



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



# **American Recovery and Reinvestment Act**

## **Utah: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs**

### **Final Audit Report**



**ED-OIG/A09K0001**

**May 2011**



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES  
SACRAMENTO REGION

May 13, 2011

Ron Bigelow  
Executive Director  
Utah Governor's Office of Planning and Budget  
State Capitol, Suite 150  
Salt Lake City, Utah 84114

Larry Shumway, Ed.D.  
State Superintendent of Public Instruction  
Utah State Office of Education  
250 East 500 South  
Salt Lake City, Utah 84114

Dear Mr. Bigelow and Dr. Shumway:

This **final audit report**, Control Number ED-OIG/A09K0001, presents the results of our audit titled "Utah: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs." The purpose of the audit was to determine whether selected State and local recipients and subrecipients in Utah (1) used Recovery Act funds in accordance with applicable laws, regulations, and guidance; and (2) reported data that were accurate, reliable, complete, and in accordance with Recovery Act reporting requirements.

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. Determinations of corrective action to be taken, including the recovery of funds, will be made by the appropriate Department of Education officials in accordance with the General Education Provisions Act.

This report incorporates the comments you provided in response to our preliminary 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 Department of Education officials, who will consider them before taking final Departmental action on this audit:

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

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

Sincerely,

/s/

Raymond Hendren  
Regional Inspector General for Audit

Enclosures

## **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
FTEs	Full-time Equivalents
Granite	Granite School District
IDEA	Individuals with Disabilities Education Act, Part B
IHEs	Institutions of Higher Education
LEAs	Local Educational Agencies
Nebo	Nebo School District
OIG	Office of Inspector General
OMB	Office of Management and Budget
Planning and Budget	Governor's Office of Planning and Budget
Recovery Act	American Recovery and Reinvestment Act of 2009
Salt Lake CC	Salt Lake Community College
SFSF	State Fiscal Stabilization Fund
Title I	Title I, Part A of the Elementary and Secondary Education Act
USTAR	Utah Science Technology and Research
Utah Education	Utah State Office of Education
Utah Housing	Utah Housing Corporation
Utah U	University of Utah

## **Utah: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs**

Control Number ED-OIG/A09K0001

### **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 Act. The U.S. Department of Education (Department) is ultimately responsible for ensuring that education-related Recovery Act funds reach intended recipients and achieve intended results. This report provides the results of our audit to determine whether selected recipients and subrecipients in Utah: (1) used Recovery Act funds in accordance with applicable laws, regulations, and guidance; and (2) reported data that were accurate, reliable, complete, and in compliance with Recovery Act reporting requirements.

We reviewed four education-related programs funded under the Recovery Act: State Fiscal Stabilization Fund (SFSF) Education Stabilization; SFSF Government Services; Title I, Part A of the Elementary and Secondary Education Act (Title I); and the Individuals with Disabilities Education Act, Part B (IDEA). We reviewed selected costs charged to these grants from February 17 to December 31, 2009, and data reported for the quarterly reporting period ending December 31, 2009. Our review covered four data elements that must be reported under Section 1512 of the Recovery Act—estimated number of jobs created or retained, vendor information, amount of funds received, and amount of funds spent.

### **RESULTS IN BRIEF**

The State and local recipients and subrecipients we reviewed did not consistently use Recovery Act funds in accordance with applicable laws, regulations, and guidance. Our review identified several instances of noncompliance with applicable Federal requirements. Two State entities we reviewed made improper charges to the SFSF Government Services grant totaling more than \$65,000. One of these entities also did not remit interest earned on Recovery Act funds that were received before the funds were needed to cover program costs. At one of the two local educational agencies (LEAs) reviewed, we identified more than \$1.3 million in improper Title I and IDEA charges as well as significant internal control weaknesses. Additionally, neither LEA maintained sufficient documentation to support personnel costs charged to Title I and IDEA grants.

For the Section 1512 reporting period ending December 31, 2009, we concluded that the recipients covered by our review generally reported accurate, reliable, and complete information for only one of the four data elements reviewed—the amount of funds received. In contrast, we identified data quality issues related to the estimated number of jobs, vendor information, and amount of funds spent, as well as inadequate controls over reporting. Because of the data quality issues and internal control weaknesses we identified at the Governor's Office of Planning and

Budget (Planning and Budget) and the Utah State Office of Education (Utah Education), we determined that the data for the number of jobs, vendor information, and amount of funds spent that were reported on Recovery.gov for the reporting period ending December 31, 2009, were not reliable. Utah Education also improperly included Federal expenditures and certain inappropriate State and local expenditures in its Title I school-by-school per-pupil expenditures report submitted to the Department. As a result, the report does not accurately portray State and local expenditures at the school level and cannot be relied upon by the Department.

In response to our monetary findings, the entities told us they had corrected the deficiencies by adjusting the charges made to the applicable Recovery Act grants. Several entities also implemented or were in the process of implementing corrective actions to improve their internal controls and monitoring procedures to ensure that Recovery Act funds are used in accordance with Federal requirements and that high quality data are reported under Section 1512. Many of the corrective actions were implemented after we completed our on-site work and, thus, were not verified by us. This report discusses (1) instances of improper uses of Recovery Act funds and Section 1512 data quality issues, (2) specific actions taken or planned to address our findings and recommendations, and (3) additional actions needed to further enhance compliance with Federal requirements and improve the quality of data reported in future Section 1512 reports.

We provided a preliminary version of this final audit report to Planning and Budget and Utah Education for review and comment on February 16, 2011. In most cases, Planning and Budget and Utah Education did not state whether they agreed with the findings in our report but stated that they had implemented corrective actions for most of the recommendations. Regarding Finding No. 2, Planning and Budget did not agree with our finding on reporting omissions related to vendor information. After further review, we have modified the finding and removed a recommendation contained in the preliminary report related to the reporting of vendor information. Comments provided by Planning and Budget and Utah Education are summarized at the end of each finding. The entire narrative of their comments is included respectively as Enclosure 1 and Enclosure 2 to this report.

## 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. Recipients are required to submit quarterly reports on Recovery Act awards, spending, and jobs impact under Section 1512 of the 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 in order to provide the public with transparency into how Federal dollars are being spent. The reports will also help drive accountability for the timely, prudent, and effective spending of Recovery Act funds.

The Governor of Utah was awarded more than \$479 million in SFSF funds. He designated Planning and Budget as the entity responsible for administering the two SFSF grants as follows:

- **SFSF Education Stabilization Grant.** Utah received about \$392 million in SFSF Education Stabilization funds, which were awarded to Planning and Budget (prime recipient) in two phases—\$263 million in April 2009 and \$129 million in March 2010. These funds were allocated to 130 subrecipients, including 41 school districts, 71 charter schools, and 18 institutions of higher education (IHEs).<sup>1</sup>
- **SFSF Government Services Grant.** Utah received \$87.3 million in SFSF Government Services funds, which were also awarded in two phases—\$58.5 million in April 2009 and \$28.8 million in July 2009. The funds we reviewed were used to support State-administered programs expected to stimulate the State’s economy. Planning and Budget considered the State entities that received funds from this grant as either prime recipients or subrecipients, depending on the entity. Along with Planning and Budget, an entity such as Utah Science Technology and Research (USTAR) is considered a prime recipient and an entity such as the Utah Housing Corporation (Utah Housing) a subrecipient.<sup>2</sup>

Utah Education was awarded about \$49 million in Title I funds and about \$105 million in IDEA funds under the Recovery Act. These funds were allocated to most of the LEAs operating in the State.

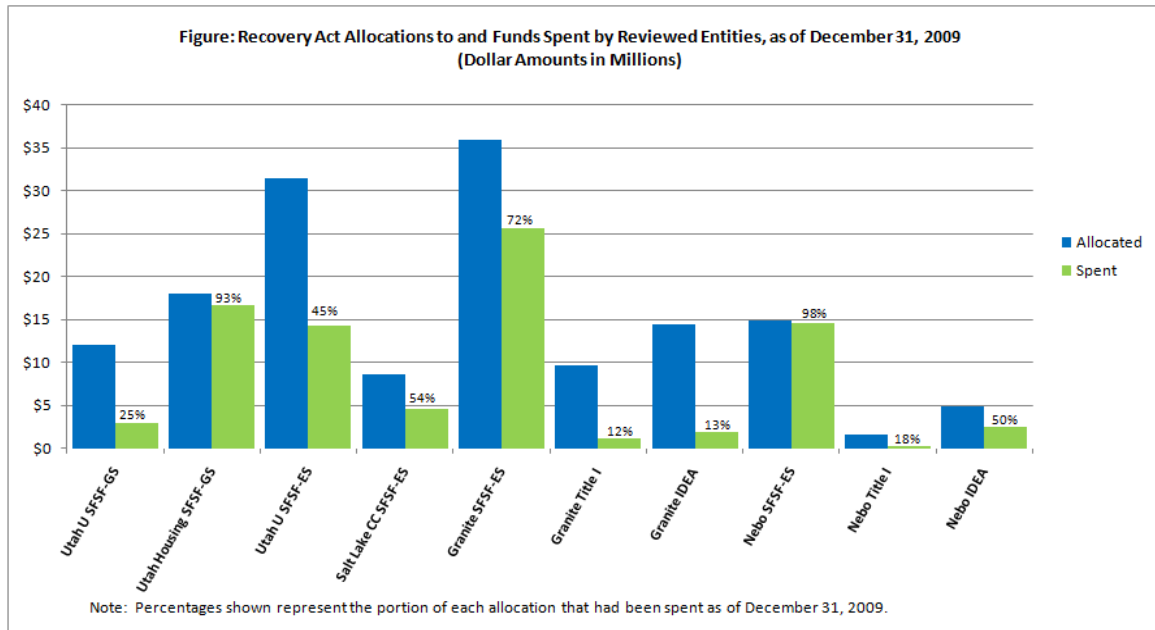
Our review covered two State-level agencies, Planning and Budget and Utah Education, which received education-related Recovery Act grants from the Department. Our review also covered four other State entities that received SFSF funds from Planning and Budget—University of Utah (Utah U), Salt Lake Community College (Salt Lake CC), USTAR, and Utah Housing. Our review of USTAR included its subaward of SFSF Government Services funds to Utah U. Lastly, our review included two LEAs, Granite School District (Granite) and Nebo School District (Nebo), that received SFSF Education Stabilization, Title I, and IDEA funds under the Recovery Act through allocations from Utah Education.

As of December 31, 2009, the State and local recipients and subrecipients we reviewed had spent about \$85 million, or 56 percent of the approximately \$151 million they had been allocated. We summarize their Recovery Act allocations and spending for selected grants in the Figure below.

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<sup>1</sup> The 18 IHEs include 9 campuses associated with the Utah College of Applied Technology providing technical education to both high school and adult students.

<sup>2</sup> USTAR is a State-supported investment to foster the development of new technologies and services to stimulate the State’s economy. Utah Housing is a public corporation created by the State of Utah that administered two new home purchase incentive programs to stimulate the State’s depressed housing industry. As a public corporation, Utah Housing was independent of State government and considered a subrecipient by Planning and Budget.



## FINDINGS AND RECOMMENDATIONS

### **FINDING NO. 1 – Planning and Budget and Utah Education Need to Ensure Recovery Act Funds Are Used in Accordance With Federal Requirements**

We identified several instances where recipients and subrecipients covered by our review did not comply with applicable Federal requirements. At the State level, Utah Housing and Utah U (a subrecipient of USTAR) charged unallowable costs totaling more than \$65,000 to the SFSF Government Services grant. Moreover, Utah Housing did not remit interest earned on SFSF Government Services funds. At the LEA level, one of the two LEAs reviewed improperly charged more than \$1.3 million in Recovery Act funds for Title I and IDEA personnel costs and capital improvements. This LEA also had significant internal control weaknesses in its payroll processes. Furthermore, neither LEA maintained sufficient documentation to support personnel costs that were charged to the Title I and IDEA grants provided under the Recovery Act. Our work at the two LEAs did not disclose any issues regarding their use of SFSF Education Stabilization funds nor did we find any issues at the two IHEs regarding their use of these funds. The Utah Legislature required the State’s LEAs to use SFSF Education Stabilization funds to backfill reductions in State funding for personnel costs associated with Social Security and pension benefits.

We also found that Planning and Budget and Utah Education did not implement procedures to monitor recipient and subrecipient use of Recovery Act funds. Title 34 Code of Federal Regulations (C.F.R.) Section 80.40(a) addressing grantee monitoring states that:



[g]rantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

At the time of our review, Planning and Budget was not monitoring State recipient and IHE use of SFSF funds to ensure that the entities complied with applicable laws, regulations, and guidance. In addition, Planning and Budget did not ensure that other State recipients had implemented effective monitoring procedures over SFSF subawards made to State and local subrecipients. As a result of our finding, Planning and Budget revised its policies and procedures to include monitoring of State recipients and subrecipients that received Utah's SFSF grant funds, as well as steps for Utah Education to monitor LEA use of SFSF Education Stabilization funds. However, our review of those revised policies and procedures identified two areas that may need enhancement—the number of personnel available to perform monitoring and the design of risk assessments used to help identify which entities should be the subject of reviews.

### **State Entities' Use of SFSF Funds**

We identified compliance issues related to Utah U's and Utah Housing's use of SFSF Government Services funds, including improper charges totaling \$65,552 and, in one case, failure to remit \$1,806 of interest earned on Federal funds. The improper charges of \$65,552 were identified from the \$610,800 of direct costs charged to the SFSF Government Services grant that we selected for review.<sup>3</sup> Although Planning and Budget developed SFSF monitoring procedures in response to our finding, which include activities to ensure grant costs are allowable, we are concerned that it may not have adequate resources to effectively implement the monitoring procedures.

#### ***Utah U Charged Maintenance Costs***

As a subrecipient of USTAR, Utah U improperly charged \$55,000 to the SFSF Government Services grant for an annual maintenance service agreement. Section 14004(c)(1) of the Recovery Act and USTAR's contract with Utah U specifically prohibit the use of SFSF funds for maintenance expenditures, as well as equipment or facilities.

At the time of our review, Utah U and Utah State University had received SFSF Government Services subawards from USTAR and incurred expenditures to support new technology development research teams. USTAR's Financial Manager informed us that these IHEs submitted monthly reimbursement claims, along with detailed backup, to USTAR for each of the claimed expenses. However, USTAR's Financial Manager did not review supporting documentation to verify that expenses were allowable under the grant terms and conditions or Federal regulations. Furthermore, our review of USTAR's draft policy and procedure manual revealed that it did not include any formal monitoring procedures to ensure that its subrecipients were complying with applicable Federal requirements.

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<sup>3</sup> Detailed information on the number and amount of transactions we selected for testing and the respective universes, is provided in Attachment 1 for Utah U and in the Scope and Methodology section for Utah Housing.

In a written response to this issue, Utah U and USTAR officials did not dispute that the maintenance service agreement was an unallowable use of SFSF Government Services funds. Utah U's Manager of Budget and Analysis stated that Utah U would offset a future reimbursement claim by the amount of the improper charge. USTAR also added procedures requiring in-depth reviews of subrecipients' reimbursement claims to ensure that the claimed costs conform to applicable Federal requirements. Because these procedures had not been implemented when we concluded our on-site work, we did not verify their implementation.

***Utah Housing Charged Interest Costs***

Utah Housing improperly charged \$10,552 to the SFSF Government Services grant as interest expense for the use of non-Federal funds it advanced to launch a new home purchase incentive program. Utah Housing began to disburse funds to homebuyers in March 2009 and used about \$7 million of its own funds before Planning and Budget began drawing down SFSF Government Services funds from the U.S. Treasury in June 2009. We concluded that the interest charged to the grant was not reasonable and necessary because Utah Housing chose to begin disbursing funds to homebuyers before the SFSF Government Services funds had been awarded to the State.

On December 24, 2009, the Department issued SFSF program guidance recognizing that SFSF funds were essentially general aid and could support a broad array of activities.<sup>4</sup> The guidance specifies that the cost principles in OMB circulars do not apply to SFSF grants. However, the guidance also states that expenditures attributed to SFSF must still be "reasonable and necessary." Although OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," would not specifically apply to the use of SFSF funds, we believe that its principles can still be used as a guide in determining whether a particular cost was reasonable and necessary. The interest costs charged by Utah Housing do not appear to be reasonable and necessary because it chose to begin disbursing funds to homebuyers on March 24, 2009, almost a month before the Governor's application for SFSF Government Services funds was even submitted for Department approval. Furthermore, even though the SFSF Government Services funds were available in April 2009, Planning and Budget did not draw down the funds from the U.S. Treasury until June 2009. Planning and Budget's Financial Manager confirmed that drawdowns did not occur earlier because Planning and Budget wanted to ensure that grant recipients had incurred costs before drawing funds and needed time to establish a system and process to make drawdowns.

In a written response to this finding, Planning and Budget and Utah Housing disagreed with our position regarding the interest expense. Utah Housing believed that the interest expense was reasonable because it could not have received the funds when the program began in March 2009. Planning and Budget believed that the SFSF Government Services grant was awarded as money that should be quickly distributed to support the economic recovery. Nevertheless, in its written response, Utah Housing told us it reallocated the Recovery Act funds previously used for the interest expense to pay for additional housing grants. Utah Housing's Controller also provided documentation confirming that it reallocated the funds to the homebuyer grants.

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<sup>4</sup> "Guidance for Grantees and Auditors State Fiscal Stabilization Fund Program," U.S. Department of Education, December 24, 2009.

***Utah Housing Did Not Remit Required Interest***

Utah Housing earned but did not remit \$1,806 of interest it had earned by holding Federal cash that was not needed to cover program costs as of December 31, 2009. When receiving Federal funds in advance of its needs, Federal regulation requires the entity to minimize the time between when it receives and disburses the funds. The Federal regulation at 34 C.F.R. Section 80.21(i) requires grantees and subgrantees to promptly but at least quarterly remit interest earned on Federal advances to the Department. Utah Housing earned the interest because Planning and Budget disbursed \$10 million of SFSF Government Services funds to Utah Housing in June 2009—an amount that exceeded its immediate needs.

Utah Housing and Planning and Budget agreed to remit the interest earned on the SFSF Government Services funds advanced for the home purchase incentive programs. In a written response to our finding, Planning and Budget stated that all State subrecipients were formally instructed to request SFSF Government Services funds on a reimbursement basis to minimize instances of Federal funds being disbursed before they were needed to cover program costs.

***Planning and Budget's Ability to Implement Monitoring Procedures***

In response to the compliance issues we identified related to State entities' use of SFSF Government Services funds, Planning and Budget revised its policies and procedures to include monitoring of State recipients and subrecipients of SFSF funds and designed a comprehensive, risk-based monitoring system. However, based on our interviews and observations, we are concerned that Planning and Budget may not have sufficient personnel dedicated to Recovery Act activities to effectively implement the revised policies and procedures.

The revised policies and procedures entail a multi-step process focused on the adequacy of State entities' grant administration processes and internal controls. The first step would be to survey State recipients and subrecipients for documentation of their processes to (1) safeguard SFSF funds, (2) ensure that SFSF funds are used for allowable purposes, (3) produce accurate Section 1512 reporting data, and (4) in the case of IHEs, monitor the progress they are making to further educational reforms. Planning and Budget would then evaluate this information to identify entities that are at risk of noncompliance with Federal requirements and conduct more in-depth on-site reviews at those entities it classifies as high-risk. At the conclusion of the on-site reviews, Planning and Budget would communicate the results to the State entities. In addition to its risk-based monitoring, Planning and Budget planned to conduct on-site reviews during 2010 at six randomly selected IHEs.

Because Planning and Budget revised its policies and procedures after our on-site visit, we did not verify whether the monitoring procedures were implemented nor did we evaluate their effectiveness. Although the revised procedures encompass a risk-based approach to monitoring, Planning and Budget may face challenges in implementing its monitoring program with existing resources because it planned to rely on three existing personnel to implement the monitoring program. At the time of our review, these personnel were already dedicated to Recovery Act activities and extensively involved in carrying out other critical processes, such as Section 1512 reporting and financial oversight of Recovery Act funds. Assigning additional monitoring tasks to these staff could be a challenge because Planning and Budget officials expressed concern

during our review about the lack of sufficient resources to effectively carry out Recovery Act grant administration and oversight responsibilities unrelated to the new monitoring program.

### **LEAs' Use of Title I and IDEA Funds**

We found instances of noncompliance at Nebo and Granite related to their use of IDEA and Title I funds under the Recovery Act. Specifically, Nebo improperly charged more than \$1.3 million in IDEA and Title I personnel costs as well as Title I capital improvement costs. First, improper personnel costs of \$1.29 million were identified from a total of \$2,095,916 in adjusting journal entries related to charges to the Recovery Act IDEA grant. In addition, our review of a Nebo personnel report showed that one teacher did not work at a Title I school resulting in \$2,859 and \$2,446 being improperly charged to the Recovery Act Title I grant and the regular Title I grant, respectively. Lastly, of the \$254,659 of nonpersonnel costs reviewed at Nebo, we determined that \$20,084 was charged to its Recovery Act Title I grant for unallowable capital improvements.<sup>5</sup>

We also found significant control weaknesses in Nebo's payroll processes that expose Federal funds to improper use. Furthermore, neither Nebo nor Granite documented personnel costs to support that they were allocable to the Title I and IDEA grants. Utah Education should consider the issues we identified when it monitors LEAs to better ensure compliance with applicable Federal requirements and to ensure that Federal grant funds are safeguarded.

#### ***Nebo's Personnel Costs, Capital Improvements, and Payroll Process***

We identified the following compliance issues and control weaknesses at Nebo:

- **Unallowable Title I and IDEA Personnel Costs.** Nebo incurred \$1,289,554 in IDEA personnel costs from August 2008 through February 2009, which was prior to the grant's start date, and inappropriately charged the costs to the Recovery Act grant retroactively. The Federal regulation at 34 C.F.R. Section 74.28 states "[w]here a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period...." In response to our finding, Nebo adjusted the IDEA personnel costs that were charged prior to the start of the Recovery Act grant to instead reflect allowable costs incurred during months that were within the grant period.

Nebo also improperly charged a total of \$5,305 (\$2,859 to the Recovery Act Title I grant and \$2,446 to the regular Title I grant) for an employee who did not work at a Title I school. Appendix A, Section C of OMB Circular A-87, describes the basic guidelines for determining the allowability of costs. Part 3.a states that "[a] cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with the relative benefits received."

We also found that Nebo did not have written procedures for charging costs to the Title I and IDEA grants funded by the Recovery Act or for allocating personnel costs to these

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<sup>5</sup> Detailed information on the number and amount of transactions we tested at Nebo and Granite, and the respective universes, is provided in Attachment 1.

grants. Moreover, the LEA did not have an independent review process to ensure that the charges to the grants were accurate, allowable, and allocable.

- **Unapproved Title I Capital Improvement Costs.** Nebo charged \$20,084 to its Recovery Act Title I grant for built-in desks and cabinets without obtaining prior approval from Utah Education. OMB Circular A-87, Appendix B, Part 15.b.(3) requires prior approval for capital expenditures:

Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency.

Nebo's Director of Federal Programs told us that the charges were part of a larger \$250,000 project to install built-in desks and cabinets throughout the district. The \$20,084 charge was for desks and cabinets installed in the Special Education and Federal Programs office. In response to our finding, Utah Education's Internal Auditor informed us that Nebo discussed the unapproved capital improvements with Utah Education. According to Utah Education's Internal Auditor, Nebo subsequently adjusted the Recovery Act Title I grant for \$20,084 and charged the costs to non-Federal sources instead.

- **Control Weaknesses in Payroll Processes.** Based on our limited assessment of Nebo's payroll processes and related internal controls, we concluded that its payroll processes appeared vulnerable to waste, fraud, or abuse. Adequate controls over payroll are important because Nebo must use all SFSF Education Stabilization funds it received for personnel costs and also planned to use a significant portion of the Title I and IDEA funds received under the Recovery Act for personnel costs.

Nebo's payroll system automatically generated payroll checks for contract employees (most teachers and administrative personnel) unless a payroll specialist intervened to suspend payments to specific employees. Because payroll specialists were located in Nebo's administration building, they might not be aware of the employees who worked in other locations that had quit or been terminated. Thus, an employee would continue to be automatically paid if termination paperwork was delayed or never submitted to the payroll unit.

We also noted that payroll specialists and their computers were located in a non-secure area that was easily accessible by other Nebo employees and the public. Moreover, computers were (b) (7)(E)

Additionally, Nebo management did not periodically review computer access to the payroll system to ensure that only authorized personnel had access. We identified one Information Technology employee who had been terminated in 2008 but was still on the payroll system's access list. Lastly, Nebo did not generate exception reports for key payroll data changes, such as employee terminations, address changes, bank account changes, or pay rate changes. Such reports

would enable appropriate Nebo personnel to independently verify that any changes to key payroll data fields were legitimate and had been authorized by management.

***Nebo and Granite Documentation for Personnel Costs***

Nebo and Granite did not adhere to Federal requirements for documenting personnel costs charged to the Title I and IDEA grants funded by the Recovery Act. Specifically, employees did not complete required certifications and/or personnel activity reports when they worked on a single or multiple Federal programs.

OMB Circular A-87, Appendix B, Part 8.h.(3), addresses certification requirements for employees that work on a single Federal program:

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Nebo employees working entirely on either the Title I or IDEA program did not complete the required semi-annual time and effort certifications during fiscal year 2009. We selected three Nebo employees that worked on a single Federal program in fiscal year 2009 and found that two employees that worked on the IDEA program had not prepared the required certifications.<sup>6</sup> Nebo employees completed the required certifications in the first half of fiscal year 2010. At Granite, we selected nine employees who worked on a single Federal program and found that they had completed the required certifications. However, the certifications for five Title I employees did not adequately define the period covered by the certification and/or clearly indicate that the employee worked exclusively on a single Federal program.

We also determined that Nebo and Granite employees working on multiple Federal programs did not prepare the required activity reports. OMB Circular A-87, Appendix B, Part 8.h.(4), addresses documentation requirements for employees who work on multiple programs:

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix....

At Nebo, we selected three employees who charged time to multiple funding sources and found that they did not complete required activity reports. Although we did not test Granite employees that charged time to multiple Federal programs, payroll personnel acknowledged that Granite did not require such employees to complete activity reports.

In a written response to this finding, Utah Education informed us that it provided training to LEAs on the proper certifications for Federal funds in accordance with OMB Circular A-87.

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<sup>6</sup> The other employee worked on the Title I program and prepared a semi-annual time and effort certification for fiscal year 2010, which covered the costs charged to the grant.

Utah Education also provided training to independent public accountants performing audits at Utah LEAs to ensure that they understood the requirements for payroll certifications and treated compliance with these requirements as high-risk. In response to our finding, Utah Education planned to conduct monitoring at LEAs to verify that proper certifications for personnel costs are prepared.

### ***Utah Education Monitoring of LEAs***

Planning and Budget's revised policies and procedures for monitoring State entities also included steps for Utah Education to monitor LEA use of SFSF Education Stabilization funds. First, Utah Education's Internal Auditor and Finance Auditor were to evaluate the results of LEA financial and Single Audits for fiscal year 2009 to identify LEAs that appear to be at high-risk for noncompliance.<sup>7</sup> High-risk conditions could include the identification of significant internal control weaknesses and/or findings that questioned the appropriate use of Federal funds. Utah Education would then send a letter to LEAs identified as high-risk requesting a status update on the corrective action(s) for the identified findings. All LEAs would also be required to complete a survey regarding internal controls over SFSF Education Stabilization funds, the amount of funds spent, cash management practices, how the funds are being used, and progress in achieving education reforms. Based on its risk assessment of the audits and the survey results, Utah Education would then identify those high-risk LEAs that would be subject to on-site visits, conduct a monitoring visit, and report the monitoring results to LEA management and Planning and Budget. Utah Education would also conduct follow-up visits when deemed necessary. Utah Education informed us that their monitoring program would also evaluate LEA compliance with Federal requirements related to payroll certifications and reimbursements for costs charged to Federal grants. Utah Education's Internal Auditor informed us that the above monitoring activities also covered Title I and IDEA funds provided under the Recovery Act.

We did not verify whether Utah Education implemented the revised monitoring policies and procedures nor did we evaluate their effectiveness. However, when conducting monitoring activities and on-site reviews, Utah Education should consider the LEA compliance issues we identified, such as those found at Nebo, in order to help ensure it detects significant internal control weaknesses. In addition, Utah Education should not rely solely on Single Audits to identify high-risk LEAs or to identify issues that may be considered high-risk for noncompliance. We noted that the Single Audit performed at Nebo for fiscal year 2009 did not address any of the payroll-related vulnerabilities that we identified during our review. As a result, Nebo management was not aware of the potential vulnerabilities and had not implemented needed controls. Moreover, Utah Education's review of Nebo's Single Audit report alone would likely not have resulted in the LEA being classified as high-risk for noncompliance and, therefore, warranting an on-site monitoring visit.

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<sup>7</sup> Single Audits are required for non-Federal entities that expend \$500,000 or more of Federal awards in a year and must be performed in accordance with generally accepted government auditing standards published by the Comptroller General of the United States to ensure the entities are complying with Federal laws and regulations. School districts and charter schools that are not required to have a Single Audit would be considered higher risk and subject to more extensive review, especially if internal control issues were identified in the financial statement audit.

## RECOMMENDATIONS

We recommend that the Director of the Implementation and Support Unit require Planning and Budget to:

- 1.1 Ensure that the improper charges and other deficiencies we identified for the SFSF Government Services grant were corrected by confirming that (1) Utah U reduced a future reimbursement claim by \$55,000 to reimburse the improperly charged maintenance costs and (2) Utah Housing remitted the \$1,806 of interest earned as of December 31, 2009, plus any interest earned after December 31, 2009, to the Department.
- 1.2 Notify all State entities receiving funds from the SFSF Government Services grant of the types of deficiencies identified in Recommendation 1.1 and instruct them to identify and correct such deficiencies, if found, to ensure that similar unallowable costs are not charged to the grant.
- 1.3 Assess its monitoring process on an ongoing basis to identify and address significant challenges to effective implementation (e.g., lack of personnel), systemic issues as they arise, and the status of corrective actions taken by State recipients.
- 1.4 Review monitoring policies and procedures for other State recipients, including USTAR, that subaward SFSF grant funds to evaluate whether they are adequate, identify deficiencies in State recipients' monitoring activities, and require State recipients to take appropriate corrective actions to improve subawardee monitoring.

We recommend that the Director of the Implementation and Support Unit, in conjunction with the Assistant Secretary for Elementary and Secondary Education and the Assistant Secretary for Special Education and Rehabilitative Services, require Utah Education to:

- 1.5 Ensure the deficiencies we identified at selected LEAs are corrected by requiring that (1) Nebo reimburse its Recovery Act Title I grant and regular Title I grant for the \$5,305 in personnel costs that were improperly charged for the non-Title I employee; and (2) Nebo and Granite maintain sufficient supporting documentation for employee time charged to the Title I and IDEA Recovery Act grants in accordance with OMB Circular A-87, Appendix B, Part 8.h.
- 1.6 Notify LEAs statewide of the types of deficiencies identified in Recommendation 1.5 and instruct LEAs to identify and correct such deficiencies, if found, to ensure that similar unallowable costs are not charged to the Title I and IDEA grants under the Recovery Act.
- 1.7 Ensure Nebo has not improperly charged personnel costs to Federal grants and has taken appropriate actions to secure its payroll environment and strengthen related controls to include (1) periodically generating and reviewing reports of changes to employee status, address, and payroll data; (2) (b) (7)(E) and (3) regularly reviewing computer access to the payroll system to ensure only authorized employees have access.



- 1.8 Include an evaluation of the compliance issues we identified in this finding when it conducts monitoring activities to ensure that LEAs operating in the State (1) have adequate internal controls over SFSF Education Stabilization, Title I, and IDEA grants funded by the Recovery Act and (2) are complying with applicable Federal requirements.

### **Planning and Budget and Utah Education Comments**

Planning and Budget did not state whether it concurred with Finding No. 1 or our recommendations. Utah Education did not state whether it concurred with most parts of Finding No. 1 or our recommendations. Utah Education did state that Nebo and Granite agreed with the issues identified in the finding that pertained to them. Regarding our identified compliance issue at Nebo related to unapproved Title I Recovery Act capital improvement costs, Utah Education stated that it clarified internal policy and provided training to each LEA related to prior approval for capital expenditures and improving compliance with Federal requirements.

In their comments, Planning and Budget and Utah Education described the corrective actions already taken or planned in response to our recommendations applicable to each entity:

**Recommendation 1.1.** Planning and Budget stated that Utah U concurred with our finding, reduced a subsequent reimbursement claim by \$55,000, and added formal monitoring procedures to ensure that subrecipients comply with Federal requirements. In addition, Planning and Budget stated that it remitted all interest earned on SFSF Government Services funds.

**Recommendation 1.2.** Planning and Budget stated that it notified all State entities receiving funds from the SFSF Government Services grant of the types of deficiencies identified in Recommendation 1.1 and instructed them to identify and correct such deficiencies if found.

**Recommendation 1.3.** Planning and Budget stated that it would continue to assess its management of the SFSF grants on an ongoing basis, including data quality and subrecipient monitoring processes.

**Recommendation 1.4.** Planning and Budget stated that it established, and would continue to follow, an ongoing process for reviewing the use and management of SFSF Government Services funds by State entities, including an examination of the entities' subrecipient monitoring processes.

**Recommendation 1.5.** Utah Education stated that Nebo would reimburse \$5,305 to the Title I Recovery Act grant and regular Title I grant for the employee who did not work at a Title I school. Regarding documentation of personnel costs, Nebo adjusted its payroll processes to ensure payroll certifications would be completed in compliance with Federal requirements. Granite bolstered its efforts and requirements to obtain paper certifications while it is developing a district wide electronic system to obtain the required certifications and/or personnel activity reports.

**Recommendations 1.6 and 1.7.** Utah Education stated that it provided information and instruction to LEAs regarding payroll certifications in compliance with Federal requirements.

Additionally, Utah Education said it would perform reviews at Nebo and Granite during 2011 to determine compliance with payroll certification requirements.

In its comments regarding Recommendation 1.5, Utah Education also described Nebo's controls over its payroll process, which the report addressed in Recommendation 1.7. Utah Education stated that Nebo did not believe that the issue of automatically generated payroll checks for contract employees was significant because it had implemented compensating controls. School principals review employee lists on a quarterly basis to ensure that proper employees are on the correct payroll. Moreover, Nebo prepares diagnostic reports listing the types of changes made to the payroll system and reviews the reports for propriety and appropriateness.

**Recommendation 1.8.** Utah Education stated that monitoring and risk assessment activities are conducted throughout the year and involve many factors, including LEAs' audited financial statements and associated findings. The processes outlined in Planning and Budget's SFSF monitoring plan were completed for SFSF Phase I funds and were in process for SFSF Phase II. Moreover, Utah Education said it reviewed payroll certification and allowable-cost issues identified in this report.

#### **Office of Inspector General (OIG) Response**

Except as noted below, the corrective actions identified in Planning and Budget's and Utah Education's comments address our recommendations. However, we did not evaluate their implementation or the adequacy of the corrective actions. We did not modify our finding or recommendations based on Planning and Budget's and Utah Education's comments.

**Recommendation 1.6.** Because Utah Education did not provide details about the information it provided to LEAs regarding payroll certifications, we could not determine whether the information addressed the specific deficiencies noted in our finding. Utah Education needs to ensure that its information and instructions to LEAs address the documentation needed for both periodic certifications for employees funded by a single grant and personnel activity reports for employees funded by multiple grants to ensure LEAs comply with OMB Circular A-87. Furthermore, Utah Education should instruct LEAs to identify and correct deficiencies regarding personnel costs to ensure that unallowable costs are not charged to the Title I and IDEA Recovery Act grants.

**Recommendation 1.7.** Although Nebo's compensating controls for its payroll system appear reasonable based on available resources, Utah Education needs to ensure that Nebo takes appropriate steps to secure its payroll environment, including implementing controls to (b) (7) [REDACTED] and that it routinely reviews its payroll system to verify that access is limited to authorized employees only.

## **FINDING NO. 2 – Planning and Budget and Utah Education Need to Implement Review Procedures to Ensure Reported Section 1512 Data Are Accurate, Reliable, and Complete**

The State of Utah used a centralized reporting system whereby Planning and Budget submitted Section 1512 Recovery Act data for all State agencies to FederalReporting.gov, the nationwide data collection system deployed by the Recovery Accountability and Transparency Board.<sup>8</sup> Depending on the Recovery Act grant, Planning and Budget collected, compiled, and calculated certain required Section 1512 data elements and relied on State recipients and subrecipients to perform these functions for some or all data related to other data elements. Under Utah's reporting system, Planning and Budget as well as State and local recipients and subrecipients were collectively responsible for establishing controls to ensure accurate, complete, and timely reporting of Section 1512 data.

For the reporting period ending December 31, 2009, we identified data quality issues related to the estimated number of jobs created and retained, vendor information, and amount of funds spent. As a result, the Section 1512 data that Planning and Budget reported for these data elements, which were posted on Recovery.gov, were not reliable. Specifically, we found that State recipients and subrecipients underreported more than 2,300 jobs and Utah Education did not collect or report LEA vendor information. For SFSF Education Stabilization, Planning and Budget overreported the amount of funds spent (Utah Education disbursements to LEAs) by about \$25 million and underreported the amount of funds spent by more than \$2 million for one IHE. These reporting issues occurred because recipients and subrecipients did not follow OMB guidance and State recipients did not have adequate data quality review procedures in place to ensure the reported data were accurate, reliable, and complete. In response to our audit, Planning and Budget included data quality monitoring activities in its revised policies and procedures for administering the SFSF grants.

### **Reporting Errors Related to the Estimated Number of Jobs**

We identified data quality issues related to the number of jobs reported by all of the entities we reviewed, except for Utah Housing. Based on multiple errors across the four Recovery Act grants reviewed, we estimated underreporting of at least 2,344 jobs, or more than 50 percent. Planning and Budget did not calculate the jobs estimate correctly for some IHEs and did not adequately monitor the quality of the jobs data submitted by Salt Lake CC, Utah Education, and USTAR. Moreover, Utah Education and USTAR did not have review procedures in place to ensure the quality of reported subrecipient data.

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<sup>8</sup> Section 1512 of the Recovery Act requires recipients of Recovery Act funds to report on various data elements, such as the amount of Recovery Act funds received and spent, the number of jobs created or retained, and vendor information. No later than 10 days after the end of each calendar quarter, recipients must submit their data through an online web portal at FederalReporting.gov. A continuous correction period takes place between this initial data submission and the end of the quarter in which the data were submitted. During this period, Federal agencies are required to review the data reported by recipients and notify them of data errors that need to be corrected. Recipients should also review their submitted data and make necessary corrections. Reports are available on Recovery.gov, a public Web site where taxpayers can see how and where Recovery Act funds were spent.

Although Planning and Budget did not correctly calculate the number of jobs for the reporting period ending December 31, 2009, corrective action is not warranted. OMB Memorandum M-10-34, “Updated Guidance on the American Recovery and Reinvestment Act,” September 24, 2010 (OMB guidance M-10-34), states that recipients may not initiate changes to the number of jobs reported in prior Section 1512 reports.

***Planning and Budget Misreported IHE Jobs***

Planning and Budget miscalculated the number of jobs for 9 of the 18 IHEs that received SFSF Education Stabilization funds and underreported its IHE jobs estimate to FederalReporting.gov by about 15 percent.<sup>9</sup> The reporting error occurred because Planning and Budget used IHE jobs data for only the month of December 2009 and did not include the October and November data in its calculation. According to OMB Memorandum M-10-08, “Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates,” December 18, 2009 (OMB guidance M-10-08), recipients must estimate the total number of jobs that were funded by the Recovery Act during each reporting period (quarter). Planning and Budget’s error resulted in a total of 1,241 jobs being reported for all IHEs—225 fewer jobs than the 1,466 jobs that should have been reported.

***Utah Education Miscalculated LEA Jobs***

Utah Education miscalculated the number of LEA jobs for the three Recovery Act grants we reviewed, which resulted in Planning and Budget underreporting the LEA jobs estimate to FederalReporting.gov by 75 percent. The reporting error occurred because Utah Education used annualized data rather than quarterly data in its calculations. OMB guidance M-10-08 states that the methodology for calculating jobs is based on hours worked in the most recent quarter. Utah Education used the equivalent of a full year’s salary in the denominator when it performed its jobs calculations, reflecting the 2,080 hours a full-time employee would work in a year.<sup>10</sup> It should have used the quarterly salary amount reflecting the 520 hours a full-time employee would work in a quarter. As shown in Table 1, we estimated that Utah Education’s miscalculations resulted in the reporting of about 2,072 fewer jobs than should have been reported across the three grants.

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<sup>9</sup> Our review did not cover the nine Sub-Recipient Institution Reports for the Utah College of Applied Technology.

<sup>10</sup> Utah Education used an alternative method for estimating the number of jobs. Instead of calculating jobs based on the hours worked in the reporting period, Utah Education divided the amount of funds spent on employee salaries and benefits for a particular Recovery Act grant by the average salary amount (including benefits) for the grant. This alternative method appeared reasonable.

<b>Table 1: Impact of Utah Education Calculation Errors on the Number of LEA Jobs Reported for the Period Ending December 31, 2009</b>			
<b>Recovery Act Grant</b>	<b>Number of Jobs Reported</b>	<b>Number of Jobs that Should Have Been Reported</b>	<b>Number of Jobs Underreported</b>
SFSF Education Stabilization	649.2	2,597.0	1,947.8
Title I	25.1	100.4	75.3
IDEA	16.7	66.8	50.1
<b>Total</b>	<b>691</b>	<b>2,764.2</b>	<b>2,073.2</b>

Utah Education had not established review procedures to prevent or detect this type of error for the number of jobs reported for LEAs. In response to our finding, Utah Education officials told us on June 8, 2010, that its Internal Auditor has been tasked with reviewing the Section 1512 data prior to submission to Planning and Budget in future reporting periods.

***Salt Lake CC Used Incorrect Data***

Salt Lake CC incorrectly used budget data when calculating its jobs estimate for the SFSF Education Stabilization grant, which resulted in Planning and Budget underreporting the number of jobs to FederalReporting.gov by more than 20 percent for this entity. OMB guidance M-10-08 states that the number of jobs reported is to be expressed as full-time equivalents (FTEs) and allows colleges and universities to proportionately count the percentage of effort directly charged to Recovery Act awards as an FTE. Based on our analysis of payroll records showing actual payroll expenditures for the 3-month period ending December 31, 2009, we determined that Salt Lake CC should have reported 198 jobs rather than the 151 jobs it did report.

***USTAR Misreported Subrecipient Jobs***

For its SFSF Government Services subawards to Utah U, USTAR did not report accurate jobs data to Planning and Budget because it used data for only 1 month of the reporting period to calculate jobs. Utah U only provided USTAR one Sub-Recipient Institution Report for the quarter ending December 31, 2009. Utah U reported about 60 jobs on the subject report, dated October 31, 2009, based solely on data for October. Based on our work at Utah U, we determined that the subrecipient reporting form that USTAR relied on to collect subrecipient data did not define what jobs data should be entered onto the form. Specifically, Planning and Budget’s Sub-Recipient Institution Report template included a field for the “Number of Jobs” but did not define whether subrecipients were to report a cumulative jobs number over a specified period or only the jobs number for the month in which they were reporting. We were not able to determine the impact on the number of jobs reported by USTAR for the SFSF Government Services grant because Utah U jobs data were not readily available for the omitted months at the time of our review.

## **Reporting Omissions Related to Vendor Information**

Utah Education, as the prime recipient for the IDEA Recovery Act grant, did not collect or report required subrecipient information to Planning and Budget for two vendors that received payments from Nebo exceeding \$25,000. OMB Memorandum M-09-21, "Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009," June 22, 2009 (OMB guidance M-09-21), addresses the required vendor information:

[T]he reporting sub-recipients must also report one data element associated with any vendors receiving funds from that sub-recipient. Specifically, the sub-recipient must report, for any payments greater than \$25,000, the identity of the vendor by reporting the D-U-N-S number, if available, or otherwise the name and zip code of the vendor's headquarters. . . . If a sub-recipient is not delegated the responsibility to report . . . any sub-recipient vendor information, the prime and sub-recipients must develop a process by which this information will be reported . . .

Based on our review of Nebo's accounting records covering the period February 17 to December 31, 2009, we determined that the LEA paid one vendor \$218,250 for software licensing and another vendor \$49,069 for computer equipment. As the entity responsible for statewide Section 1512 reporting, Planning and Budget did not report information identifying the two vendors even though the vendors had each received payments of more than \$25,000 in IDEA funds under the Recovery Act. Although we only identified the reporting omissions at Nebo, Utah Education's Internal Auditor stated that LEA vendor data were not reported statewide for the reporting period ending December 31, 2009.

## **Reporting Errors Related to Funds Spent**

We identified data quality issues related to the amount of SFSF Education Stabilization funds spent for the reporting period ending December 31, 2009. For SFSF Education Stabilization, Planning and Budget overreported the amount of funds that Utah Education disbursed to LEAs by about \$25 million and did not ensure that nearly \$2.5 million disbursed to an IHE was reported to FederalReporting.gov.

### ***Planning and Budget Misreported Utah Education Expenditures***

Utah Education reported SFSF Education Stabilization disbursements to LEAs totaling \$245 million when it submitted data on funds spent to Planning and Budget for the reporting period ending December 31, 2009. However, the amount Utah Education reported inappropriately included about \$25 million in State funds that were disbursed to LEAs. Moreover, Planning and Budget officials were aware that the reported amount was about \$25 million more than the amount of Recovery Act funds awarded to the State as of December 31, 2009. The reporting discrepancy occurred because of timing differences between the time when SFSF funds were awarded and when the State Legislature appropriated the

funds.<sup>11</sup> Utah was awarded SFSF Education Stabilization funds in two phases, as described in the Background section. Planning and Budget's SFSF officials informed us that, before learning the grant would be awarded in two phases, the State Legislature appropriated the full amount of SFSF Education Stabilization funds the State expected to receive. Because the Phase II SFSF funds were not yet awarded as of the end of the reporting period, the State chose to use its own funds to reimburse LEAs for SFSF-related expenses when the Phase I funds were exhausted by November 2009. Once awarded, Planning and Budget planned to use Phase II funds to reimburse the State for the amounts disbursed to LEAs.

Because it reported more Recovery Act funds spent than were awarded or received, Planning and Budget did not adhere to OMB's reporting guidance. For the amount of funds spent, the "Recipient Reporting Data Model V3.0, Final Production Release - for Quarter Ending December 31, 2009" states that recipients should report the "amount of recovery funds received that were expended to projects or activities ('Federal Share of Expenditures')" and the cumulative total for the amount of Federal funds expended.<sup>12</sup> Planning and Budget's SFSF officials informed us that it intentionally overreported the amount of SFSF Education Stabilization funds spent because the reported data represented the actual amount of funds spent by the LEAs and the awarding of Phase II funds was expected in the near future. Moreover, Planning and Budget officials stated that Department officials did not raise any objections to Utah's reporting the higher amount of funds spent when it raised the reporting issue. Although the overreported funds spent represented a reporting error for the period ending December 31, 2009, the error was corrected in the subsequent reporting period when Utah was awarded its Phase II SFSF Education Stabilization funds in March 2010. As a result, corrective action is not warranted.

***IHE Expenditures Omitted in FederalReporting.gov***

Planning and Budget disbursed \$2,483,000 in SFSF Education Stabilization funds to Utah Valley University that was not included in its Section 1512 report. As a result, the amount spent for the SFSF Education Stabilization grant was underreported by 1 percent. The reporting error came to our attention when we compared reporting data in Planning and Budget records to information reported to FederalReporting.gov. In response to our finding, Planning and Budget's SFSF Specialist confirmed that Utah Valley University's data were submitted and posted to the centralized statewide data collection system and included in the file used to upload Utah's data to FederalReporting.gov. However, the SFSF Specialist could not determine how the data were excluded after being transmitted to FederalReporting.gov. To prevent omissions such as this in the future, the SFSF Specialist informed us that she would spot-check the accuracy of future submissions to FederalReporting.gov.

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<sup>11</sup> Utah's Legislature includes Federal funds in its annual budget and appropriation processes. After enactment of the Recovery Act in February 2009, LEAs were not able to spend SFSF funds allocated to them until such funds had been appropriated by the Legislature. On May 20, 2009, Utah's Governor called a special session of the Legislature, in part, to make appropriations to the Minimum School Program Budget Amendments, effective in fiscal year 2009, and reallocate SFSF funds.

<sup>12</sup> This guidance also included a validation rule that the total Federal amount of Recovery Act expenditures should not exceed the amount of the award.

## **Planning and Budget's Revised Monitoring Policies and Procedures**

In response to the data quality issues we identified, Planning and Budget revised its policies and procedures for SFSF grant administration to include monitoring the quality of State recipients' Section 1512 data. Planning and Budget outlined the following analytical and review procedures it planned to implement in addition to the risk assessments and on-site reviews described in Finding No. 1:

- Compare Planning and Budget's records for amounts drawn and expended with State recipients' reported data to ensure consistency;
- Review the reported amount of funds spent to ensure the amounts disbursed to State recipients were less than or equal to the amount awarded;
- Review the jobs calculation submitted by Utah Education;
- Compare the number of jobs reported by IHEs to their respective budget plans;
- Test to determine the reasonableness of the average reported dollars spent per the number of reported jobs created and retained; and
- Informally review all other data submitted by State recipients for reasonableness.

Planning and Budget also planned to contact the specific individual submitting the report for the respective State recipient in order to resolve data quality issues identified by the procedures above. Although the revised policies and procedures appear to promote the reporting of quality data, we did not verify whether the procedures were implemented or evaluate their effectiveness, because they were implemented after we concluded our on-site work.

## **RECOMMENDATIONS**

We recommend that the Director of the Implementation and Support Unit require Planning and Budget to:

- 2.1 Implement plans to verify that Section 1512 data submitted to FederalReporting.gov, including updates and corrections, are successfully uploaded to the nationwide data collection system. If submitted data are missing, ensure the data are corrected in FederalReporting.gov during the continuous correction period.
- 2.2 Implement revised data quality review procedures and monitoring activities for State subrecipients of SFSF funds and ensure State recipients that subaward SFSF funds, including USTAR and Utah Education, implement appropriate review procedures to monitor the quality of subrecipient data. When data quality issues are identified, notify the Department of any material omissions and/or significant reporting errors and correct the data in a timely manner to ensure compliance with Section 1512 reporting requirements.
- 2.3 Assess Planning and Budget and State recipient data quality monitoring processes on an ongoing basis to ensure effective implementation.



- 2.4 Notify all State recipients of material data quality and reporting issues identified by Planning and Budget and/or State recipients during the data quality reviews to prevent future errors.

We recommend that the Director of the Implementation and Support Unit, in conjunction with the Assistant Secretary for Elementary and Secondary Education and the Assistant Secretary for Special Education and Rehabilitative Services, require Planning and Budget and Utah Education to:

- 2.5 Resolve the data omissions we identified related to vendor information when individual subrecipient payments to vendors using Recovery Act funds exceed \$25,000 to ensure the data are accurate and complete for the Section 1512 reporting period ending December 31, 2009, and subsequent periods if warranted.
- 2.6 Develop and implement data quality review procedures to ensure reported LEA jobs and vendor information related to Recovery Act grants administered by Utah Education are accurate, reliable, and complete. When data quality issues are identified, notify the Department of any material omissions and/or significant reporting errors and correct the errors in a timely manner to ensure compliance with Section 1512 reporting requirements.
- 2.7 Assess internal data quality monitoring processes on an ongoing basis to ensure effective implementation.

### **Planning and Budget and Utah Education Comments**

Neither Planning and Budget nor Utah Education stated whether it concurred with Finding No. 2 or our recommendations. However, Planning and Budget partially disagreed with the section on reporting omissions related to vendor information and informed us that Salt Lake CC concurred with the section of the finding regarding its jobs data.

Regarding vendor information, our preliminary report disclosed that Planning and Budget did not report required information related to subrecipient payments to vendors. In its comments, Planning and Budget stated that it was not required to report subrecipients' vendor payments under \$25,000. As for subrecipient payments to vendors exceeding \$25,000, Planning and Budget stated that Utah U's vendor payment of \$50,049 for laboratory and technical supplies was reversed and, therefore, did not need to be reported. Planning and Budget stated that it has consistently issued guidance to subrecipients to report payments to vendors greater than \$25,000. Additionally, prior to submitting future Section 1512 reports, Planning and Budget said it would confirm with subrecipient reporters that all information, including payments to vendors, has been reported. Planning and Budget also stated that it was in the process of resolving data omissions with respect to vendor payments through its existing monitoring process.

In their comments, Planning and Budget and Utah Education described the corrective actions already taken or planned in response to our recommendations:<sup>13</sup>

**Recommendation 2.1.** Planning and Budget stated that it has implemented its plan to verify that Section 1512 data submitted to Federalreporting.gov are successfully and accurately uploaded to the nationwide data collection system.

**Recommendation 2.2.** Planning and Budget stated that revised data quality review procedures and monitoring activities have been implemented for State agencies and subrecipients receiving SFSF funds. Quarterly FTE calculations were implemented for reporting period ending March 31, 2010. USTAR reviews subrecipient reports for accuracy. Utah U has implemented new procedures to review and monitor Recovery Act expenses and has added an additional staff to assist with that new process.

**Recommendation 2.3.** Planning and Budget stated that it continues to assess data quality monitoring processes on an ongoing basis and implement changes and improvements when necessary.

**Recommendation 2.4.** Planning and Budget stated that it would continue to notify State recipients of potential data quality issues identified through its monitoring and data quality processes.

**Recommendation 2.5.** Planning and Budget stated that it has resolved data omissions in the SFSF Education Stabilization report with respect to vendor payments through its monitoring process. Utah Education stated that it collected vendor data for all expenditures made with SFSF funds and properly reported the vendor data in the Section 1512 report for “quarter four.” Utah Education’s Internal Auditor subsequently clarified the written comments by stating that LEA vendor data were not reported for the period ending December 31, 2009, but were reported for the period ending June 30, 2010 (“quarter four”).

**Recommendations 2.6 and 2.7.** Planning and Budget stated that it (1) has implemented data quality review procedures; (2) worked with Utah Education to ensure LEA jobs and vendor information are accurate, reliable, and complete; and (3) continues to assess its internal data quality processes on an ongoing basis. Utah Education stated that its Finance Auditor compiles the Section 1512 reports and its Internal Auditor reviews the data prior to submission to Planning and Budget. The Internal Auditor reviews the underlying data, jobs calculation, and inclusion of vendor data. Additionally, Planning and Budget reviews the Section 1512 data and brings issues to Utah Education’s attention for resolution.

## OIG Response

After further review of reporting requirements for vendor information, we concur that Planning and Budget was not required to report subrecipients’ vendor payments under \$25,000 nor Utah U’s \$50,049 vendor payment that was reversed. OMB Memorandum M-10-34 clarified

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<sup>13</sup> In summarizing Planning and Budget’s and Utah Education’s corrective actions below, the recommendation numbers reflect the numbering in this final audit report.

that vendor payments under \$25,000 only include payments made by the prime recipient. We have modified Finding No. 2 by (1) removing the finding related to State recipient and subrecipient reporting of vendor payments less than \$25,000 and Utah U's vendor payment exceeding \$25,000 that was reversed, and (2) clarifying what vendor information subrecipients are to report when payments exceed \$25,000. We have also removed the recommendation contained in the preliminary report (Recommendation 2.1 in the preliminary report) regarding data omissions related to State recipients' vendor payments funded by SFSF grants.

Except as noted below, the corrective actions identified in Planning and Budget's and Utah Education's comments address our recommendations. However, we did not evaluate their implementation or the adequacy of the corrective actions.

**Recommendation 2.2.** Planning and Budget's implementation of revised review procedures and monitoring activities only partially addresses the recommendation. Planning and Budget should also implement procedures to ensure that, when data quality issues are identified, it notifies the Department of material omissions and significant reporting errors and corrects the data in a timely manner.

**Recommendation 2.5.** Utah Education's comments did not address the reporting omissions we identified at Nebo for the reporting period ending December 31, 2009. Utah Education also needs to ensure that similar vendor data are reported for LEAs statewide when Title I, IDEA, and SFSF Education Stabilization funds received under the Recovery Act are used for vendor payments exceeding \$25,000 for past and future reporting periods. As noted above, we modified the finding to clarify what vendor information subrecipients are to report. We have also modified Recommendation 2.5 to specifically address the resolution of omitted LEA vendor information when vendor payments exceed \$25,000.

**Recommendations 2.6 and 2.7.** Utah Education's implementation of data quality review procedures only partially addresses the recommendation. When data quality issues are identified, Utah Education also needs to ensure that it notifies the Department of material omissions and significant reporting errors and corrects the data in a timely manner. Additionally, Utah Education should assess its data quality monitoring processes on an ongoing basis to ensure effective implementation.

### **FINDING NO. 3 – Utah Education Should Correct Information in its Title I Per-Pupil Expenditures Report Submitted to the Department**

Utah Education's report on school-by-school per-pupil educational expenditures from State and local sources inappropriately included Federal expenditures and State and local expenditures for special education. Because Utah Education's report included these inappropriate expenditures, the per-pupil expenditures at the school level were overstated and valid comparisons of State and local spending across schools within an LEA and across LEAs cannot be performed by the Department. Although its report was not accurate, Utah Education did submit the required report to the Department by the March 31, 2010, deadline specified in the Recovery Act.

Title VIII of Division A of the Recovery Act required each LEA receiving Title I funds under the Act to “file with the State educational agency, no later than December 1, 2009, a school-by-school listing of per-pupil educational expenditures from State and local sources during the 2008-2009 academic year.” The State Educational Agency was to compile and report the LEA information to the Department by March 31, 2010. Departmental guidance for this reporting requirement instructed States to exclude from the report expenditures from Federal programs, as well as expenditures from State and local special education funds.<sup>14</sup> The instructions further stated that “[t]hese data will be used to examine the extent to which school-level education resources are distributed equitably within and across school districts.”

Utah Education began to instruct LEAs on per-pupil expenditure data in August 2009, several months before the Department issued reporting instructions. Utah Education developed a methodology and directed LEAs to use this methodology to compile and submit specific categories of school-level expenditures. However, Utah Education’s instructions for compiling the data did not inform LEAs that State and local expenditures related to special education programs should be separately identified so that Utah Education could exclude them from its report to the Department. When Departmental guidance was issued in November 2009, most LEAs had already included special education costs in the school-level data. Even after receiving the Department’s guidance specifically instructing reporting entities to exclude expenditures from special education funds, Utah Education did not require LEAs to modify their original data submissions.

Utah Education also did not exclude all Federal expenditures from its report even though its data collection system separately identified Federal expenditures at the school level and the Department’s instructions stated that expenditures from Federal sources should be excluded. As a result, Utah Education’s submission to the Department inappropriately included both Federal expenditures and State and local expenditures for special education, causing school-level expenditure data to be overstated and preventing the Department from accurately assessing the equity of education resources within or across school districts.

In a written response, Utah Education agreed that the reported school-level per-pupil expenditures included special education funds and informed us that some LEAs do not account for State special education expenditures at the school level. However, Utah Education disagreed that reported expenditures included expenditures funded by Federal grants even though our analysis of one school’s accounting records found that the expenditure data reported to the Department included a portion of the school’s Federal expenditures.

## **RECOMMENDATION**

We recommend that the Assistant Secretary for Elementary and Secondary Education require Utah Education to:

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<sup>14</sup> “Study of School-Level Expenditures, Form A: Data Reporting Instructions for School-Level Expenditure Data for State Educational Agencies and Local Education Agencies,” U.S. Department of Education, November 19, 2009.

- 3.1 Recalculate Title I school-by-school per-pupil expenditures from State and local sources in accordance with Department guidance, ensuring that data related to Federal expenditures and State and local expenditures for special education are excluded, and submit a revised report to the Department.

### **Utah Education Comments**

Utah Education stated that it used the instructions available from the Department at the time it provided instructions to the LEAs for this report. Each LEA provided raw data, which included all State and Federal expenditures, for Utah Education to use to calculate the school-level per-pupil expenditures. Utah Education stated that it excluded all Federal expenditures and other exempt expenditures, which were identified as not being appropriate to include in the calculation, and reported this as the per-pupil expenditures. Utah Education agreed that State special education expenditures were not excluded because not all LEAs track these expenditures at the school level. Calculating these data would involve significant time and effort and likely only provide estimated expenditures. Utah Education did not believe that it would be able to produce more accurate data on a school-by-school basis if it were to recalculate the Title I school-by-school per-pupil expenditures.

### **OIG Response**

Utah Education did not provide any additional information that would cause us to modify Finding No. 3 or our recommendation. As stated in the finding, our analysis of one school's accounting records showed that the expenditure data reported to the Department inappropriately included a portion of the school's Federal expenditures. The Department cannot accurately assess the equity of education resources within or across school districts if the data underlying the report is inappropriate.

## **SCOPE AND METHODOLOGY**

The purpose of our audit was to determine whether selected recipients and subrecipients in Utah: (1) used Recovery Act funds in accordance with applicable laws, regulations, and guidance; and (2) reported data that were accurate, reliable, complete, and in compliance with Recovery Act reporting requirements. Our review covered two State-level agencies, Planning and Budget and Utah Education, to which the Department awarded education-related Recovery Act grants. Our review also covered four other State entities that received SFSF funds from Planning and Budget—Utah U, Salt Lake CC, USTAR, and Utah Housing. Our review of USTAR included its subaward of SFSF Government Services funds to Utah U. Lastly, our review included two LEAs, Granite and Nebo, which received SFSF Education Stabilization, Title I, and IDEA funds under the Recovery Act through allocations from Utah Education.

Our review covered four education-related Recovery Act grants. For each grant, we identify the original authorizing statute, abbreviated program name, and Catalog of Federal Domestic Assistance number assigned for grant-tracking purposes below:

- Recovery Act, Title XIV
  - SFSF Education Stabilization (84.394)
  - SFSF Government Services (84.397)
- Elementary and Secondary Education Act of 1965, as amended
  - Title I Part A Basic Grants to LEAs (84.389)
- IDEA, as amended
  - Part B Section 611 Special Education—Grants to States (84.391)

Our review also focused on four data elements that Planning and Budget reported on behalf of itself and Utah Education for the Section 1512 reporting period ending December 31, 2009.

- **Number of Jobs.** Recipients were to estimate the number of jobs created or retained by Recovery Act funds for the quarterly reporting period. Recipients were also to include the number of jobs created or retained by subrecipients and vendors.
- **Vendor Information.** Recipients were to report payments to vendors. Recipients could report individual payments to vendors of less than \$25,000 either separately or in aggregate. Individual payments to vendors greater than \$25,000 were to be reported separately along with additional information on (1) each vendor's identification by its D-U-N-S number, (2) the amount of the payment, and (3) a description of what was obtained in exchange for the payment.
- **Total Federal Amount of Recovery Act Funds Received or Invoiced (Funds Received).** Recipients were to report the total cumulative amount of Recovery Act funds received from the Federal agency.
- **Total Federal Amount of Recovery Act Expenditures (Funds Spent).** Recipients were to report the total cumulative amount of Recovery Act funds spent on projects or activities.

To gain an understanding of the requirements applicable to the use of funds, cash management, and Recovery Act reporting, we reviewed applicable Federal laws, regulations, OMB Circulars, and OMB and Departmental guidance specific to the Recovery Act grants we reviewed. We also interviewed Department officials responsible for administering the Recovery Act grants.

To address the audit objectives, at the State level we performed work at Planning and Budget and Utah Education, which were the prime recipients for the Recovery Act grants we reviewed. We selected and performed work at the other four State entities because two entities were the largest recipients of SFSF Government Services funds (Utah Housing and USTAR) and the other two entities were the largest recipients of SFSF Education Stabilization funds (Utah U and Salt Lake CC) and in the Salt Lake City area. At the local level, we judgmentally selected two LEAs that received SFSF Education Stabilization, Title I, and IDEA funds under the Recovery Act. The two LEAs were among the largest LEAs in the State in terms of the total funds expended across the three Recovery Act grants relative to other LEAs. We selected Granite because it was the

largest LEA in terms of Recovery Act allocation amounts, and Nebo because it exercised the maintenance of effort flexibility provision for IDEA grants.<sup>15</sup>

At Planning and Budget and Utah Education, we reviewed applicable policies and procedures for drawing down Recovery Act funds and monitoring the use of funds by other State entities and LEAs. We also reviewed their procedures for collecting, compiling, and reporting Recovery Act data received from other State entities and LEAs for submission to FederalReporting.gov or the Department. We reviewed accounting records at Planning and Budget and Utah Education and interviewed management and staff responsible for the administration of and accounting for Recovery Act grant funds, as well as the collection and reporting of Recovery Act data.

At each of the other selected State entities and LEAs, we reviewed applicable policies and procedures and other relevant documentation when available. We interviewed fiscal and program officials responsible for administering the Recovery Act grants we reviewed. We also reviewed and considered the results and findings of prior Single Audits, other State reviews, and Departmental program monitoring visits. We evaluated the State entities' and LEAs' procedures for requesting Federal funds. Where warranted, we compared drawdowns to expenditures to determine whether Federal funds were in excess of an entity's immediate need.

We performed limited assessments of the State entities' and LEAs' applicable policies and procedures by reviewing selected personnel and nonpersonnel expenditures to determine whether costs charged to Recovery Act grants complied with applicable laws, regulations, and other requirements. To select our sample, we judgmentally selected personnel and nonpersonnel expenditures for grants at the State entities and the three grants at the LEAs based on one or more of the following attributes: account type; employee type and work location; high-dollar transaction; and timing of disbursement. We also randomly selected personnel expenditures for the SFSF Education Stabilization grant at Nebo and the three grants reviewed at Granite. We summarize the amount of personnel and nonpersonnel costs and number of transactions selected for testing at each entity and grant in Attachment 1. We traced the personnel and nonpersonnel costs to accounting records, invoices, cancelled checks, payroll records, and other documents supporting the amount of funds spent. Because we judgmentally selected the personnel and nonpersonnel costs included in our review, the results presented in this report cannot be projected to the universe of about \$85 million of costs that were incurred for the period covered by our review.

We also tested transactions associated with home buyer credits awarded and direct costs charged by Utah Housing along with scholarships awarded by Salt Lake CC (these transactions are not included in Attachment 1). We judgmentally selected 8 of the 3,335 applicants (\$40,000 of \$16,642,000) to confirm that Utah Housing followed its verification process and awarded credits to eligible home buyers. We also conducted a cursory review of the cost categories in the agency's Statement of Income and identified the \$10,552 transaction for interest expense as an unallowable cost from the \$100,823 of direct costs included in the statement. For

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<sup>15</sup> Under certain circumstances, in accordance with IDEA section 613(a)(2)(C), in any fiscal year that an LEA's subgrant allocation exceeds the amount that the LEA received in the previous fiscal year, that LEA may reduce the level of local, or State and local, expenditures otherwise required by the maintenance of effort requirements by up to 50 percent of the increase in the LEA's subgrant allocation.

Salt Lake CC's scholarship program, we judgmentally selected the largest and one smaller scholarship from 169 student scholarships (\$1,340 of \$81,141) to confirm the students were awarded scholarships based on the college's need-based process for determining eligibility.

To evaluate data quality, we compared the total expenditure amounts submitted to FederalReporting.gov to records generated by Planning and Budget and Utah Education for the four Recovery Act grants where applicable. We used the information from our work for cash management and use of funds to substantiate amounts received and/or spent by the State entities and LEAs. We also evaluated procedures used by the State entities and Utah Education to calculate the estimated number of jobs, reviewed Planning and Budget's data collection forms for collecting Section 1512 data from other State entities, and performed analytical tests to determine the validity and accuracy of the reported jobs data. We also used accounting records at the State entities and LEAs to identify vendor payments.

For the Title I per-pupil expenditure report, we reviewed Utah Education's instructions to LEAs for collecting and reporting required data and the relevant Departmental guidance. We also conducted a reasonableness test at one school selected by the Nebo Assistant Business Administrator to determine whether Federal expenditures were included in the data reported to the Department.

We relied on computer-processed data contained in the accounting systems of the prime recipients (Planning and Budget and Utah Education), other State entities, and LEAs described above. We traced amounts received and spent by the other State entities and LEAs to the amounts in the prime recipients' systems. We also verified the authenticity of the data by comparing the costs in the automated accounting systems at the other State entities and LEAs to source documentation provided by them. Because of the errors we identified in data that recipients and subrecipients reported to Planning and Budget, Utah Education, and/or other State entities, we could not rely on the computer-generated data related to the estimated number of jobs, the required vendor information, and the amount of funds spent that was submitted to FederalReporting.gov.

We conducted fieldwork at the offices of Planning and Budget, Utah Education, Utah U, Salt Lake CC, and USTAR in Salt Lake City, Utah, between December 2009 and January 2010. The fieldwork for Utah Housing was conducted in West Valley City between December 2009 and January 2010. We conducted fieldwork at Granite in Salt Lake City between March and April 2010. The fieldwork for Nebo was conducted in March 2010 at its office in Spanish Fork.

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.



**Attachment 1**

**Information Related to OIG Testing of Personnel and Nonpersonnel Costs**

At selected State and local subrecipients, we selected a sample of employees and a separate sample of nonpersonnel transactions to determine whether the costs charged to the grants we reviewed complied with applicable Federal requirements. We judgmentally selected a sample of employees for all grants except for the SFSF Education Stabilization grant at Nebo where we randomly selected employees. We also randomly selected employees for all three grants reviewed at Granite. To test personnel costs, we selected employees at two IHEs and two LEAs and reviewed personnel costs charged to one or more of the four Recovery Act grants reviewed, as summarized in Table 2.

<b>Table 2: Total Personnel Costs for Reviewed Recovery Act Grants and Entities and the Personnel Costs and Number of Employees/Transactions Selected for Testing</b>				
<b>Recovery Act Grant</b>	<b>Entity</b>			
	<b>Utah U</b>	<b>Salt Lake CC</b>	<b>Granite</b>	<b>Nebo</b>
<b>SFSF Government Services</b>				
Total Costs	\$2,416,297 (a)			
Selected Costs	\$519,808			
Number of Transactions Selected	14			
<b>SFSF Education Stabilization</b>				
Total Costs	\$14,234,944	\$4,557,354 (b)	\$25,682,481	\$14,559,960
Selected Costs	\$70,357	\$109,742	\$86,004	\$37,248
Number of Employees Selected	4	3	10	6
<b>IDEA</b>				
Total Costs			\$491,496 (a)	\$2,095,916
Selected Costs			\$30,643	\$39,517
Number of Employees Selected			8	3
<b>Title I</b>				
Total Costs			\$919,795 (a)	\$245,359
Selected Costs			\$2,750	\$10,018
Number of Employees Selected			8	3
(a) Total and selected personnel costs were incurred from February 17 to December 31, 2009. Some of the costs were reimbursed after December 31, 2009, and some costs were scheduled for reimbursement after that date. (b) The amount of SFSF Education Stabilization funds disbursed by Salt Lake CC includes the funds awarded to Utah in Phase I, as well as the State funds that the entities received before the Department awarded Phase II funds in March 2010.				

To test nonpersonnel costs, we judgmentally selected transactions at Utah U and two LEAs and reviewed nonpersonnel costs charged to one or more Recovery Act grants, as summarized in Table 3.

<b>Table 3: Total Nonpersonnel Costs for Reviewed Recovery Act Grants and Entities and the Nonpersonnel Costs and Number of Transactions Selected for Testing</b>			
<b>Recovery Act Grant</b>	<b>Entity</b>		
	<b>Utah U</b>	<b>Granite</b>	<b>Nebo</b>
<b>SFSF Government Services</b>			
Total Costs	\$556,203 (a)		
Selected Costs	\$80,440		
Number of Transactions Selected	9		
<b>IDEA</b>			
Total Costs		\$1,375,684 (a)	\$376,954
Selected Costs		\$1,206,683	\$221,284
Number of Transactions Selected		9	2
<b>Title I</b>			
Total Costs		\$ 270,565 (a)	\$42,712
Selected Costs		\$183,328	\$33,375
Number of Transactions Selected		14	2
(a) Total and selected nonpersonnel costs were incurred from February 17 to December 31, 2009. Some of the costs were reimbursed after December 31, 2009, and some costs were scheduled for reimbursement after that date.			

## **Enclosure 1**

### **Planning and Budget Comments on the Preliminary Audit Report**

March 8, 2011

Ray Hendren  
Regional Inspector General for Audit  
U.S. Department of Education  
501 I Street, Suite 9-200  
Sacramento, CA 95814

RE: Preliminary Utah Recovery Act Report

Mr. Hendren,

Thank you for the opportunity to respond to the Office of the Inspector General's Preliminary Report, dated February 16, 2011. In response to the Preliminary Report, the Governor's Office of Planning and Budget (GOPB) and State Office of Education for the State of Utah (USOE), have prepared responses to the findings list for your review. The attached document outlines the specific ways in which GOPB and USOE are implementing or in the process of implementing the recommendations from the Utah: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs Preliminary Audit Report.

The Governor's Office of Planning and Budget continues to be committed to the proper use of Stabilization Funds and the accurate reporting of 1512 data for public use.

We believe that Utah has successfully provided consistent and reliable data to the American public through section 1512 reporting while investing in education and stimulating our state's economy through innovative economic development projects.

Please consider our responses to the findings and recommendations of the Office of the Inspector General's Preliminary Report in the enclosed documents.

Sincerely,

/s/

Ron Bigelow  
Executive Director  
Utah Governor's Office of Planning and Budget

**FINDING NUMBER 1**—*“Planning and Budget and Utah Education Need to Ensure Recovery Act Funds are Used in Accordance With Federal Requirements.”*

**Recommendation 1.1:** *Implemented*

The Governor’s Office of Planning and Budget is committed to compliance with all federal requirements associated with Stabilization Funds. Office staff has actively pursued guidance regarding how interest was to be remitted, and received such guidance from the U.S. Department of Education in February 2011. Immediately following the receipt of this guidance, the office’s Financial Manager prepared and submitted a check in accordance with the received guidance, remitting all interest earned on Government Services Funds.

The University of Utah concurs with this finding and has resolved this issue by adding formal monitoring procedures to ensure sub-recipients are complying with Federal requirements. In addition, the University of Utah reduced a subsequent reimbursement claim by \$55,000.

**Recommendation 1.2** *Implemented*

The Governor’s Office of Planning and Budget has notified all State entities receiving funds from the SFSF Government Services grant of the types of deficiencies identified in Recommendation 1.1, and instructed them to identify and correct such deficiencies, if found.

**Recommendation 1.3:** *Implemented*

Utah will continue to assess its Stabilization Fund management on an ongoing basis, including data quality and sub-recipient monitoring processes.

**Recommendation 1.4:** *Implemented*

Utah has established, and continues to follow, an on-going process of reviewing the use and management of Stabilization Funds by State entities receiving Government Services funds, which includes an examination of the entities’ sub-recipient monitoring processes.

**FINDING NUMBER 2**— *“Planning and Budget and Utah Education Need to Implement Review Procedures to Ensure Reported Section 1512 Data Are Accurate, Reliable, and Complete”*

Salt Lake Community College concurs with the finding that it used incorrect budget data when identifying the number of FTE supported using ARRA SFSF funds during the referenced time frame. The institution has since taken corrective action beginning July 1, 2010 and now uses actual expenditure data to identify the number of FTE supported

using ARRA SFSF funds. The institution believes the corrective action implemented has resulted in compliance with federal FTE reporting requirements.

**Disagreements:**

Utah did not fail to report vendor payments made by sub-recipients under \$25,000 in 1512 reporting, as suggested by Table 2. OMB Memorandum 10-34 clarifies OMB's intention that "Total Number of payments to vendors less than \$25,000/award... only includes payments made by the prime recipient." Utah's omission of vendor payments less than \$25,000 made by sub-recipients in 1512 reports is in direct compliance with OMB guidance.

We also do not concur with the portion of the recommendation applying to the University of Utah vendor payment of \$50,049 for laboratory and technical supplies. This payment was reversed out and therefore did not need to be reported.

We acknowledge payments to vendors greater than \$25,000 should be reported if made by prime or sub-recipients and have consistently issued guidance to sub-recipients accordingly. In addition, prior to submitting future 1512 reports GOPB will confirm with sub-recipient reporters that all information, including payments to vendors, have been reported in our effort to provide accurate and reliable data to the public.

**Recommendation 2.1: *In Process***

GOPB is in the process of resolving data omissions with respect to vendor payments through its existing in-depth monitoring process.

**Recommendation 2.2: *Implemented***

GOPB has implemented its plan to verify 1512 data submitted to [federalreporting.gov](http://federalreporting.gov) are successfully and accurately uploaded to the nationwide collection system.

**Recommendation 2.3: *Implemented***

GOPB has implemented revised data quality review procedures and monitoring activities for state agencies and sub-recipients receiving Stabilization Funds as discussed in the Preliminary Audit Report.

USTAR reviews sub-recipient reports for accuracy. Data element definitions provided by Planning and Budget were included in both (1) the Excel spreadsheets sent to sub-recipients and (2) the sub-recipient contracts. The definitions included FTE calculations.

Quarterly FTE calculations were implemented for the reporting period ending March 31, 2010 based on guidance from OMB Memorandum 10-08.

The University of Utah follows the requirements received from the prime awardee. New procedures have been put into place to review and monitor the expenses. The University of Utah has added an additional staff to help with that new process and the USTAR Governing Board continues to act as an additional review over our process. The \$50,049 error to a vendor for laboratory and technical supplies was reversed, therefore FTE was not an issue for this expenditure.

**Recommendation 2.4:** *Implemented*

GOPB continues to assess data quality monitoring processes on an ongoing basis, implementing changes and improvements when necessary.

**Recommendation 2.5:** *Implemented*

GOPB will continue to notify State recipients of potential data quality issues identified in our existing monitoring and data quality processes.

**Recommendation 2.6:** *Implemented*

GOPB has resolved the data omissions in the SFSF Education Stabilization report with respect to vendor payments through its existing in-depth monitoring process.

**Recommendation 2.7:** *Implemented*

GOPB has successfully implemented data quality review procedures to ensure LEA jobs information is accurate, reliable, and complete. GOPB has worked in conjunction with USOE to ensure LEA vendor information reported is accurate, reliable, and complete in the future.

**Recommendation 2.8:** *Implemented*

GOPB continues to assess its internal data quality processes on an ongoing basis to ensure proper implementation.

## **Enclosure 2**

### **Utah Education Comments on the Preliminary Audit Report**



March 8, 2011

Ray Hendren  
Regional Inspector General for Audit  
U.S. Department of Education  
Office of Inspector General  
501 I Street, Suite 9-200  
Sacramento, CA 95814

RE: OIG audit control number ED-OIG/A09K0001

Mr. Hendren:

This letter is in response to the preliminary audit report, Utah: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs. We appreciate the chance to respond to the findings noted below:

**Recommendation 1.5:**

**Nebo School District**

-The \$1.29 million of personnel costs charged to ARRA IDEA prior to the grant's start date were subsequently adjusted to only reflect allowable costs made during the grant period. This error occurred because of the calculation of a journal entry.

- \$5,305 that was charged to the Title I and the ARRA Title I program occurred because a teacher was moved from a Title I school to a non-Title I school during the year and her account coding was not changed. The USOE Internal Auditor has verified that Nebo will be reimbursing the Title I grant and ARRA IDEA grant for the \$5,305 that was charged inappropriately. This will occur in March 2011.

-Nebo District and the USOE agree that written approval was not obtained for capital improvements totaling \$20,084, which were charged to Title I. The District and the USOE discussed the improvements in general, but no documentation was obtained. Nebo District has repaid the Title I program with other non-federal funds. The USOE Title I Division has clarified internal policy and provided training to each LEA regarding prior approval for capital expenditures and improvements in compliance with A-87, Appendix B, Part 15.b(3).

- Nebo agrees that the District's payroll system automatically generates payroll checks for contract employees and, as a result, payroll specialists may not be notified timely of employees who quit or are terminated. Nebo has a small payroll staff, and does not feel that this issue is overly significant as they have implemented compensating controls. Principals are provided a list of employees on a quarterly basis to ensure that proper employees are on the correct payroll. Nebo District also runs a number of diagnostic reports that list the types of changes made to the payroll system. These reports are reviewed for propriety and appropriateness.

-Nebo agrees that proper payroll certifications were not occurring, and have subsequently made adjustments to their payroll processes to ensure that payroll certifications are occurring, in accordance with OBM Circular A-87.

### **Granite School District**

Granite School District agrees that proper payroll certifications were not occurring. Granite has formulated a district-wide electronic solution to obtain the required certifications and/or personnel activity reports. They have developed a process by which necessary corrections will be processed if the employee effort is different from the costs charged to Federal program(s). The district has mapped out the necessary computer programming to implement the solution and has completed 50-60% of the necessary computer programming. The district expects to be 100% completed and implemented by July 1, 2011. In the meantime the district has bolstered its efforts and requirements to obtain paper certifications.

### **Recommendation 1.6 and 1.7:**

Each LEA in Utah has been given information and instruction regarding payroll certifications in compliance with OMB circular A-87 and A-122. Nebo and Granite Districts will be reviewed by USOE internal audit during 2011 for compliance with payroll certification requirements.

### **Recommendation 1.8:**

Monitoring and risk assessment activities occur throughout the year and involve many factors. Audited financial statements and the associated findings are only one element of the risk assessment and monitoring process. Each division, in cooperation with the USOE Internal Audit Division, is improving the overall monitoring environment. The processes outlined in Utah's SFSF monitoring plan have been completed for SFSF Phase I monies and are currently in process for SFSF Phase II. The specific issues noted in this audit of proper payroll certifications and allowable costs were reviewed.

### **Recommendation 2.6:**

Vendor data was collected for all expenditures made with SFSF funds and properly reported in the quarter four 1512 reports. Vendor data is collected each quarter for all ARRA expenditures and reported in the same quarter. All ARRA Education reports are in compliance with this requirement.

### **Recommendation 2.7 and 2.8:**

1512 reports are compiled by the USOE Finance Auditor and reviewed by the Internal Auditor prior to submission to the Office of Planning and Budget. This review encompasses a review of the underlying data, a review of jobs created-and-saved calculation, and inclusion of proper vendor data. The Office of Planning and Budget also performs a review and returns issues to the USOE for resolution.

### **Recommendation 3.1:**

The USOE utilized the data and instructions available from the Federal Department of Education at the time instructions were given to the LEAs. The USOE received raw data from each LEA, which included all state and federal expenditures. USOE, using the approved charts of accounts given to each LEA, excluded all federal expenditures and expenditures from other functions

which were identified as not being appropriate to include in the calculation. This adjusted number was reported as the per pupil expenditures by USOE. USOE does agree that state special education expenditures were not excluded, because not all LEAs track state special education expenditures at the school level. The data is not readily available and calculating this data would take significant time and effort, and most likely be an estimate at the LEA level. USOE does not feel that it would be able to yield more accurate data on a school-by-school basis were it to recalculate the Title I school-by-school per-pupil expenditures report.

Sincerely,

/s/

Todd Hauber  
Associate Superintendent of Finance  
Utah State Office of Education

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**Or write:**

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Office of Inspector General  
400 Maryland Avenue, S.W.  
Washington, DC 20202

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