# State and District Monitoring of School Improvement Grant Contractors in California

## FINAL AUDIT REPORT

**ED-OIG/A09O0009**
**March 2016**

Our mission is to promote the efficiency, effectiveness, and integrity of the Department's programs and operations.

U.S. Department of Education
Office of Inspector General
Sacramento, CA

# NOTICE

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

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.

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

AUDIT SERVICES
Sacramento Audit Region

March 17, 2016

Tom Torlakson
State Superintendent of Public Instruction
and Director of Education
California Department of Education
1430 N Street
Sacramento, CA 95814

Dear Mr. Torlakson:

Enclosed is our final audit report, "State and District Monitoring of School Improvement Grant Contractors in California," Control Number ED-OIG/A09O0009. This report incorporates the comments your staff provided in response to the draft report. If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following U.S. Department of Education official, who will consider them before taking final Departmental action on this audit:

Ann Whalen
Delegated the Authority to Perform the Functions
and Duties of Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Ave., SW
Washington, D.C. 20202

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

# TABLE OF CONTENTS

Page

**EXECUTIVE SUMMARY** ..... **1**

**BACKGROUND** ..... **4**

**AUDIT RESULTS** ..... **6**

**FINDING NO. 1 – California's Monitoring Procedures Did Not Ensure That LEA Fiscal Controls Over SIG Funds Were Sufficient** ..... **8**

**FINDING NO. 2 – LEAs Did Not Have Sufficient Controls to Ensure the Integrity of SIG Contract Expenditures** ..... **10**

**FINDING NO. 3 – Oakland Lacked Documentation Showing That it Routinely Monitored SIG Contractors' Performance** ..... **16**

**OTHER MATTERS** ..... **19**

**OBJECTIVE, SCOPE, AND METHODOLOGY** ..... **20**

**ENCLOSURE: Auditee's Comments on the Draft Audit Report** ..... **24**

# Abbreviations, Acronyms, and Short Forms Used in This Report

| | |
|---|---|
| California | California Department of Education |
| C.F.R. | Code of Federal Regulations |
| Contractor | External provider |
| Department | U.S. Department of Education |
| ESEA | Elementary and Secondary Education Act of 1965 |
| Fiscal transaction | Financial activity involving obligation and expenditure of SIG funds |
| Inglewood | Inglewood Unified School District |
| LEA | Local Educational Agency |
| Oakland | Oakland Unified School District |
| SEA | State Educational Agency |
| SIG | School Improvement Grants |
| Stockton | Stockton Unified School District |

# EXECUTIVE SUMMARY

The objective of our audit was to determine the adequacy of State and district monitoring of School Improvement Grants (SIG) contractors. We conducted our work at the California Department of Education (California) and three school districts (referred to as local educational agencies (LEAs) in the remainder of this report): (1) Inglewood Unified School District (Inglewood), (2) Oakland Unified School District (Oakland), and (3) Stockton Unified School District (Stockton). These LEAs were awarded SIG funds in cohort 2 for the period March 1, 2012, through September 30, 2015. The U.S. Department of Education (Department) uses the term "cohort" followed by a number to refer to each group of SIG funds awarded to States. Our State work evaluated the adequacy of California's monitoring of LEA activities in three areas: (1) recruiting, screening, and selecting SIG contractors; (2) overseeing SIG contractors' performance of contracted services; and (3) ensuring that payments to contractors are appropriate. Our LEA work focused on whether the three LEAs adequately monitored SIG contractors' performance and performed appropriate fiscal control activities to ensure payments to SIG contractors for professional services met Federal requirements. We use the term "fiscal transaction" or "transaction" throughout this report to refer to LEAs' financial activity in obligating and spending SIG funds in relation to professional service contracts. Because we judgmentally selected the LEAs; the records associated with recruiting, screening, selecting, and monitoring of contractors; and the fiscal transactions that we tested, our results might not be representative of the entire universes and should not be projected to the universes (see the "Objectives, Scope, and Methodology" section of this report for more detail on our judgmental selection processes).

We found that California did not adequately monitor Inglewood, Oakland, and Stockton to ensure that they had sufficient fiscal controls for obligating and paying Federal funds to SIG contractors. California's monitoring instrument did not specify the extent of testing that monitoring personnel should perform to ensure the LEAs spent SIG funds properly, did not specify the types of documents that its monitoring personnel should review, and did not sufficiently describe the procedures that monitoring personnel should perform to determine whether LEAs have implemented appropriate fiscal control activities. As a result, California's monitoring did not detect that (1) two of the three LEAs did not have written policies and procedures for reviewing and approving purchase order requisitions related to SIG contractor-provided services, (2) none of the three LEAs had written policies and procedures for reviewing and approving invoices submitted by SIG contractors before payment, (3) officials at one of the three LEAs did not always review and approve purchase order requisitions, and (4) officials at the three LEAs did not always review and approve invoices. We did not identify any concerns with California's processes for monitoring the three LEAs' activities related to recruiting, screening, and selecting SIG contractors. We also did not identify any concerns with California's processes for monitoring how LEAs oversee SIG contractor activity. We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education require California to enhance its LEA monitoring instrument for SIG program accountability by identifying the key fiscal documents that reviewers must obtain, the amount of testing that is appropriate, and the specific procedures that should be performed to confirm that LEA personnel are implementing appropriate measures to prevent improper payments.

We also found that the three LEAs did not have sufficient written policies and procedures for reviewing and approving certain fiscal documents, two of the LEAs did not adequately monitor fiscal transactions involving SIG contractors, and one LEA did not provide evidence that it routinely monitored its contractors' performance. Specifically, we found the following.

- Inglewood and Stockton did not have sufficient written policies and procedures for reviewing and approving purchase order requisitions that obligated Federal funds to SIG contractor-provided services. None of the three LEAs had written policies and procedures for reviewing and approving invoices submitted by SIG contractors before payment using Federal funds.

- Oakland did not maintain adequate documentation to support invoiced services for five of the six fiscal transactions totaling $121,311 included in our judgmental selection of contractor expenditures for testing. Inglewood and Stockton adequately supported the invoiced services for the contractor expenditures we judgmentally selected for testing.

- Oakland and Stockton allowed SIG contractors to provide services before the LEAs had approved contracts or purchase orders (a form of contract). For the contractor expenditures we judgmentally selected for testing, Oakland and Stockton paid $39,300 and $102,799, respectively, for these services. Although certain contractors performed services before either LEA had fully approved the required contracts or purchase orders, we confirmed that they did not pay these contractors before they approved the contracts and purchase orders.

- Oakland officials described specific activities that LEA personnel performed to monitor SIG contractors' performance but did not provide documentation to support that the LEA had in fact monitored six of seven SIG contractors we judgmentally selected for testing. Inglewood and Stockton officials provided documentation demonstrating that they effectively monitored the performance of the SIG contractors we judgmentally selected for testing in accordance with applicable Federal requirements.

We recommend a variety of actions that the Assistant Secretary for the Office of Elementary and Secondary Education should ensure that California takes to promote improved fiscal controls and documentation by LEAs receiving SIG funding. These actions include requiring (1) LEAs to develop and implement written policies and procedures for reviewing and approving certain key financial documents involving SIG contractor transactions, (2) LEAs' periodic testing of these control activities to ensure proper implementation, (3) one LEA to return SIG funding unless it can provide adequate support for questioned costs for SIG contractors, (4) two LEAs to return SIG funding for the costs of services provided to schools before they had approved contracts or purchase orders, (5) an independent review of SIG expenditures at all three LEAs because of the significant weaknesses this audit identified, (6) two LEAs to improve their procurement policies and procedures to ensure that contracts and purchase orders are in place before obtaining contractor services, and (7) enhancement of LEA policies on retaining documents to support LEA monitoring efforts and payments to contractors.

In addition to the results presented in this report related to our audit objective, we identified two issues that we discuss in the section "Other Matters." Specifically, we identified one LEA that

approved two SIG contracts that included unallowable activities and another LEA that did not appear to routinely pay SIG contractors timely.

We provided a draft of this report to California for its review and comment on January 22, 2016. In its response, dated February 22, 2016, California did not explicitly concur with our findings but concurred with all 10 of our recommendations. We summarized California's comments at the end of each finding and provided our response as appropriate. We also included the full text of California's comments as an enclosure to this report.

# BACKGROUND

The SIG program is authorized by Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended. Section 1003(g) authorizes formula grants to States that then competitively award grants to LEAs to help them meet their school improvement responsibilities under Title I, Section 1116. States must give priority to LEAs with the lowest achieving Title I eligible schools that demonstrate the greatest need for the funds and the strongest commitment to using such funds to meet school improvement goals.

From July 1, 2009, through September 30, 2015, California was authorized to receive $729,816,409 (12 percent) of the total $6,051,502,595[1] SIG funds that were authorized nationwide.[2] California awarded SIG funding to LEAs in three cohorts that each provided at least 3 years of funding. Table 1 summarizes the awards that California made to LEAs for the first two SIG cohorts. California also awarded SIG funds to four LEAs for cohort 3, which began in July 2014.[3]

**Table 1. SIG Funding Awarded to California LEAs for Cohorts 1 and 2**

| Cohort | Funding Period | Number of LEAs Funded (a) | Total SIG Funds California Awarded to LEAs (a), (b) |
|---|---|---|---|
| 1 | July 1, 2010 through September 30, 2014 | 41 LEAs | $410,624,698 (c) |
| 2 (d) | March 1, 2012 through September 30, 2015 (e) | 14 LEAs | $194,744,551 (d) |

(a) We obtained the data on SIG funds awarded to LEAs from California. We did not audit these data.
(b) The totals do not include SIG funds that California may have retained for its administrative, evaluation, and technical assistance expenses.
(c) The total includes SIG funds awarded under the American Recovery and Reinvestment Act of 2009.
(d) Our audit included 3 (Inglewood, Oakland, Stockton) of 14 LEAs that were awarded SIG funds in cohort 2. These three LEAs were awarded $59,747,058 (31 percent) of the total $194,744,551 SIG funds authorized for cohort 2.
(e) Oakland and Stockton were funded for cohort 2 for March 1, 2012, through September 30, 2015. Inglewood was funded for cohort 2 for July 1, 2012, through September 30, 2015.

LEAs can outsource certain SIG activities and services, such as family and community engagement, after school programs, and professional development, to contractors. For the three LEAs included in our review, we calculated that between 16 percent and 24 percent of SIG expenditures were paid to contractors under cohort 2. Table 2 includes information on the SIG grant award amounts, SIG expenditure totals, and the SIG professional service contractor expenditures for the three LEAs included in our review.

[1] Almost 50 percent of the total SIG funds authorized through September 30, 2015 were from SIG funds awarded under the American Recovery and Reinvestment Act of 2009.

[2] We obtained the data from the Department's Grant Management System. We did not audit the data.

[3] California approved one of the four LEAs for preimplementation funding starting April 1, 2014.

**Table 2. SIG Awards and Expenditures for Three Selected LEAs**

| Totals for Cohort 2 Period | Inglewood | Oakland | Stockton |
|---|---|---|---|
| Grant award amount (a) | $16,437,999 | $8,549,909 | $34,759,150 |
| Total SIG expenditures (b) | $11,767,826 | $7,129,592 | $24,554,052 |
| SIG professional service contractor expenditures (b) | $1,875,399 | $1,197,016 | $5,837,021 |
| SIG professional service contractor expenditures as a percentage of total SIG expenditures | 16% | 17% | 24% |
| Number of SIG professional service contractors | 14 | 19 | 13 |

(a) California funded three SIG schools at Inglewood, two at Oakland, and seven at Stockton under cohort 2.
(b) We obtained expenditure data for July 1, 2012, through February 27, 2015, from Inglewood; March 1, 2012, through March 30, 2015, from Oakland; and March 1, 2012, through December 31, 2014, from Stockton.

According to 34 Code of Federal Regulations (C.F.R.) § 80.40(a), California, as a grantee, is responsible for managing the day-to-day operations of State educational agency (SEA) and LEA activities supported by SIG funding to ensure compliance with applicable Federal requirements and that performance goals are being achieved. California's monitoring must cover each program, function, or activity.

The 2010 SIG requirements[4] state that an SEA must consider, among other things, the extent to which each LEA's application demonstrates that the LEA has taken, or will take, action to recruit, screen, and select external providers (contractors), if applicable, to ensure their quality. This helps the SEA determine the strength of an LEA's commitment to ensuring that school improvement funds are used to enable schools to substantially improve student achievement.

Although the 2010 SIG requirements did not specify that LEAs must monitor SIG contractors' performance, 34 C.F.R. § 80.36(b)(2) required LEAs to maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts.[5]

On February 9, 2015, the Department published the 2015 SIG requirements,[6] which revised the 2010 SIG requirements to strengthen program implementation based on lessons learned from 4 years of SIG implementation and input from stakeholders. Among other things, the 2015 SIG requirements state that an SEA must consider the extent to which each LEA's application demonstrates that the LEA has taken, or will take, action to regularly review contractors' performance and hold them accountable.

[4] Federal Register, Vol. 75, No. 208, October 28, 2010, Notices, "Final requirements for SIG authorized under section 1003(g) of Title I of the ESEA."

[5] The Uniform Administrative Requirements in 2 C.F.R. replaced 34 C.F.R. for new and continuation awards that the Department issued on or after December 26, 2014, and also consolidated requirements contained in a number of Office of Management and Budget circulars. The Uniform Administrative Requirements are not applicable to our audit period because our audit covered SIG funds that were awarded before the effective date.

[6] Federal Register, Vol. 80, No. 26, February 9, 2015, "Final Requirements-School Improvement Grants-Title I of the ESEA; Final Rule."

# AUDIT RESULTS

California needs to enhance its fiscal monitoring procedures for LEAs that have been awarded SIG funds. Although California had a monitoring instrument for performing LEA on-site reviews that included fiscal management and fiscal accountability procedures, these procedures were not adequate to ensure that certain internal control weaknesses at LEAs would be identified and corrected. Specifically, California's monitoring instrument did not specify the extent of fiscal testing that monitoring personnel should perform to ensure that LEAs spend SIG program funds properly; the types of documents, such as contracts with service providers and invoices service providers submitted that SEA monitoring personnel should review; or the procedures that monitoring personnel should perform to determine whether LEA personnel have implemented appropriate fiscal control activities. As a result, California did not adequately monitor the LEAs in our review to ensure that they had sufficient written policies and procedures for reviewing and approving certain key financial transactions related to obligating funds and making payments to SIG contractors and that LEAs consistently followed these policies and procedures.

We did not identify any concerns with California's processes for monitoring the three LEAs' activities related to recruiting, screening, and selecting SIG contractors. California provided LEAs with technical assistance for recruiting, screening, and selecting contractors in the SIG request for application and then rated LEAs' SIG application responses, including the narrative for how the LEA recruited, screened, and selected contractors, for adequacy. We also did not identify any concerns with California's processes for monitoring how LEAs oversee SIG contractor activity. California's monitoring included making technical assistance available to LEAs through a webinar and as needed throughout the grant period, a monitoring site visit of each LEA one time during the grant period, and a technical assistance site visit of each LEA in the third year of the grant. Areas covered during monitoring included services that would be provided by contractors, such as increased learning time, professional development, and community-oriented services. California's SIG monitoring procedures also included reviewing LEAs' reports or listings of contracted services and policies or protocols regarding contracting. LEA officials also confirmed that California provided technical assistance on issues and topics involving SIG contractors when needed. California documented its monitoring processes in its grant applications and its LEA monitoring instrument, questionnaire, and reports.

All three LEAs in our review need to improve their controls over fiscal transactions with SIG contractors to ensure that payments to these contractors conform to Federal requirements. Inglewood and Stockton did not have sufficient written policies and procedures for reviewing and approving purchase order requisitions that committed Federal funds to SIG contractor-provided services. None of the LEAs had written policies and procedures for reviewing and approving invoices submitted by SIG contractors before payment using Federal funds. Oakland did not maintain adequate documentation to support invoiced services for five of the six SIG contractor expenditures we judgmentally selected for testing, totaling $121,311. Inglewood and Stockton adequately supported the invoiced services for the SIG contractor transactions we reviewed. Oakland and Stockton allowed SIG contractors to provide services to schools, totaling

$39,300[7] and $102,799, respectively, before the LEAs had approved contracts or purchase orders for the services.

Based on the test results from our judgmental selection of contractor monitoring records, Oakland needs to improve its processes to ensure it can demonstrate that it routinely monitors SIG contractors' performance. Oakland officials did not provide documentation to support that the LEA had monitored six of seven SIG contractors included in our review even though they described specific activities that LEA personnel performed to monitor SIG contractors' performance. Inglewood and Stockton officials provided documentation demonstrating that they effectively monitored the performance of the SIG contractors included in our review in accordance with Federal requirements. All three LEAs included provisions in their SIG contracts that would allow them to hold contractors accountable for achieving desired outcomes.

We based our findings on the applicable Federal regulations, standards, and the 2010 SIG requirements in effect during the audit period, which are described in the "Background" section and findings of this report. However, California and the three LEAs should consider the effects of the recently published 2015 SIG requirements and the Uniform Administrative Requirements in 2 C.F.R. when developing and implementing corrective actions to address the recommendations in this report and ensure that they adhere to these new requirements until all remaining SIG funds are spent.[8]

We also identified two issues that are included in the "Other Matters" section of this report. First, Inglewood inappropriately used SIG funds to pay a contractor $4,800 for grant writing services associated with another Federal program. Second, Stockton did not timely pay contractors for 8 of 21 invoices we reviewed as part of our expenditure testing. We could not determine whether the other two LEAs timely paid SIG contractor invoices because they did not routinely date stamp contractor invoices upon receipt.

Even though California did not explicitly concur with the findings presented in our draft report, it did concur with all 10 of our recommendations.

[7] Oakland's payments of $39,300 are also part of the $121,311 of unsupported costs discussed under Finding No. 2, "Documenting SIG Contract Expenditures."

[8] On December 10, 2015, the President signed the Every Student Succeeds Act, which reauthorizes the ESEA and replaces No Child Left Behind. Even though the Every Student Succeeds Act eliminated the SIG program (Section 1003(g) of No Child Left Behind), funding is still available for school improvement activities under the new law.

## FINDING NO. 1 – California's Monitoring Procedures Did Not Ensure That LEA Fiscal Controls Over SIG Funds Were Sufficient

California's monitoring procedures did not ensure that the LEAs in our review had adequate fiscal controls over transactions with SIG contractors that resulted in spending more than $8.9 million in Federal funds. California's monitoring instrument did not specify the extent of testing that monitoring personnel should perform to ensure LEAs spend SIG funds properly, the types of documents SEA monitoring personnel should review, or the procedures that monitoring personnel should perform to determine whether LEAs have implemented appropriate fiscal control activities. As a result, California's monitoring did not detect that (1) two of the three LEAs did not have sufficient written policies and procedures for reviewing and approving purchase order requisitions related to SIG contractor-provided services, (2) none of the three LEAs had written policies and procedures for reviewing and approving invoices submitted by SIG contractors before payment, (3) designated officials from one LEA did not always review and approve purchase order requisitions, and (4) designated officials from the three LEAs did not always review and approve invoices.

The monitoring instrument that California's personnel used to perform LEA on-site reviews stated that California will obtain and review documentation needed to evaluate LEA practices in the areas of fiscal management and fiscal accountability, including:

- regulations, policies, or protocols that provide evidence of LEA practices regarding fiscal management and internal control and

- LEA description of its internal accounting and budget review process and the steps it takes to ensure expenditures are allowable.

Title 34 C.F.R. § 80.20(b)(3) states that grantees must maintain effective control and accountability for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must ensure that it is used solely for authorized purposes. Title 34 C.F.R. § 80.40(a) states that grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to ensure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.

California's monitoring instrument lacked specific requirements related to fiscal management and control, which resulted in inadequate fiscal monitoring at all three LEAs included in our review. California personnel responsible for conducting monitoring reviews may not have been aware of or fully understood the importance of obtaining LEA's written fiscal policies and procedures associated with reviewing and approving purchase order requisitions and contractor invoices and confirming that the LEAs had implemented required policies and procedures by performing specific tests and analyses. Based on the monitoring instrument, monitoring personnel were not required to obtain and review copies of contracts, purchase order requisitions, purchase orders, invoices, and other documents to conduct the specific tests and analyses to determine whether LEAs spent SIG program funds appropriately and implemented required fiscal management and control activities.

Gaps in State fiscal oversight such as those described above increase the risk that LEA or contractor personnel could create fictitious purchase orders and invoices that would result in improper payments being made, including payments to "ghost" vendors or payments for services that were not provided. Improper payments reduce the resources available to SIG schools, which results in teachers and students receiving fewer services than they otherwise would have received. The risk of fraud, waste, and abuse also increases when an entity does not implement sound policies and procedures over its financial transactions.

**Recommendation**

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education require California to—

1.1 Enhance its LEA monitoring instrument for SIG program accountability by identifying the key fiscal documents that reviewers must obtain (such as contracts, purchase orders, and invoices), the amount of testing that is appropriate, and the specific procedures that should be performed to confirm that LEA personnel are implementing appropriate measures to prevent improper payments.

**California's Comments**

California concurred with Recommendation 1.1, but clarified that the Department does not define, require, or identify specific requirements, instruments, tests, analysis, or documents that SEAs should use or that relate to LEAs' SIG fiscal controls and management over transactions with SIG contractors. California plans to work with the Department to enhance the monitoring instrument's fiscal components to include the three areas listed in Recommendation 1.1. California stated that it will (1) develop and include a separate fiscal monitoring item to focus more strategically on LEA fiscal controls and management of SIG contractors and (2) add specific instructions to existing protocols that identify the types of documents required for review and the level of testing and analysis necessary. California also indicated that it made changes to the fiscal component of its SIG monitoring instrument in response to the Department's January 2014 guidance on LEA oversight of contractor outcomes.

**OIG Response**

California's planned corrective actions are responsive to the finding and recommendation. When implemented, California's enhanced monitoring instrument and protocols should help it further ensure that LEAs use SIG funds only for authorized purposes.

## FINDING NO. 2 – LEAs Did Not Have Sufficient Controls to Ensure the Integrity of SIG Contract Expenditures

None of the three LEAs included in our review implemented sufficient control activities to ensure the integrity of SIG professional service contract expenditures. We found control weaknesses related to (1) purchase order requisition reviews and approvals that obligate SIG funds, (2) invoice reviews and approvals that result in payment of SIG funds, (3) documentation supporting that contractors performed invoiced services, and (4) approval of contracts or purchase orders that obligate SIG funds before receiving contractor services.[9]

Inglewood and Stockton did not have sufficient written policies and procedures for reviewing and approving purchase order requisitions related to SIG contractor-provided services. None of the LEAs had written policies and procedures for reviewing and approving invoices before making payments to SIG contractors. Officials at the three LEAs explained the review and approval processes for purchase order requisitions and invoices. However, we found that the LEAs' unwritten review and approval processes were not always functioning the way officials described. Oakland did not maintain sufficient documentation to confirm that SIG contractors had performed the services specified in invoices for which they were paid. Furthermore, Oakland and Stockton allowed contractors to provide services before the LEAs had approved contracts or purchase orders. LEAs assumed responsibility for maintaining effective control for and accountability over the funds, including ensuring the funds would be used only for authorized purposes, when they accepted the SIG funding.

In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission published a revised framework for internal control systems, in part, to clarify the requirements for determining what constitutes effective internal control. The original framework was developed to address senior executives' need for effective ways to better control their enterprises and to help ensure that organizational objectives related to operations, reporting, and compliance were achieved. The framework describes five interrelated components that make up an internal control system. One of these components, "control activities," represents the policies and procedures that help ensure staff members carry out management directives. Control activities help ensure that an entity takes necessary actions to address risks to achieving its objectives and include a range of activities such as approvals, authorizations, reconciliations, and segregation of duties. The following principles support the control activities component of internal control; the organization

- selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels,
- selects and develops general control activities over technology to support the achievement of objectives, and
- deploys control activities through policies that establish what is expected and procedures that put policies into action.

[9] The "Objectives, Scope, and Methodology" section of this report describes our judgmental selection of expenditures for the three LEAs related to SIG contractor-provided services. The three LEAs used the purchase order requisitions to obligate SIG funds for the expenditures that we selected as part of our expenditure testing as discussed under this finding.

In September 2014, the U.S. Government Accountability Office published revised "Standards for Internal Control in the Federal Government." These standards apply to Federal agencies and non-Federal entities that choose to adopt them. The standards state that management should (1) design control activities to achieve objectives and respond to risks, (2) design the entity's information system and related control activities to achieve objectives and respond to risks, and (3) implement control activities through policies. The standards define control activities as the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system. Examples of control activities cited in the Government Accountability Office's standards include proper execution of transactions, appropriate documentation of transactions and internal control, and accountability for resources and records.

***Reviewing and Approving Purchase Order Requisitions.*** Inglewood and Stockton did not have sufficient written policies and procedures for reviewing and approving purchase order requisitions related to SIG contractor-provided services. Business officials from these two LEAs explained the approval processes, including who should review and approve[10] the requisitions and the order in which the approvals should occur. The completeness of purchase order requisition review and approval and the sequence in which the process occurs is important for reducing the risk that fictitious purchase orders are created to subsequently initiate fraudulent payment transactions. During our testing of judgmentally selected fiscal transactions, we determined that the purchase order requisitions were not always reviewed and approved as Inglewood and Stockton officials had described. Based on our test results, LEA officials did not monitor internal financial operations to ensure that personnel routinely followed unwritten review and approval processes.

**Inglewood.** None of the 12 purchase order requisitions that we selected as part of our expenditure testing for Inglewood followed the approval flow that the LEA's chief business official described to us. Three of the purchase order requisitions[11] had approvals from only three employees or officials, even though the chief business official explained that five approvals were required. For the remaining nine requisitions, the LEA obtained all required approvals, but the order of review and approval did not follow the order described by the chief business official. We presented the above testing results to LEA officials. Inglewood's chief business official stated that this is an area that still needs to be addressed as the LEA works to improve its internal control policies and procedures.

**Stockton.** Seven of 21 purchase order requisitions that we selected as part of our expenditure testing for Stockton did not follow the approval process described by the LEA's executive director for business services. For example, although the LEA obtained all required approvals for these seven purchase order requisitions, Stockton's budget analyst approved the purchase order requisitions associated with these seven transactions before the SIG program director approved them. We presented our testing results to LEA officials. Stockton's chief business official explained that the LEA's financial system notifies two reviewers simultaneously that a purchase order requisition is available for review rather than notifying only the next official who

[10] The designated officials at the three LEAs generally reviewed and approved the requisitions in the LEAs' financial system.

[11] These three requisitions were for the same vendor and dated early in Inglewood's SIG program implementation (May 2012, July 2012, and November 2013).

should review it. This concurrent routing requires both parties to approve the requisition before it moves forward to the next approver. She acknowledged that there are opportunities for improvement in this area.

Improper review and approval of SIG purchase order requisitions and the lack of LEA officials' oversight to identify such noncompliance increases the risk of personnel creating fictitious purchase orders to initiate the process for fraudulent transactions. The risk of improper payments associated with waste or abuse also increases when sound fiscal policies and procedures over financial transactions are lacking. Improper payments would likely result in SIG teachers and students receiving fewer services than they otherwise would have received.

***Reviewing and Approving Invoices.*** None of the LEAs included in our review had written policies and procedures for reviewing and approving invoices that SIG contractors submitted before payment. However, officials from all three LEAs explained the approval processes. During our testing of selected fiscal transactions, we determined that the LEA officials did not always review and approve[12] the invoices as described. Based on our test results, LEA officials did not monitor internal financial operations to ensure that personnel routinely followed unwritten review and approval processes.

**Inglewood.** Inglewood's chief business official told us that both the SIG program executive director and the SIG school principal approve each SIG contractor invoice before payment. However, the SIG program executive director was the only LEA official that approved the 12 SIG contractor invoices that we selected as part of our expenditure testing. SIG school principals did not approve any of the invoices. Inglewood's chief business official and the SIG program executive director agreed that the SIG school principals should have signed the invoices to document their approval of the payments. The chief business official also agreed that written policies and procedures would help ensure that the required reviews and approvals occur before accounting personnel pay SIG contractors.

**Oakland.** Oakland's Federal and State compliance officials told us that the SIG school principals approve each SIG contractor invoice before payment. However, the appropriate SIG school principals did not approve five of the six invoices that we selected as part of our expenditure testing before the LEA paid the contractor. Oakland's unwritten invoice approval process presents additional risk because the school principal is the only LEA official required to approve SIG invoices before the LEA pays contractors.

**Stockton.** Stockton's chief business official advised us that the LEA required both the SIG program director and the SIG school principal to review and approve each SIG contractor invoice before payment. However, LEA officials did not approve 19 of the 21 invoices that we selected as part of our expenditure testing in the manner described. The SIG program director approved only six invoices while the school principal approved only two invoices before payment. Neither official approved the remaining 11 invoices in our sample before the LEA paid the contractors.

[12] After reviewing the invoice, the designated officials at the three LEAs should have signed the invoice to indicate approval.

Lack of review and approval of SIG contractor invoices and lack of LEA officials' oversight to identify such noncompliance increases the risk of the LEA making fraudulent payments, such as payments to ghost vendors or payments for goods or services that were not provided. The risk of improper payments associated with waste or abuse also increases when sound fiscal policies and procedures over financial transactions are lacking. Improper payments would likely result in SIG teachers and students receiving fewer services than they otherwise would have received.

***Documenting SIG Contract Expenditures.*** Oakland did not maintain sufficient documentation to demonstrate that SIG contractors performed the services described in the invoices contractors submitted for payment. Specifically, Oakland did not provide support for invoiced services for five of the six fiscal transactions that we selected as part of our expenditure testing. Inglewood and Stockton adequately supported the invoiced services for the contractor expenditures we judgmentally selected for testing. Oakland provided limited documentation about the services that contractors billed for in two of the five unsupported invoices. However, the documentation was insufficient to conclude that the contractor provided the invoiced services under the LEA's SIG program. Thus, for five of six transactions, we were unable to determine whether the (1) contractors provided the services under the SIG program, (2) invoiced services were aligned with those specified in the SIG contracts, and (3) invoiced costs were necessary and reasonable. We classified the costs associated with these five transactions, which totaled $121,311 (10 percent of the total SIG professional service contractor expenditures), as unsupported costs.

By accepting SIG funding, Oakland was required to maintain effective control and accountability for the funds, safeguard SIG program assets, and ensure that it used funds only for authorized purposes. Oakland was also required to retain supporting documents for a period of 3 years from the date it submitted the final expenditure report for cohort 2.[13] In addition, 34 C.F.R. § 80.20(b)(5) states that applicable Office of Management and Budget cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness of costs charged to Federal grant programs.

Oakland's SIG program officials did not provide an explanation for the lack of supporting documentation for invoiced services. Because Oakland did not maintain adequate documentation to show that SIG contractors performed the services described on the invoices, we cannot be assured that SIG contractors performed the services for which they were paid. As a result, SIG teachers and students may not have received the services they were supposed to under Oakland's SIG program application and agreement.

***Receiving Services Before Contracts Were Approved.*** Oakland and Stockton allowed SIG contractors to provide services to schools before the LEAs had approved contracts or purchase orders (a form of contract). Two of Oakland's six contractor invoices that we selected as part of our expenditure testing included service dates that preceded both the purchase order date and the contract approval date. Thirteen of Stockton's 21 contractor invoices that we selected as part of our expenditure testing included service dates that preceded the purchase order date. The service dates on 10 of these 13 invoices also preceded the contract approval date. Oakland and Stockton

[13] Title 34 C.F.R. § 80.42(a)(b)(c).

paid $39,300 and $102,799, respectively, to three contractors in total for the services provided before they had entered into legally binding obligations with the contractors.[14]

Office of Management and Budget Circular A-87, revised May 10, 2004, "Cost Principles for State, Local, and Indian Tribal Governments," Section B.8., defines a "contract" as a mutually binding legal relationship obligating the seller to furnish specified supplies or services and the buyer to pay for them. It includes all types of commitments that obligate the government to an expenditure of appropriated funds and that are in writing unless otherwise authorized. Contracts include purchase orders, under which the contract becomes effective by written acceptance or performance. Also, 34 C.F.R. 76.707(c) states that if the obligation is for personal services by a contractor who is not an employee of the State or subgrantee, the obligation is made on the date on which the State or subgrantee makes a binding written commitment to obtain the services.

Based on our test results, Oakland and Stockton officials did not devote sufficient attention to administrative details for obtaining contractor services. The LEA officials should have ensured that the contractor services were defined in approved contracts or purchase orders before they allowed the contractors to provide any services. Oakland and Stockton officials increased the risk that the services provided before a contract or purchase order was in place would not align with the services that the LEAs ultimately authorized.

**Recommendations**

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education ensure that California—

2.1 Requires Inglewood and Stockton to enhance or develop written policies and procedures for reviewing and approving purchase order requisitions and invoices, and conduct periodic internal reviews to ensure that LEA personnel are following the policies and procedures.

2.2 Requires Oakland to develop written policies and procedures for reviewing and approving SIG contractor invoices and that require at least two levels of review and periodic internal supervisory reviews to ensure that LEA personnel are following the policies and procedures.

2.3 Requires Oakland to reimburse the SIG program, using non-Federal funds, for unsupported costs in the amount of $121,311 or provide sufficient documentation to demonstrate that the SIG contractors performed the services related to the questioned expenditures.

2.4 Requires Oakland and Stockton to reimburse the SIG program, using non-Federal funds, for the costs of services to schools before they had approved contracts or purchase orders in the amount of $39,300 and $102,799, respectively. For Oakland, the amount covered by this recommendation should be reduced to the extent that these funds are reimbursed under Recommendation 2.3.

[14] We could not identify the amounts associated with service dates that preceded the purchase order date for 6 of Stockton's 13 invoices. These invoices each included a total amount, but not itemized amounts by service dates.

2.5 Requires Inglewood, Oakland, and Stockton to separately contract with an auditor that California approves to review all SIG program expenditures, or a statistical sample of expenditures, because of the significant weaknesses this audit identified at each LEA. The review should cover the period July 1, 2012, through September 30, 2015, for Inglewood and March 1, 2012, through September 30, 2015, for Oakland and Stockton, with the exception of those expenditures covered by this audit. The LEAs must reimburse the program for any unallowable and unsupported costs identified.

2.6 Requires Oakland and Stockton to enhance their procurement policies and procedures to ensure that contracts and purchase orders are in place before allowing contractors to provide services.

**California's Comments**

California concurred with Recommendations 2.1 through 2.6 and provided the following responses to our recommendations.

- Recommendation 2.1. California will work with Inglewood and Stockton to (1) enhance or develop written policies and procedures for reviewing and approving purchase orders and invoices and (2) conduct periodic reviews to monitor implementation. California stated that, among other things, it will assess LEAs' levels of practice and identify gaps in compliance and provide LEAs with technical assistance and examples of best practices.

- Recommendation 2.2. California stated that Oakland has spent all SIG funds it was awarded. If Oakland is awarded additional SIG funds in the future, California will ensure that Oakland develops written policies and procedures for reviewing and approving SIG contractor invoices that require at least two levels of review and periodic internal supervisory reviews to ensure compliance.

- Recommendation 2.3. California will require Oakland to provide sufficient documentation to support the questioned SIG contractor service expenditures totaling $121,311. If Oakland cannot properly support the expenditures, California will require Oakland to reimburse the SIG program, using non-Federal funds.

- Recommendation 2.4. California will require Oakland and Stockton to reimburse the SIG program, in the amount of $39,300[15] and $102,799 respectively, using non-Federal funds for the costs of services to schools where they did not have prior approved contracts or purchase orders in place.

- Recommendation 2.5. California will recommend that Inglewood, Oakland, and Stockton separately contract for an audit of SIG program expenditures for July 1, 2012,

[15] As disclosed earlier in the report at Footnote 7, Oakland's payments of $39,300 are also part of the $121,311 of unsupported expenditures discussed in Recommendation 2.3.

through September 30, 2015, (Inglewood) and March 1, 2012, through September 30, 2015, (Oakland and Stockton) and require the LEAs to reimburse the program for any identified unallowable and unsupported costs.

- Recommendation 2.6. California will recommend that Oakland and Stockton enhance their procurement policies and procedures to ensure that contracts and purchase orders are approved before allowing contractors to provide goods and services.

**OIG Response**

California's planned corrective actions are responsive to the finding and Recommendations 2.1 through 2.4 as they relate to the SIG program.

California's planned corrective actions are not fully responsive to the finding or Recommendations 2.5 and 2.6. For Recommendation 2.5, unless California is legally prohibited from doing so, it should require rather than recommend that the LEAs contract for a SIG expenditure audit. Thus, we request that the Assistant Secretary for the Office of Elementary and Secondary Education ensure that California requires that the LEAs implement Recommendation 2.5, and that California approve the auditor selected by each LEA before the audit is performed. Similarly, for Recommendation 2.6, California should require rather than recommend the LEAs enhance their procurement policies and procedures if California awards additional funds to either LEA.

## FINDING NO. 3 – Oakland Lacked Documentation Showing That it Routinely Monitored SIG Contractors' Performance

Oakland did not provide supporting documentation to show that it regularly performed required monitoring of SIG contractors. LEA and SIG school officials told us that they monitored SIG contractors' performance through mechanisms such as holding face-to-face status meetings, directly observing service delivery, corresponding via email, and obtaining stakeholder feedback. They said that they documented this monitoring through various means, including school sign-in logs, emails, meeting minutes, calendar items, and reports. We asked Oakland officials to provide documents to corroborate their statements for a judgmental selection of 7 of the 19 SIG contractors that the LEA contracted with in cohort 2. However, the officials provided monitoring documentation for only one of the seven contractors. The documentation that Oakland officials submitted for the six other contractors did not corroborate their verbal statements on contractor monitoring.

By accepting SIG funding, Oakland was required to maintain effective control and accountability for the funds it received, safeguard any program assets it acquired using SIG funds, and ensure it used the funds only for authorized purposes. Oakland was also required by Federal procurement and retention regulations[16] to ensure that contractors performed in accordance with the terms,

[16] Title 34 C.F.R. § 80.42(a)(b)(c).

conditions, and specifications of their contracts, and retain supporting documents for 3 years after submitting its final expenditure report.[17]

Article XV of Oakland's "Best Practices and Legal Procurement Guidelines Handbook" (revised January 13, 2014), covering contract administration of professional services agreements, states that the director of the requesting department must designate an appropriate LEA employee as project manager for each agreement. The requesting department must also maintain copies of relevant correspondence in the contract file. The project manager is responsible for monitoring the project to determine whether contract terms and conditions are met.

Oakland's SIG program officials did not explain why they lacked supporting documentation to show that the LEA regularly performed required monitoring of SIG contractors. However, Oakland's documentation showed that the personnel assigned to administer its cohort 2 SIG program, namely, the SIG program director and the principals at both SIG schools, changed each year.

Because Oakland officials did not provide most of the SIG contractor monitoring documentation that we requested, we are not assured that Oakland routinely monitored SIG contractors' performance and held them accountable for meeting the terms, conditions, and specifications of their contracts.

**Recommendations**

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education ensure that California—

3.1 Requires Oakland to enhance the information in its "Best Practices and Legal Procurement Guidelines Handbook" to emphasize the importance of, and reasons for, retaining monitoring records consistent with applicable Federal requirements.

3.2 Reviews and approves enhancements to Oakland's written policy resulting from Recommendation 3.1, verifying that it specifies how the LEA will retain sufficient records of SIG contractor monitoring, and conducts additional monitoring to ensure that Oakland has effectively implemented its written policy for retaining these records.

3.3 Requires Oakland to ensure that LEA and school officials administering the SIG program have received instruction on how to properly document that they have effectively monitored SIG contractors' performance.

[17] The ending date for SIG cohort 2 is September 30, 2015. Based on California's past guidance, Oakland should have submitted its final expenditure report in October 2015 and would need to retain all cohort 2 documentation until October 2018.

**California's Comments**

California concurred with Recommendations 3.1 through 3.3 and provided the following responses to our recommendations.

- Recommendation 3.1. California will recommend that Oakland consider enhancing the information in its "Best Practices and Legal Procurement Guidelines Handbook" according to our recommendation.

- Recommendations 3.2 and 3.3. If Oakland is awarded additional SIG funds in the future, California will ensure that Oakland develops and implements written policies and procedures that address SIG contract monitoring and the retention of the monitoring records. California will require Oakland to provide LEA and school officials with instructions and technical assistance on administering the SIG program and documenting SIG contractors' performance.

**OIG Response**

California's planned corrective actions are not fully responsive to the finding and Recommendation 3.1. Even though our audit scope was limited to the SIG program and California stated that Oakland has spent all SIG funds it was awarded, California should require that Oakland enhance its "Best Practices and Legal Procurement Guidelines Handbook" rather than only recommend that Oakland consider enhancing its guidance. Oakland's guidance applies to the administration of all of its professional services agreements, including those involving other Federal grant programs that could be at risk if the enhancements are not made.

California's planned corrective actions are responsive to the finding and Recommendations 3.2 and 3.3 as they relate to the SIG program.

# OTHER MATTERS

## Two SIG Contracts Included Unallowable Activities

Two Inglewood SIG contracts that we reviewed included unallowable activities charged to the SIG program. These two contracts, totaling $4,800, were for a contractor to provide grant writing services to the LEA for a different Federal grant application. Inglewood's SIG program executive director explained that the use of SIG funds in this manner was appropriate because the LEA's mission is to maintain the progress made at the SIG schools beyond the life of the SIG. The official said that the other Federal grant's funds could have provided an opportunity to continue the LEA's programs. However, these grant writing services do not align with the required and permissible activities stated in the 2010 SIG Final Requirements and, thus, the corresponding contract payments are unallowable. After we explained to officials that the LEA could not charge these costs to the SIG program, Inglewood's chief business official stated that the LEA would reimburse the SIG program for $4,800 using non-Federal funds. California should confirm with Inglewood that these costs were reversed and paid using non-Federal funds.

## Late Payments to SIG Contractors

Stockton paid 8 of the 21 SIG contractor invoices that we selected as part of our expenditure testing more than 90 days after the date the LEA received the invoice. California Public Contract Code Section 20104.50 states that all government officials, including those in local government, must set a standard of prompt payment that any business in the private sector should look towards for guidance. Stockton's standard contract states that payment must be made when the contractor submits a properly completed invoice.

Inglewood and Oakland did not routinely date stamp contractor invoices upon receipt and, therefore, we could not conclude whether these two LEAs timely paid SIG contractor invoices. However, we noted that the payment dates were more than 90 days after the invoice date in some of the invoices that we selected for testing. Inglewood's chief business official stated that the LEA should have controls to ensure timely payments to contractors. California should take steps to ensure that LEAs are adequately documenting the date of receipt of invoices and timely paying SIG contractors.

# OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine the adequacy of State and LEA monitoring of SIG contractors. This objective was revised from our original audit objective which was to determine the adequacy of the administration and oversight of school improvement activities funded through SIG. The revised objective narrowed the audit scope to a specific area covering administration and oversight of the SIG program. We conducted our work related to the revised audit objective at California and three LEAs: Inglewood, Oakland, and Stockton. These LEAs were awarded $59,747,058 (31 percent) of the total $194,744,551 SIG funds authorized for cohort 2 in California.[18] The cohort 2 funding covered the period March 1, 2012, through September 30, 2015. Table 2 of this report shows the specific grant award and expenditure amounts for each of the three LEAs in our review.

To achieve our objective, we performed the following procedures:

1. Reviewed Title I, Part A of the ESEA, Section 1003(g); Federal regulations at 34 C.F.R. Part 80; and Federal Register, Vol. 75, No. 208 (October 28, 2010) to gain an understanding of the requirements that California and funded LEAs were required to follow when administering the SIG program.

2. Judgmentally selected California and the three LEAs named above (for details on the selection of California and these LEAs, see "Selection of Entities" below).

3. Reviewed background information about the program, California, and the three LEAs to gain an understanding of the program requirements that California and the selected LEAs were required to follow and the environment in which these entities operated. For example, we reviewed SIG program information posted on the Department's and California's Web sites, California's and LEAs' SIG funding, and California's and LEAs' organizational information.

4. Reviewed prior Office of Management and Budget Circular A-133 audits and other reviews for California, Inglewood, Oakland, and Stockton to identify areas of potential internal control and compliance weaknesses related to our audit objective.

5. Interviewed and obtained testimonial information from California, Inglewood, Oakland, and Stockton business and SIG program officials and reviewed written policies and procedures to gain an understanding and evaluate the adequacy of the monitoring for (a) recruitment, screening, and selection of SIG contractors; (b) performance of SIG contractors; and (c) procurement and accounting for obligations and expenditures of Federal funds involving SIG professional service contractors.

6. Reviewed supporting documentation for recruiting, screening, and selecting SIG contractors and monitoring the performance of SIG contractors, such as LEAs' SIG applications,

[18] For grant-tracking purposes, the SIG covered by this audit is classified under Catalog of Federal Domestic Assistance number 84.377A.

contractor proposals, contractor qualifications and experience information, contracts, correspondence, meeting agendas and minutes, stakeholder evaluations, and schedules.

7. Researched contractor information and reviewed supporting documentation for obligating and spending SIG funds involving SIG professional service contractors, such as contracts and purchase documents that the LEAs used to obligate SIG funds, invoices that resulted in payment of SIG funds, service records, and endorsed checks, to determine whether the costs were (a) necessary and reasonable, (b) adequately documented, (c) properly approved, (d) within the nature and scope of the service rendered and aligned with the service required under the contract, (e) supported by an adequate contractual agreement for the service, (f) rendered by a qualified contractor, and (g) paid to and received by the contractor.[19]

**Data Reliability**

To achieve our objective, we relied, in part, on expenditure data that Inglewood, Oakland, and Stockton provided to us from their financial systems. We reviewed the data for completeness by reconciling pertinent SIG expenditure information in the quarterly expenditure reports maintained by California to the expenditure information in the three selected LEAs' financial accounting systems. We determined that the SIG expenditure information in the LEAs' financial accounting records reconciled to the SIG expenditure information that was reported to California. We also analyzed the accounting records from all three systems when we obtained documentation to support the existence of selected SIG expenditure transactions. The supporting documentation that we obtained from the LEAs for these transactions, including purchase orders that the LEAs used to obligate SIG funds, invoices, and endorsed checks, supported the existence of the transactions and matched the information contained in the LEAs' financial accounting records, without exception. Based on the results of our tests, we concluded that the expenditure data provided from all three systems were sufficiently reliable for our intended use.

**Sampling Methodology**

We used professional judgment to select entities, monitoring records, contracts, and fiscal transactions to audit based on the information and methodology described below. Because there is no assurance that the judgmental sample was representative of the entire universe, the results should not be projected over the nonsampled items.

***Selection of Entities***

We judgmentally selected California primarily due to the significant amount of SIG funds that the Department awarded to it. From July 1, 2009, through September 30, 2015, California was awarded $729,816,409 (12 percent) of the total $6,051,502,595 SIG funds authorized nationwide. We also considered the results of prior audits and reviews.

[19] We also planned to test the fiscal transactions for customary fees charged, but did not because professional services for SIG contractors are customized to fit SIG school needs (thus, making it difficult to compare services and price for services across schools and LEAs) and California Public Contract Code exempts professional services from bid requirements.

We judgmentally selected 3 of 14 LEAs that were funded for SIG cohort 2. We chose cohort 2 LEAs because of the likelihood that they could provide information relative to the Department's January 2014 guidance on how LEAs should review SIG contractors' performance throughout the contract period. We selected the three LEAs after considering various risk factors, including (1) the amount of SIG funds awarded, (2) the proportion of SIG funds budgeted for professional services and other operating expenditures in LEAs' initial SIG applications, and (3) the results of prior audits and reviews.

***Selection of Monitoring Records, Contracts, and Fiscal Transactions***

At each LEA, we judgmentally selected items to test for the SIG contractors with large total amounts of SIG professional service expenditures. Specifically, we tested items in the areas listed below to determine whether the LEAs had implemented policies and procedures for monitoring SIG contractors.

1. Program monitoring practices over SIG contractors.

   At each LEA, we requested monitoring records for at least five SIG contractors with the highest amount of SIG professional service expenditures in LEAs' financial records. The total number of potential SIG contractor monitoring records that could be available at each LEA is unknown.

2. Controls for certain SIG contract provisions.

   At each LEA, we selected and tested the number of contracts shown in Table 3 for at least three SIG contractors with the highest amount of SIG professional service expenditures in LEAs' financial records. The number of SIG contracts per selected SIG contractor for each LEA over the 3-year SIG cohort varies (that is, LEAs may have one or more contracts with selected SIG contractors over the 3-year grant). We tested the selected contracts for certain provisions that would allow the LEA to hold the contractors accountable for achieving desired outcomes, including service description and termination information.

**Table 3. Number of SIG Professional Service Contracts Tested**

| LEA | Number of SIG Contracts Selected for Testing | Total Number of SIG Contracts | Contracts Selected for Testing (rounded) |
|---|---|---|---|
| Inglewood | 7 contracts for 4 contractors | 23 contracts for 14 contractors | 7 of 23 = 30% |
| Oakland | 13 contracts for 5 contractors | 31 contracts for 19 contractors | 13 of 31 = 42% |
| Stockton | 6 contracts for 3 contractors | 23 contracts for 13 contractors | 6 of 23 = 26% |

3. Procurement and accounting controls and compliance with cost requirements.

We judgmentally selected and tested expenditure transactions as described in Table 4 for at least three SIG contractors with the highest amount of SIG professional service expenditures in each LEA's financial records. The judgmental selection included at least one SIG contractor expenditure transaction for each SIG school in each LEA.[20] To the extent possible, we selected expenditure transactions that were incurred in each of the 3 SIG years 2012–2013, 2013–2014, and 2014–2015.

**Table 4. Professional Service Contractor Expenditures Tested**

| LEA | Amount of SIG Contractor Expenditures Tested | Total Amount of SIG Contractor Expenditures (a) | Contractor Transactions Selected for Testing (rounded) | Contractor Dollars Selected for Testing (rounded) |
|---|---|---|---|---|
| Inglewood | 12 transactions (b) for 4 contractors totaling $292,511 | 135 transactions for 14 contractors totaling $1,875,399 | 9% | 16% |
| Oakland | 6 transactions (b) for 5 contractors totaling $141,273 | 114 transactions for 19 contractors totaling $1,197,016 | 5% | 12% |
| Stockton | 21 transactions (b) for 3 contractors totaling $853,077 | 552 transactions for 13 contractors totaling $5,837,021 | 4% | 15% |

(a) We obtained expenditure data for the period July 1, 2012, through February 27, 2015, from Inglewood; March 1, 2012, through March 30, 2015, from Oakland; and March 1, 2012, through December 31, 2014, from Stockton.
(b) We reviewed the LEAs' financial activity in obligating as well as expending SIG funds for these selected transactions. See procedure number 7 under the "Objectives, Scope, and Methodology" above for description of our review.

We conducted our work related to the revised audit objective from January 22, 2015, through December 21, 2015, in Sacramento, Inglewood, Oakland, and Stockton, California. We discussed the results of our audit with Inglewood and Oakland officials on August 26, 2015, and with California and Stockton officials on August 28, 2015.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

[20] California funded SIG cohort 2 for three schools at Inglewood, two at Oakland, and seven at Stockton.

**Enclosure**

# Auditee's Comments on the Draft Audit Report

CALIFORNIA
DEPARTMENT OF
EDUCATION

**TOM TORLAKSON**
STATE SUPERINTENDENT OF PUBLIC INSTRUCTION

February 22, 2016

Raymond Hendren
Regional Inspector General for Audit
Office of Inspector General
United States Department of Education
501 I Street, Suite. 9-200
Sacramento, CA 95814

Dear Mr. Hendren:

Subject: Draft Audit Report titled, "State and District Monitoring of School Improvement Grant Contractors in California," Control Number ED-OIG/A09O0009

This is the California Department of Education's (California) response to the findings and recommendations specified in the United States Department of Education, Office of Inspector General's draft report titled, "State and District Monitoring of School Improvement Grant Contractors in California," Control Number ED-OIG/A09O0009.

**Recommendation No. 1**

We recommend that the Assistant Secretary of the Office of Elementary and Secondary Education require California to–

**1.1** Enhance its LEA monitoring instrument for SIG program accountability by identifying the key fiscal documents that reviewers must obtain (such as contracts, purchase orders, and invoices), the amount of testing that is appropriate, and the specific procedures that should be performed to confirm that LEA personnel are implementing appropriate measures to prevent improper payments.

California's Response: Concur

Although the recommendation is directed to the Assistant Secretary of the Office of Elementary and Secondary Education, California proposes the following corrective action.

Currently, the United States Department of Education (Department) does not define, require, or identify specific requirements, instruments, tests, analysis, or documents that State Educational Agencies (SEA) should use or that relate to LEAs regarding SIG fiscal controls and management over transactions with SIG contractors.

However, California will work with the Department SIG to enhance the monitoring instrument's fiscal components to include: (1) more specific key fiscal documents that reviewers must obtain, including copies of contracts, purchase order requisitions, purchase orders, and invoices related to SIG contracted services; (2) the amount of testing that is appropriate to better mitigate risks; and (3) the specific monitoring procedures that should be performed to confirm that LEA personnel are implementing appropriate measures to prevent improper payments to SIG contractors.

In addition, California will develop and include a separate fiscal monitoring item to focus more strategically on LEA fiscal controls and management of SIG contractors. California will also add specific instructions to existing protocols that identify the types of documents required for review, and the level of testing and analysis that is necessary to address the parameters set forth in the monitoring review.

California has made changes to the fiscal component of its' SIG monitoring instrument in response to a 2014 Amendment to the Department Guidance for the area of improved controls over LEA oversight of contractor outcomes. Depending on the timing of the Department SIG providing guidance and direction, it is anticipated that California will implement the specified corrective action by July 1, 2016.

**Recommendation No. 2**

We recommend that the Assistant Secretary of the Office of Elementary and Secondary Education require California to–

**2.1** Requires Inglewood and Stockton to enhance or develop written policies and procedures for reviewing and approving purchase order requisitions and invoices, and conduct periodic internal reviews to ensure that LEA personnel are following the policies and procedures.

California's Response: Concur

Although the recommendation is directed to the Assistant Secretary of the Office of Elementary and Secondary Education, California proposes the following corrective action.

California will work with Inglewood and Stockton to: (1) enhance or develop SIG written policies and procedures for contractors to review and approve purchase order requisitions and invoices; (2) conduct periodic reviews to ensure that LEA

personnel are following the policies and procedures; (3) assess LEAs' levels of practice and identify gaps in compliance; (4) provide LEAs with technical assistance and samples of best practices; and (5) set review and completion timelines.

**2.2** Requires Oakland to develop written policies and procedures for reviewing and approving SIG contractor invoices and that require at least two levels of review and periodic internal supervisory reviews to ensure that LEA personnel are following the policies and procedures.

California's Response: Concur

Although the recommendation is directed to the Assistant Secretary of the Office of Elementary and Secondary Education, California proposes the following corrective action.

Oakland has expended all of its SIG funds as of September 30, 2015. However, if Oakland is awarded, any future SIG funds, California will ensure that Oakland develops written policies and procedures for reviewing and approving SIG contractor invoices. The new policies and procedures will require at least two levels of review and periodic internal supervisory reviews to ensure LEA staff compliance.

**2.3** Requires Oakland to reimburse the SIG program, using non-Federal funds, for unsupported costs in the amount of $121,311 or provide sufficient documentation to demonstrate that the SIG contractors performed the services related to the questioned expenditures.

California's Response: Concur

Although the recommendation is directed to the Assistant Secretary of the Office of Elementary and Secondary Education, California proposes the following corrective action.

California will require Oakland to provide sufficient documentation that substantiates the services SIG contractors performed related to the questioned expenditures. If Oakland fails to submit the required documentation and evidence, California will require Oakland to reimburse the SIG, using non-Federal funding for the unsupported expenditures.

**2.4** Requires Oakland and Stockton to reimburse the SIG program, using non-Federal funds, for the costs of services to schools before they had approved contracts or

purchase orders in the amount of $39,300 and $102,799, respectively. For Oakland, the amount covered by this recommendation should be reduced to the extent that these funds are reimbursed under Recommendation 2.3.

California's Response: Concur

Although the recommendation is directed to the Assistant Secretary of the Office of Elementary and Secondary Education, California proposes the following corrective action.

California will require Oakland and Stockton to reimburse the SIG using non-Federal funds for the costs of services to schools where they did not have prior approved contracts or purchase orders in place.

**2.5** Requires Inglewood, Oakland, and Stockton to separately contract with an auditor that California approves to review all SIG program expenditures, or a statistical sample of expenditures because of the significant weaknesses this audit identified at each LEA. The review should cover the period July 1, 2012, through September 30, 2015 for Inglewood and March 1, 2012 through September 30, 2015 for Oakland and Stockton, with the exception of those expenditures covered by this audit. The LEAs must reimburse the program for any unallowable and unsupported costs identified.

California's Response: Concur

Although the recommendation is directed to the Assistant Secretary of the Office of Elementary and Secondary Education, California proposes the following corrective action.

California will recommend that Inglewood, Oakland, and Stockton separately contract for an audit of SIG program expenditures for the time periods July 1, 2012 through September 30, 2015 (Inglewood) and March 1, 2012 through September 30, 2015 (Oakland and Stockton), and require the districts to reimburse the program for any identified unallowable and unsupported costs.

**2.6** Requires Oakland and Stockton to enhance their procurement policies and procedures to ensure that contracts and purchase orders are in place before allowing contractors to provide services.

California's Response: Concur

Although the recommendation is directed to the Assistant Secretary of the Office of Elementary and Secondary Education, California proposes the following corrective action.

California will recommend that Oakland and Stockton enhance procurement policies and procedures to ensure that contracts and purchase orders are appropriately approved before allowing contractors to provide goods and services.

**Recommendation No. 3**

We recommend that the Assistant Secretary of the Office of Elementary and Secondary Education require California to–

**3.1** Requires Oakland to enhance the information in its "Best Practices and Legal Procurement Guidelines Handbook" to emphasize the importance of, and reasons for, retaining monitoring records consistent with applicable Federal requirements.

California's Response: Concur

Although the recommendation is directed to the Assistant Secretary of the Office of Elementary and Secondary Education, California proposes the following corrective action.

California will recommend Oakland consider enhancing the information in its "Best Practices and Legal Procurement Guidelines Handbook" accordingly.

**3.2** Reviews and approves enhancements to Oakland's written policy resulting from Recommendation 3.1, verifying that it specifies how the LEA will retain sufficient records of SIG contractor monitoring, and conducts additional monitoring to ensure that Oakland has effectively implemented its written policy for retaining these records.

California's Response: Concur

Although the recommendation is directed to the Assistant Secretary of the Office of Elementary and Secondary Education, California proposes the following corrective action.

Oakland has expended all of its SIG funds as of September 30, 2015. However, if Oakland is awarded, any future SIG funds, California will ensure that Oakland develops and implements written policies and procedures that address SIG contract monitoring and the retention of the monitoring records. In addition, California will require Oakland to provide LEAs and school officials instructions and technical assistance on administering the SIG program, and documenting SIG contractors' performance.

**3.3** Requires Oakland to ensure that LEA and school officials administering the SIG program have received instruction on how to properly document that they have effectively monitored SIG contractors' performance.

California's Response: Concur

Please see California's response to recommendation 3.2.

## OTHER MATTERS

### Item 1 Recommendation – Two SIG Contracts Included Unallowable Activities

California should confirm with Inglewood that these costs were reversed and paid using non-Federal funds.

California's Response: Concur

California is working with Inglewood to confirm that the unallowable costs identified by the Department, Office of Inspector General, are reversed and paid for with non-Federal funds. California anticipates fully implementing this corrective action by April 1, 2016.

### Item 2 Recommendation – Late Payments to SIG Contractors

California should take steps to ensure that LEAs are adequately documenting the date of receipt of invoices and timely paying SIG contractors.

California's Response: Concur

California will provide additional technical assistance to ensure that LEAs adequately document invoice receipt dates and timely pay SIG contractors. California anticipates fully implementing this corrective action by May 1, 2016.

If you have any questions regarding California's responses, please contact Kevin W. Chan, Director, Audits and Investigations Division, by phone at 916-322-2288, or by e-mail at kchan@cde.ca.gov.

Sincerely,

*Signature on File*

Michelle Zumot
Chief Deputy Superintendent of Public Instruction

MZ:kl