2009.

Post-September 2009 disbursements were received at the beginning of each month and expended during the month, which could result in cash balances on hand before the University of Missouri received subsequent disbursements. However, because the University of Missouri considered itself on the reimbursement method and because it did not create accounting codes for its

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<sup>3</sup> The last time that St. Louis calculated positive cash balances and had interest that needed to be remitted to the Department was for the fiscal year that ended June 30, 2007.

SFSF expenditures, it neither monitored cash balances on hand before it received its next disbursement from the Missouri Department of Higher Education nor calculated interest earned on excess cash.

### **Federal Regulations Outline Cash Management Requirements**

The Department's guidance for funds made available under the Recovery Act addresses the fiscal rules for these funds. The guidance states that the Recovery Act funds made available under the Title I, IDEA, and SFSF programs must follow the requirements set forth at 34 C.F.R. § 80.21(b) and 34 C.F.R. § 80.21(i). Federal regulations at 34 C.F.R. § 80.21 prescribe the basic standard and the methods under which grantees will make payments to subgrantees. The basic standard is that the procedures for payment will minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee. The regulations address two payment methods:

1. **Advances.** Grantees and subgrantees are 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.
2. **Reimbursement.** Reimbursement is the preferred method when the requirements for advances are not met.

In addition, 34 C.F.R. § 80.21(i) states that grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Department. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenditures.

According to 34 C.F.R. § 80.40(a), grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and achievement of performance goals. Monitoring must cover each program, function, or activity.

### **Noncompliance with Cash Management Requirements Increases the Risk of Harm to the Federal Interest**

The incorrect computation of cash balances and interest earned could result in a reduction of interest earnings reported or remitted to the Department. Prime recipients must not draw and disburse Federal funds before subrecipients need the funds. The U.S. Department of the Treasury incurs additional borrowing costs when the prime recipient draws and disburses Federal funds to subrecipients in advance of their immediate cash needs. Because of the Federal deficit, the U.S. Department of the Treasury must borrow the cash needed to fund Federal programs and, as a result, incurs interest costs. Federal funds also should not be drawn prematurely because the funds might be more susceptible to misuse when held in local accounts for extended periods.



## RECOMMENDATIONS

We recommend that the Chief Financial Officer require Missouri to—

- 2.1 Strengthen its procedures for monitoring subrecipients' cash balances on hand prior to disbursing subrecipients' next Recovery Act monthly payments. The procedures should be sufficient to minimize the time elapsing between the transfer by the State of Federal Recovery Act and non-Recovery Act funds and disbursement to the subrecipients.
- 2.2. Ensure Missouri subrecipients implement procedures for monitoring cash balances, calculating interest earned on positive cash balances, and remitting interest in a timely manner. The procedures should be sufficient to minimize the amount of time between the receipt and expenditure of funds by the subrecipients.

### Auditee Comments

Missouri did not entirely concur with the finding.

Missouri partially concurred with Recommendation 2.1, which recommended Missouri strengthen its procedures for monitoring subrecipients' cash balances on hand prior to disbursing subrecipients' next Recovery Act monthly payments. To strengthen monitoring of cash balances for LEAs, Missouri stated that DESE would include a field on the internal grant system to include cash balances on hand prior to disbursing payments. The change should be completed by June 30, 2011. As far as Recommendation 2.1 relates to IHEs, Missouri stated that because the Missouri Department of Higher Education disbursed SFSF funds to IHEs in 1/12 increments each month with the disbursements for July and August 2009 made in September 2009, the IHEs operated on a reimbursement basis. Therefore, there was no need for a procedure to monitor cash balances.

Missouri concurred with Recommendation 2.2, which instructed Missouri to ensure Missouri subrecipients implement procedures for monitoring SFSF cash balances, calculating interest earned on positive cash balances, and remitting interest in a timely manner. Missouri stated that DESE would send out guidance, by March 31, 2011, to LEAs on calculating interest earned on positive cash balances and timely remitting of interest earned. Missouri also stated that the Missouri Department of Higher Education would provide the IHEs with (a) information on Federal cash management requirements and (b) guidance by March 31, 2011, on calculating interest earned on positive cash balances and timely remitting of interest earned.

### OIG Response

We did not revise our finding or our recommendations. None of the three subrecipients we visited properly accounted for SFSF expenditures. Therefore, it was not possible for us to verify whether SFSF funds were expended before subrecipients received additional monthly payments. Also, the Missouri Department of Higher Education is not in compliance with cash management requirements when it assumes that subrecipients have expended SFSF funds before receiving additional payments and does not monitor cash balances.

### **FINDING NO. 3 – Missouri Did Not Ensure Reported Data Were Accurate, Reliable, and Complete**

The three subrecipients we visited did not adequately account for SFSF-Education expenditures. Because we could not identify specific personnel costs supported by SFSF-Education funds, we could not determine whether the subrecipients' methods for calculating full-time equivalents (FTE) for jobs created or retained resulted in the over- or underreporting of FTEs. However, we did determine that all three of the subrecipients we visited inaccurately reported jobs created or retained data for the quarterly reporting period that ended December 31, 2009.

- Kansas City and St. Louis determined the number of jobs created or retained with SFSF-Education funds by dividing their SFSF allocations by average teacher salary. For example, Kansas City's SFSF allocation was \$16,844,861 and the average teacher salary was \$66,845. Therefore, Kansas City considered 252 jobs as created or retained by Recovery Act funds. However, this method did not consider the actual hours worked by individuals whose jobs were created or retained by Recovery Act SFSF funds.
- The number of jobs Kansas City and St. Louis reported as created or retained with Recovery Act Title I funds included unfilled positions. Kansas City reported 10.5 unfilled positions, and St. Louis reported 5 unfilled positions. However, Kansas City and St. Louis should not have included unfilled positions.
- The University of Missouri determined the number of jobs created or retained with SFSF-Education funds by dividing its SFSF allocation by average compensation. However, the University of Missouri did not consider the number of actual hours worked or the percentage of effort directly charged to Recovery Act awards.

According to OMB's "Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates" (December 18, 2009), the estimate of the number of jobs created or retained by the Recovery Act should be expressed as FTE. In calculating FTE,

the number of actual hours worked in funded jobs are divided by the number of hours representing a full work schedule for the kind of job being estimated. These FTEs are then adjusted to count only the portion corresponding to the share of the job funded by Recovery Act funds. Alternatively, in cases where accounting systems track the billing of workers' hours to Recovery Act and non-Recovery Act accounts, recipients may simply count the number of hours funded by the Recovery Act and divide by the number of hours in a full-time schedule.

OMB recognized that practices vary among educational institutions as to the activity constituting a full workload. Therefore, the guidance allows IHEs to consider percentage of effort when calculating FTE: "For recipients of assistance agreements that must comply with OMB Circular A-21, Cost Principles for Educational Institutions, an alternative calculation based upon the allocable and allowable portion of activities expressed as a percentage is acceptable to estimate jobs created and retained."

OMB's updated guidance defined a job created as a new position created and filled, or previously unfilled position that is filled, that is funded by the Recovery Act. OMB defined a job retained as an existing position that is now funded by the Recovery Act.

Although DESE and the Missouri Department of Higher Education reviewed SFSF jobs' data submitted by LEAs and IHEs for reasonableness, the review procedures were not sufficient to ensure that reported data were accurate, reliable, and complete. On December 31, 2009, DESE provided LEAs with a memorandum regarding the issuance of OMB's updated guidance for the reporting of jobs created or retained. The memorandum directed the LEAs to access their previously submitted web report forms and specify whether they were using Recovery Act funds for salaries. Although DESE's memorandum contained a link to the updated guidance, DESE did not provide specific instructions to LEAs (other than directing LEAs to specify on the web report form whether they used Recovery Act funds for salaries).

The subrecipients we visited did not accurately report jobs created or retained data for a variety of reasons. Because the subrecipients did not adequately account for SFSF-Education expenditures, they could not adhere to OMB's updated guidance and consider actual hours worked, or percentages of effort, when calculating FTE for jobs created or retained with SFSF-Education funds. Additionally, Kansas City's Grant Compliance and Financial Reporting Manager stated that Kansas City was following DESE's previously issued guidance rather than OMB's updated guidance. According to the University of Missouri's Assistant Controller, Sponsored Programs Administration, the University of Missouri was in compliance with OMB's guidance for calculating jobs created or retained because an educational institution is not required to calculate jobs based on the number of hours worked. The University of Missouri implemented the option to calculate jobs based on the allowable portion of Recovery Act funded compensation expressed as an FTE percentage. However, the method that the University of Missouri used for calculating jobs created or retained with SFSF-Education funds did not actually consider percentage of effort. St. Louis' Director of Federal Grants stated that the timing of OMB's updated guidance, which was issued when St. Louis' offices were closed for winter break, presented a challenge.

## **RECOMMENDATION**

We recommend that the Director of the Implementation and Support Unit, in conjunction with the Assistant Secretary for Elementary and Secondary Education, require Missouri to—

- 3.1 Enhance its procedures to provide reasonable assurance that all subrecipients (LEAs and IHEs) understand applicable guidance and report accurate jobs created or retained data for the Recovery Act Title I and SFSF-Education programs.

### **Auditee Comments**

Missouri stated that it did not entirely concur with the finding.

Missouri concurred with Recommendation 3.1, which instructed Missouri to enhance its procedures to provide reasonable assurance that all subrecipients (LEAs and IHEs) understand applicable guidance and report accurate jobs created or retained data for the Recovery Act Title I

and SFSF-Education programs. Missouri stated that DESE altered its procedures and now provides guidance quarterly to the LEAs to ensure that accurate jobs created or retained data are reported. In addition, the Missouri Department of Higher Education will continue to provide information to the IHEs to ensure that they are aware of § 1512 reporting requirements. However, Missouri stated that formal interagency agreements between the Office of Administration and the State agencies receiving SFSF funds are not necessary to administer the SFSF grants. The State agencies (Office of Administration, DESE, and Missouri Department of Higher Education) are part of the Executive branch of State government, and there can be seamless cooperation on financial oversight without formal agreements.

### **OIG Response**

We made changes to the finding and removed draft Recommendation 3.2, which instructed Missouri to develop formal interagency agreements that would define agency roles and responsibilities for monitoring subrecipients' Recovery Act § 1512 reporting requirements for SFSF funds. By April 2011, Missouri had received and expended the majority of its SFSF-Education and SFSF-Government funds. Because it would be impractical for the Office of Administration to put interagency agreements in place for the administration of SFSF funds after the majority of SFSF funds have been expended, we removed the recommendation pertaining to interagency agreements.

## **OTHER MATTERS**

During our audit, we identified an issue that we considered important enough to bring to the attention of Missouri and Department officials but not significant enough to include as a finding.

### **Kansas City Reported Inaccurate Amounts That Were Paid to Vendors**

Kansas City underreported its IDEA vendor payments in DESE's Recovery Act reporting system during the quarterly reporting period that ended December 31, 2009. Kansas City made vendor payments of \$664,521 for the quarterly reporting period but reported only \$373,846. Kansas City's Grant Compliance and Financial Reporting Manager stated that the reporting timelines impacted Kansas City's ability to report with accuracy. Kansas City processed cash disbursements after the reporting deadline but before the end of the quarter.

OMB's data dictionary defines "Total Federal Amount of Recovery Act Expenditures" as the amount of Recovery Act funds received that were expended on projects or activities. DESE's Associate Commissioner, Administrative and Financial Services, informed us that DESE's § 1512 reported expenditures equal the payments made to LEAs. Although DESE reported Recovery Act expenditures to [FederalReporting.gov](http://FederalReporting.gov) in accordance with OMB's guidance, DESE should ensure that Kansas City is reporting accurate vendor payments in DESE's Recovery Act reporting system for future reporting periods so that DESE is better able to monitor Kansas City's Recovery Act expenditures.

## SCOPE AND METHODOLOGY

The objectives of our audit were to determine whether Missouri and its subrecipients (1) used Recovery Act funds in accordance with applicable laws, regulations, and guidance; and (2) reported Recovery Act data that were accurate, reliable, complete, and in compliance with Recovery Act reporting requirements. This report provides the results of the audit we conducted at DESE, the Missouri Department of Higher Education, Kansas City, St. Louis, and the University of Missouri. We focused our audit on State-level and local-level uses of funds and data quality related to Title I, IDEA, and SFSF funds received through the Recovery Act. For use of funds, we reviewed expenditures incurred from July 2009 through February 2010. For data quality, we reviewed data for the quarterly reporting periods that ended September 30, 2009, and December 31, 2009.

To achieve our objectives, we performed the following procedures.

1. Obtained background information about the programs, activities, and organizations being audited.
2. Reviewed Recovery Act guidance issued by OMB and the Department, OMB Circulars, and Federal laws and regulations to gain an understanding of the requirements applicable to States' and subrecipients' uses of funds and reporting of data.
3. Reviewed the "State of Missouri Single Audit Year Ended June 30, 2007," and the "State of Missouri Single Audit Year Ended June 30, 2008," prepared by the Missouri State Auditor as well as Kansas City's, St. Louis', and the University of Missouri's Single Audit reports prepared by independent public accountants for fiscal years 2008 and 2009 to determine whether prior reports contained findings relevant to our audit objectives.
4. Identified from the Department's grant award notifications the amount of Recovery Act Title I, IDEA, and SFSF funds allocated to DESE and the Office of Administration.
5. Identified from Missouri's Recovery Act Reporting System the amount of funds disbursed by DESE and the Missouri Department of Higher Education to LEAs and IHEs.
6. Interviewed various auditee officials and obtained auditee responses to questionnaires to gain an understanding of the systems of internal control over use of funds, cash management, and data quality.
7. Tested Missouri's system of internal control over minimizing the time between receipt of Federal funds and disbursement and Missouri's and subrecipients' systems of internal control over computing and timely remitting all interest earned on Federal funds. For DESE, we judgmentally selected 2 of 47 receipts that occurred from September 2009 through January 2010. We selected the receipts because it appeared DESE might have had a positive cash balance prior to the receipt. For the Missouri Department of Higher Education, we compared the dates it received SFSF funds to the dates that it disbursed the funds for the months of September 2009 through March 2010.
8. Tested various data elements, including the amount of the subaward, subaward funds disbursed, and jobs created and retained, at the prime recipient and selected subrecipients to ensure that data reported to the Federal government were accurate, reliable, complete, and in compliance with Recovery Act reporting requirements.

9. Selected three subrecipients (Kansas City, St. Louis, and the University of Missouri), based on risk factors such as the amount of Recovery Act funds allocated and expended and Single Audit findings, from a universe of 529 subrecipients to determine whether Recovery Act personnel and non-personnel expenditures were allowable.
10. Tested all three subrecipients' Recovery Act receipts and expenditures to ensure that the time between receipt and expenditure of Recovery Act funds was minimized and any interest earned on Recovery Act funds, if applicable, was properly calculated and returned to the Department.<sup>4</sup> For Kansas City, we judgmentally selected 8 of 47 Recovery Act Title I expenditures. Our sample for cash management purposes totaled \$481,462 and represented 33 percent of the total universe of \$1,466,388 (we selected expenditures based on the dollar value). We also judgmentally selected 8 of 55 Recovery Act IDEA expenditures to test for cash management purposes. We used judgmental sampling so that we could select the highest dollar items and cover more of the universe. Our sample totaled \$640,551 and represented 58 percent of the total universe of \$1,112,437.

To test Kansas City's uses of Recovery Act funds, we judgmentally selected samples of personnel and non-personnel expenditures charged to the Recovery Act Title I and IDEA programs. We used judgmental sampling so that we could select pay codes that represented the largest type of personnel expenditures for Kansas City and select personnel expenditures that occurred in October, which we considered a typical payroll month. We also used judgmental sampling so that we could select larger dollar value transactions, which allowed us to cover more of the universe, and transactions that appeared unusual, which represented greater risk. For Kansas City's Recovery Act Title I program, we selected personnel expenditures for 10 of 191 employees and 11 of 1,349 non-personnel expenditures. For Kansas City's Recovery Act IDEA program, we selected personnel expenditures for 8 of 131 employees and 13 of 485 non-personnel expenditures. We judgmentally selected larger dollar value transactions and transactions that appeared unusual for the program. We considered an expenditure to be unusual if it was a type not normally associated with the program, contained an ambiguous description (such as consulting fees), or was from a little known vendor. (See Table 3.)

<b>Program</b>	<b>Expenditure Type</b>	<b>Universe Size</b>	<b>Sample Size</b>	<b>Percentage of Universe Sampled %</b>	<b>Sample Method</b>
IDEA	Personnel	\$243,621	\$3,183	1	Judgmental
IDEA	Non-personnel	\$891,691	\$162,301	18	Judgmental
Title I	Personnel	\$1,473,903	\$13,023	1	Judgmental
Title I	Non-personnel	\$196,520	\$26,719	14	Judgmental

For St. Louis, we recalculated cash balances on hand, which included receipts and expenditures from August through March 2010. We tested all \$5,266,563 in Recovery Act Title I and all \$1,894,686 in Recovery Act IDEA expenditures for cash management purposes. To test

<sup>4</sup> We did not test uses of SFSF funds because subrecipients did not account for SFSF expenditures in their accounting systems (See Finding No. 1). The University of Missouri is not included in a table because it received only SFSF-Education and Government funds.

St. Louis' uses of Recovery Act funds, we judgmentally selected a sample of 10 of 48 non-personnel expenditures charged to the Recovery Act IDEA programs. We used judgmental sampling so that we could select larger dollar value transactions and transactions that appeared unusual. For St. Louis, we also randomly selected Recovery Act Title I program personnel expenditures covering 10 of 310 employees and judgmentally selected 5 of 3,555 non-personnel expenditures. We used random sampling to ensure that the sample was representative of the population. We used judgmental sampling to ensure that we selected larger dollar value transactions and transactions that appeared unusual. (See Table 4.)

<b>Program</b>	<b>Expenditure Type</b>	<b>Universe Size</b>	<b>Sample Size</b>	<b>Percentage of Universe Sampled %</b>	<b>Sample Method</b>
IDEA <sup>1</sup>	Non-personnel	\$1,497,919	\$438,083	29.00	Judgmental
Title I	Personnel	\$3,379,812	\$8,018	0.24	Random
Title I	Non-personnel	\$827,998	\$44,140	5.00	Judgmental

<sup>1</sup> St. Louis did not use Recovery Act IDEA funds for personnel expenditures.

We also relied, in part, on computer-processed data from Missouri's State reporting tool and DESE's Recovery Act reporting system. To determine whether the computer-processed data were reliable, we first gained a limited understanding of related computer system controls by interviewing Office of Administration, Information Technology Services Division, and DESE employees charged with maintaining and processing the reporting systems' data. We also reviewed the systems' written security procedures and analyzed quarterly reporting data contained in DESE's system for the reporting periods that ended September 30, 2009, and December 31, 2009. We performed various logic tests on the data, and our review did not reveal any missing data that would indicate the data were not reliable. The relationships between the data elements were logical, and no dates were outside of valid time frames or in an illogical progression.

We performed additional analysis on the reporting data. Our additional analysis included comparing selected subrecipient data elements to the corresponding prime recipient data elements. We also ensured that data contained in the Recovery Act reporting systems were accurately reported to FederalReporting.gov. At the subrecipient level, we compared the data for subaward, subaward funds disbursed, and jobs to corroborating documentation maintained by the subrecipients. Corroborating documents included bank statements, vendor invoices, purchase orders, and cancelled checks. Based on our assessment and comparison of selected data elements, revenues, and expenditures to source documents, we concluded that the data were sufficiently reliable for the purposes of our audit.

We performed this audit at DESE and the Missouri Department of Higher Education (Jefferson City, Missouri), Kansas City (Kansas City, Missouri), St. Louis (St. Louis, Missouri), the University of Missouri (Columbia, Missouri), and our offices from January through October 2010. We discussed the results of our audit with DESE officials on August 27, 2010;

with the Missouri Department of Higher Education and Office of Administration officials on September 7, 2010; with Kansas City officials on September 16, 2010; with University of Missouri officials on September 22, 2010; and with St. Louis officials on September 29, 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.



## **Enclosure:**

### **Auditee Comments**

Subsequent to Missouri's official comments, the Office of Administration and DESE provided additional documentation. Because of the voluminous nature of the additional documentation, we are not including it in this report. However, the additional documentation is available upon request.

**NOTE:** We removed draft Recommendations 1.2, 1.3, and 3.2 from the final report. Therefore, the reference in Missouri's comments to Recommendations 1.2, 1.3, and 3.2 relate to the draft recommendations and not the final recommendations included in this final audit report.

**Enclosure**

**Jeremiah W. (Jay) Nixon**  
Governor



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**Kelvin L. Simmons**  
Commissioner

**Linda S. Luebbering**  
Director  
Budget and Planning

February 11, 2011

Gary D. Whitman  
Regional Inspector General for Audit  
U.S. Department of Education  
Office of Inspector General  
500 W. Madison St., Suite 1414  
Chicago, IL 60661

Dear Mr. Whitman,

Thank you for the opportunity to respond to the draft audit report, Control Number ED-OIG/A07K0002 (State of Missouri: Use of and Reporting on Selected American Recovery and Reinvestment Act of 2009 Program Funds). Our comments are detailed below.

**FINDING NO.1 – Not all Missouri Subrecipients Accounted for or Used SFSF in Accordance with Applicable Laws, Regulations and Guidance**

We do not concur with this finding in its entirety.

Note: Pages 4 and 5 of the report read that the three subrecipients received \$47.8 million in SFSF-Education funds and \$12 million in SFSF-Government Services Funds. This is incorrect. Table 2 on page 3 correctly shows that the three subrecipients received \$84 million in SFSF-Education funds and \$24.5 million in SFSF-Government Services Funds.

**RECOMMENDATIONS:**

**1.1. Require all Missouri subrecipients to (a) clearly account for the receipt and expenditure of all SFSF funds and (b) provide Missouri with written assurances that they have adequately accounted for all SFSF funds.**

We concur with the recommendation.

Corrective Action Plan:

The DESE and DHE will provide guidance to the LEAs and IHEs concerning accounting for the receipt and expenditure of all SFSF funds, and request written assurances from the LEAs and IHEs that they have adequately accounted for all SFSF funds by March 31, 2011.

**1.2. Develop formal interagency agreements between the Office of Administration and the State agencies receiving SFSF funds. The agreements would define agency roles and responsibilities for monitoring subrecipients' accounting for and use of SFSF funds.**

We do not concur with this recommendation. We do not believe a formal interagency agreement between the Executive Office of the State of Missouri and the Missouri Department of Higher Education (MDHE) or the Missouri Department of Elementary and Secondary Education (DESE) is necessary for the administration of SFSF. The MDHE, DESE and the Office of Administration (OA) work very closely together on the administration of these funds, as they do on the administration of all other relevant funds. Since all three agencies are part of the Executive Branch of state government, there can be seamless cooperation on financial oversight without formal interagency agreements.

Corrective Action Plan:

We will continue to work closely together to ensure each agency is aware of their roles and responsibilities for monitoring subrecipients' accounting for and use of SFSF funds.

**1.3. Ensure that the \$273,000 in SFSF-Education funds that were used for the unallowable payment of maintenance costs were returned to the Department.**

We partially concur with this recommendation.

Corrective Action Plan:

We will ensure that SFSF-Education funds are not used for unallowable costs. The DESE proposes to provide the OIG with documentation of the correction by the LEAs for the \$273,000 in unallowable expenditures in lieu of returning the funds to the Department. The documentation will be provided on or before March 31, 2011.

**FINDING NO.2 – Missouri and Its Subrecipients Did Not Always Follow Federal Cash Management Requirements**

We do not concur with this finding in its entirety.

**RECOMMENDATIONS**

**2.1. Strengthen procedures for monitoring subrecipients' cash balances on hand prior to disbursing subrecipients' next Recovery Act monthly payments. The procedures should be sufficient to minimize the time elapsing between the transfer by the State of Federal Recovery Act and non-Recovery funds and disbursement to the subrecipients.**

The DESE concurs with the recommendation.

Corrective Action Plan:

The DESE is in the process of working with the Office of Administration-Information Technology Services Division to include a field on the internal grant system to include cash balances on hand prior to disbursing payments. This should be completed by June 30, 2011.

The DHE does not concur with this recommendation. SFSF funds were disbursed to the IHEs in 1/12 increments each month with the disbursements for July and August 2009 made in September 2009. The IHEs therefore operated on a reimbursement basis and do not need a procedure to monitor cash balances.

Corrective Action Plan:

The DHE will again provide the IHEs with information on federal cash management requirements.

**2.2. Ensure the Missouri subrecipients implement procedures for monitoring SFSF cash balances, calculating interest earned on positive cash balances, and remitting interest in a timely manner. The procedures should be sufficient to minimize the amount of time between the receipt and expenditure of funds by the subrecipients.**

We concur with this recommendation.

Corrective Action Plan:

The DESE and DHE will send out guidance to the LEAs and IHEs concerning calculating interest earned on positive balances and remitting interest in a timely manner. This will be done by March 31, 2011.

**FINDING NO.3 – Missouri Did Not Ensure Data Reported Were Accurate, Reliable, and Complete**

We do not concur with this finding in its entirety.

**RECOMMENDATIONS:**

**3.1. Enhance its procedures to provide reasonable assurances that all subrecipients (LEAs and IHEs) understand applicable guidance and report accurate jobs created or retained data for the Recovery Act Title I and SFSF-Education programs.**

We concur with this recommendation.

Corrective Action Plan:

The DESE has altered its procedures and now provides guidance quarterly to the LEAs to ensure that accurate jobs created or retained data is remitted.

The DHE will continue to provide information to the IHEs to ensure they are aware of the 1512 reporting requirements.

**3.2. Develop formal interagency agreements between the Office of Administration and the State agencies receiving SFSF that would define agency roles and responsibilities for monitoring subrecipients' Recovery Act 1512 reporting requirements for SFSF grants.**

We do not concur with this recommendation. We do not believe a formal interagency agreement between the Executive Office of the State of Missouri and the Missouri Department of Higher Education (MDHE) or the Missouri Department of Elementary and Secondary Education (DESE) is necessary for the administration of SFSF. The MDHE, DESE and the Office of Administration (OA) work very closely together on the administration of these funds, as they do on the administration of all other relevant funds. Since all three agencies are part of the Executive Branch of state government, there can be seamless cooperation on financial oversight without formal interagency agreements. In addition, the Office of Administration provided guidance to the departments on Recovery Act reporting requirements.

**OTHER MATTERS – Recovery Act Programs Should Be Covered by Missouri's Treasury-State Agreement**

The State of Missouri has discussed the ARRA Act funds with the U.S. Department of Treasury. Based on those discussions, we do not believe our TSA needs to be modified. It is our understanding that in order for a program to be listed in the TSA, it needs to undergo the regular determination process: complete Single Audit, calculate total federal financial assistance and a corresponding threshold, and determine the major programs. In the meantime, programs are subject to subpart B of the CMIA regulations, which requires States to draw down Federal funds "as close as is administratively feasible to a state's actual cash outlay." Further "Neither a State nor the Federal government will incur an interest liability under this part on the transfer of funds for a Federal assistance program subject to subpart B."

If you have questions or need further clarification, please contact me at 573-751-2345.

Sincerely,

Linda S. Luebbering  
State Budget Director

c: Dr. Chris Nicastro – DESE  
Dr. Ronald Lankford – DESE  
Dr. David Russell – DHE  
Paul Wagner - DHE  
Judy Eggen – OA-B&P

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