U.S. Department of Education
Office of Inspector General

Texas Education Agency's Administration of the Immediate Aid to Restart School Operations Program

February 13, 2020
ED-OIG/A06T0001

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services

February 13, 2020

Mike Morath
Commissioner of Education
Texas Education Agency
1701 Congress Avenue
Austin, Texas 78701

Dear Commissioner Morath:

Enclosed is our final audit report, "Texas Education Agency's Administration of the Immediate Aid to Restart School Operations Program," Control Number ED-OIG/A06T0001. This report incorporates the comments you provided in response to the draft report. If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following U.S. Department of Education official, who will consider them before taking final Departmental action on this audit:

Frank Brogan
Assistant Secretary of Elementary and Secondary Education
U.S. Department of Education
Office of Elementary and Secondary Education
400 Maryland Ave., SW
Washington, DC 20202

The U.S. Department of Education's policy is to expedite audit resolution by timely acting on findings and recommendations. Therefore, if you have additional comments, we would appreciate receiving them within 30 days.

Sincerely,
Christopher A. Gamble
Regional Inspector General for Audit

Enclosure

Table of Contents

Results in Brief 1

Introduction 3

Finding 1. Texas Had Sufficient Controls Over the Allocation and Use of Restart Program Funds 6

Finding 2. Houston and the Region 4 ESC Did Not Always Follow Restart Program Requirements 13

Appendix A. Scope and Methodology 18

Appendix B. Acronyms and Abbreviations 24

Texas's Comments 25

Results in Brief

What We Did

The objectives of our audit were to determine whether the Texas Education Agency (Texas) established and implemented systems of internal control that (1) provided reasonable assurance that Immediate Aid to Restart School Operations (Restart) program funds were appropriately allocated and (2) ensured that local educational agencies (LEA) and nonpublic schools used Restart program funds for allowable and intended purposes. Our review covered Texas's internal controls from July 1, 2017, through May 16, 2019.

To accomplish our audit objectives, we judgmentally selected and reviewed 3 of 164 LEAs in Texas that were awarded Restart program funds for school year 2017–2018: Clear Creek Independent School District (Clear Creek), Fort Bend Independent School District (Fort Bend), and Houston Independent School District (Houston).[1] These three LEAs received $20,233,671 of the $78,829,370 in Restart program funds that Texas awarded to LEAs. We also judgmentally selected and reviewed the Region 4 education service center (ESC)—one of the five ESCs that were awarded Restart program funds and provided services and assistance to nonpublic schools.[2] The Region 4 ESC received $731,882 of the $1,627,216 in Restart program funds that Texas awarded to ESCs.

What We Found

We found that Texas established and implemented systems of internal control that provided reasonable assurance that Restart program funds were allocated appropriately and that sufficiently ensured that LEAs and nonpublic schools used Restart program funds for allowable and intended purposes (see Finding 1).

However, we identified instances of noncompliance with applicable Federal requirements and guidance at one of the three LEAs and at the one ESC covered by our review. Specifically, Houston improperly charged $34,065 in unallowable personnel expenditures to the Restart program. We also found that the Region 4 ESC did not obtain or maintain control and ownership to materials at nonpublic schools that were funded by the Restart program, totaling $84,243, as required by the Hurricane Education Recovery Act (see Finding 2).

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[1] Refer to "Appendix A. Scope and Methodology" for detailed information about our sampling methodology.

[2] Texas established 20 ESCs as regional centers to provide services to school districts and schools throughout the State. Texas awarded Restart program funds to 5 of the 20 ESCs.

What We Recommend

We recommend a variety of actions that the Assistant Secretary for Elementary and Secondary Education should direct Texas to take, including (1) requiring Houston to return $34,065 in personnel expenditures that it charged to the Restart program and other payroll expenditures that Texas determines to be unallowable and (2) ensuring that the ESCs providing services and assistance to nonpublic schools are maintaining control and ownership to materials and equipment purchased using Restart program funds.

Texas Comments

In its comments on the draft report, Texas concurred with Finding 1 and partially concurred with Finding 2 and our related recommendations. Regarding Finding 2, Texas agreed with our finding that Houston did not always follow Restart program requirements and generally concurred with our recommendations. However, Texas disagreed with part of our finding that the Region 4 ESC did not always follow Restart program requirements, stating that although the ESC did not initially maintain control of the questioned equipment and materials, the issue was resolved after we notified Texas of this potential finding. Nevertheless, Texas generally concurred with our recommendations.

OIG Response

In response to Texas's comments, we modified Recommendation 2.2 to allow for the review of a random, statistically valid sample of the remaining payroll expenditures for teachers' extra duty pay Houston charged to the Restart grant. We summarize Texas's comments at the end of Finding 2 and include the full text of its comments at the end of this report. Texas's planned corrective actions should address our recommendations if implemented as described.

Introduction

Background

On December 30, 2005, the Hurricane Education Recovery Act (HERA) authorized three grant programs[3] to assist schools that were affected either directly or indirectly by Hurricanes Katrina and Rita with reopening quickly and meeting the educational needs of displaced students. The Restart program, authorized under section 102 of the HERA, was designed to provide funds to LEAs and schools directly impacted by the disasters to help them restart operations, reopen, and reenroll students.

In 2017, several areas of the United States and its territories were devastated by major disasters, including the California wildfires and Hurricanes Harvey, Irma, and Maria. The extraordinary conditions resulting from these disasters had a devastating and unprecedented impact on students who attended schools in the declared disaster areas: Alabama, California, Florida, Georgia, Louisiana, Puerto Rico, South Carolina, Texas, and the U.S. Virgin Islands. These disasters completely destroyed some schools and forced a significant number of other schools to close for a period of time.

On February 9, 2018, in response to the 2017 disasters, Congress authorized the Restart program in the Bipartisan Budget Act of 2018. The statute instructed the U.S. Department of Education (Department) to dispense aid under section 102 of the HERA for school year 2017–2018. This statute did not amend the HERA; rather, it provided that the statutory terms and conditions from the HERA were to be applied, with specified updates, for Hurricanes Harvey, Irma, Maria, and the California wildfires of 2017. Congress appropriated a combined amount of about $2.5 billion for both the Restart and Temporary Emergency Impact Aid for Displaced Students programs.[4]

The Department requested that State educational agencies (SEA) submit their applications for Restart program funds by March 30, 2018, but it did not establish a deadline for LEAs or nonpublic schools to apply to SEAs for Restart program funds. In its response to Question C-3 of the Department's 2018 Frequently Asked Questions (FAQ) for the Restart program, the Department permitted SEAs to establish an appropriate deadline for their LEAs and nonpublic schools to apply for Restart program funds.

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[3] The HERA authorized the Restart program, Temporary Emergency Impact Aid for Displaced Students program, and the Assistance for Homeless Youth program.

[4] The Temporary Emergency Impact Aid for Displaced Students program was designed to provide funds to LEAs that enrolled displaced students in their schools.

The Department awarded about $791 million in Restart program funds to four States, Puerto Rico, and the U.S. Virgin Islands.[5] On April 30, 2018, the Department awarded $89,420,000 in Restart program funds to Texas. Texas and its subgrantees must spend the Restart program funds within 24 months of the grant award date, by April 30, 2020. On May 18, 2018, Texas posted on its website the Restart allocations for all eligible LEAs and released an application so that these LEAs and nonpublic schools could start applying for Restart program funds. In late May 2018, Texas began approving and awarding Restart program funds to eligible LEAs.

As of October 16, 2019, Texas had drawn down $78.2 million, or about 87 percent of its Restart award. Texas's Department of Contracts, Grants, and Financial Administration is responsible for administering the Restart program, including allocating and disbursing funds to eligible LEAs and nonpublic schools through ESCs. Texas allocated Restart program funds to 164 LEAs and 63 nonpublic schools based on the number of days that affected schools were closed and the number of students enrolled at those schools. For the nonpublic schools, instead of allocating program funds to the LEAs to provide services and assistance to nonpublic schools, Texas decided to use ESCs to provide services and assistance to avoid putting additional burden on LEAs. Texas allocated Restart program funds to five ESCs to provide services and assistance to nonpublic schools.

Texas was allowed to keep a portion of its Restart program funds for administrative costs. The Texas Associate Commissioner for the Department of Contracts, Grants, and Financial Administration (Associate Commissioner) stated that Texas reserved $200,000 of its Restart program funds to pay for the administration of equitable services to nonpublic schools by ESCs and the administrative costs at Texas that included payroll for three Texas employees who were working on Restart program implementation and management, responding to questions from LEAs and nonpublic schools, providing LEA guidance, and conducting grant monitoring. Texas provided supporting documentation showing that it has spent $96,036. Based on discussions with Texas officials, Texas is waiting to spend the remaining $103,964 until later in the grant period, which does not expire until April 2020.

According to section 102(e) of the HERA, Restart program funds may be used for the following activities: (1) recovery of student and personnel data and other electronic information; (2) replacement of school district information systems, including hardware and software; (3) financial operations; (4) reasonable transportation costs; (5) rental of mobile educational units and the lease of neutral sites or spaces; (6) initial replacement

[5] The amounts awarded were based on demand and specific data that these entities provided.

of instructional materials and equipment, including textbooks; (7) redevelopment of instructional plans, including curriculum development; (8) initiation and maintenance of education and support services; and (9) other activities related to the purpose of the program. Recipients of Restart program funds may use the funds for preaward costs, including the reimbursement of expenditures incurred before receiving the grant. For a cost to be considered allowable under the Restart program, the cost must support the restart of operations in, the reopening of, and the reenrollment of students in elementary and secondary schools that serve an area affected by a covered disaster or emergency.

Finding 1. Texas Had Sufficient Controls Over the Allocation and Use of Restart Program Funds

We found that Texas established and implemented systems of internal control that provided reasonable assurance that Restart program funds were allocated appropriately and that sufficiently ensured that LEAs and nonpublic schools used Restart program funds for allowable and intended purposes. Specifically, we found that Texas had a well-defined process for allocating Restart program funds to LEAs and nonpublic schools that met the requirements of the HERA. Texas also had appropriate existing processes for the submission and review of subrecipient applications and payment for allowable expenditures. As part of its oversight activities, Texas submitted to the Department the required Internal Control and Monitoring Plan that included a description of its well-established fiscal monitoring process, and it provided technical assistance to subrecipients to ensure that they used Restart program funds in compliance with program requirements.

We tested the accuracy of Restart program fund allocations by recalculating Texas's award calculations for LEAs and nonpublic schools using the information Texas provided. We also recalculated the awards using Texas's approved methodology and data that we verified as accurate at the three LEAs and one ESC that we reviewed during the audit. We found no discrepancies in this testing.

We also assessed the effectiveness of controls intended to ensure that Restart program funds were used appropriately through testing of selected payroll and nonpayroll expenditures at the three LEAs and one ESC. We found only limited instances of noncompliance with Federal laws and regulations, which we discuss in Finding 2.

Based on our review of controls and related testing, we concluded that Texas's collective processes provided reasonable assurance that Restart program funds were allocated appropriately and sufficiently ensured that LEAs and nonpublic schools used Restart program funds for allowable and intended purposes. Additional details on these controls and the results of our testing are presented in the sections that follow.

Texas Controls Over the Allocation of Restart Program Funds

Texas had sufficient controls to ensure that it appropriately allocated Restart program funds to LEAs and nonpublic schools.

Texas's methodology for allocating Restart program funds was well-defined and aligned with the HERA requirements and Department guidance that SEAs must consider the number of students served by the affected schools in school year 2016–2017, severity of impact on the affected schools, and extent of needs in the affected schools when determining allocations. Texas used student counts for the correct school year and

applied per pupil weights based on the number of days that a school was closed to meet the requirements regarding consideration of impact and needs. To ensure that Texas's allocations were accurate and adequately supported, we performed the following reconciliations and recalculations.

- We reviewed Texas's application to compare the Restart program amount that the Department awarded to Texas and the amount that Texas provided to eligible LEAs and ESCs. We determined that these amounts were equal to and supported by the LEAs' and nonpublic schools' Restart applications.
- We recalculated Texas's allocation calculations for all LEAs using information provided by Texas and its allocation methodology. We confirmed that Texas's allocation calculations for all LEAs were correct.
- We also recalculated Texas's allocation calculations for the three LEAs and the ESC covered by our review using the information provided by these four local entities during our audit and Texas's allocation methodology. We confirmed that Texas's allocation calculations for these four local entities were correct.

Based on our reconciliations and recalculations, we concluded that Texas's allocations were accurate and adequately supported.

Texas Controls Over the Use of Restart Program Funds

Texas had sufficient internal controls to ensure that LEAs and nonpublic schools used Restart program funds for allowable and intended purposes. Texas had well-established processes for subrecipient application submissions, approval of Restart applications, and payments using Restart program funds. In addition, Texas submitted to the Department the required Internal Control and Monitoring Plan that included a description of its well-established fiscal monitoring process, and it provided technical assistance to subrecipients to ensure that they used Restart program funds in compliance with program requirements.

Application for Restart Program Funds

Texas required all eligible LEAs and ESCs to submit an application for Restart program funds. Texas's application included an allowable activity checklist that the applicants (LEAs and ESCs) completed to identify the applicable allowable activities that the Restart program would fund. Texas published program guidelines for LEAs and ESCs applying for Restart program funds, which included a list of allowable activities and uses of funds that aligned with the ones listed in the Department's 2018 FAQ for the Restart

program.[6] The applicants were required to prepare budget schedules that included the amount and description of the costs by class/object code. For example, for payroll costs covering overtime pay for support staff, the applicant would identify the specific class/object code as "Support Staff Extra-Duty Pay" (object code: 6121) and provide the cost amount. The applicants were also required to provide program assurances, including an assurance that "[a]ll funds must be used for allowable Restart Program purposes."

Approval of Restart Applications

Texas followed its established policy and procedures for approving grant applications when it reviewed local entities' Restart applications. Texas's policies and procedures for reviewing applications for noncompetitive grant programs include a process called "grant negotiation." During grant negotiations, Texas staff determined whether costs budgeted in each application were reasonable and necessary[7] given the grant program and size of the LEA. If the Texas staff reviewer determined that costs were unallowable or not reasonable and necessary, the costs were removed from the application. Texas negotiated applications using a differentiated review process based on the fiscal risk status of the applicant. Texas used the annual Federal fiscal risk assessment process described later in this finding to assign a risk level to each applicant. Applicants deemed medium or low risk for the fiscal year in which the grant was made available received a less intensive application review and grant negotiation process and received their grant award more quickly.

If Texas determined during the grant negotiations that the application was not eligible to be funded, Texas notified the applicant of its ineligibility for funding. Texas's policy also states that it is not responsible for paying for any expenditure that is determined to be ineligible for funding. When Texas and the applicant negotiated the application to approval, Texas awarded grant funds by issuing a Notice of Grant Award (award notice) that incorporated all parts of the application form, including the "negotiated" application.

Payments Using Restart Program Funds

Texas used its established Expenditure Reporting system to reimburse eligible LEAs and ESCs for expenditures identified in their applications for Restart program funds. The

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[6] Texas's 2018–2020 Immediate Aid to Restart School Operations Program Guidelines for LEAs and ESCs applying for the Restart program funds (program guidelines) (July 2018).

[7] Texas's definitions of reasonable and necessary are aligned with the Cost Principles in 2 C.F.R. Part 200, Subpart E.

award notice that Texas sent to applicants included a requirement that the applicant report expenditures in the system by class/object code, as discussed above. The award notice stated that Texas uses this reporting process to comply with Federal monitoring expectations and auditing standards and to mitigate the need for medium- or low-risk subgrantees to submit supporting expenditure documentation for payment requests that exceed grant threshold requirements. For high-risk subgrantees, Texas required the submission of supporting documentation for requested expenditures. Texas did not approve or process these payment requests until it received the requested documentation and determined that the payment request was allowable under the grant.

Internal Control and Monitoring Plan

As part of the Department's Restart application process, Texas submitted an Internal Control and Monitoring Plan for the Restart program that described its plan for oversight and monitoring in accordance with statutory and regulatory monitoring requirements during fiscal years 2018–2020. The plan included the following monitoring activities:

- provide ongoing oversight and monitoring of Restart program-funded awards;
- ensure that subrecipients adhere to the fiscal, program, and other requirements applicable for the use of Restart program funds;
- ensure that subrecipients maintain financial, program, and other records to accurately and completely account for the obligation, expenditure, receipt, and use of Restart-funded grants;
- review expenditures of grant funds for improper payments to prevent fraud, waste, and abuse of Restart program funds; and
- review grant expenditure costs not allowed under the program guidelines and ensure that claims for reimbursements are not submitted to other funding sources.

Fiscal Monitoring Review

Texas conducted monitoring reviews of Federal grant subrecipients' expenditures to determine whether the subrecipients obligated and spent the funds in accordance with their approved grant applications and applicable laws and regulations. Texas's Federal Fiscal Monitoring Division (monitoring division) is responsible for fiscal monitoring. The monitoring division used a risk-based approach to select Federal grant subrecipients for review. Texas published the specific criteria it used for the risk assessment on its website. Texas's criteria included the timeliness of the subrecipient's submission of its single audit report; the independent auditor's findings, such as material weaknesses in

internal controls and questioned costs of Federal funds; and recent monitoring of the subrecipient by the monitoring division. Based on the outcome of the risk assessment, Texas assigned a risk level of low, medium, or high to subrecipients.[8] Texas selected subrecipients for fiscal monitoring, in part, according to their risk levels. Subrecipients with higher risk levels were more likely to be selected for monitoring.

For calendar year 2019, the monitoring division performed annual desk reviews of 100 LEAs. Texas also selected 3 of these 100 LEAs for focused desk reviews of their administration of the Restart program. Texas included the Restart program as part of its subrecipient monitoring review of the three LEAs[9] as indicated in its Internal Control and Monitoring Plan. Texas did not select the three LEAs that we selected for review for subrecipient monitoring review because Texas assigned them with a low risk level for fiscal year 2019. The preliminary reports for the LEAs that Texas selected for focused desk reviews did not have any findings related to our audit objectives.

Technical Assistance

Texas provided LEAs and ESCs with technical assistance for the Restart program, including providing training on the use of funds and publishing program guidelines. Texas also provided LEAs and ESCs with the Department's 2018 FAQ for the Restart program.

Results of Testing at Three LEAs and One ESC

To test the effectiveness of Texas's controls for ensuring that Restart program funds were used appropriately and for intended purposes, we judgmentally selected for review 3 of 164 LEAs that received Restart program funds (Houston, Fort Bend, Clear Creek) and 1 of 5 ESCs that provided services and assistance to nonpublic schools using Restart program funds (Region 4 ESC), and performed limited testing of payroll and nonpayroll expenditures, totaling $8,310,032 of $19,048,064.[10] Overall, we concluded that Texas had sufficient controls to ensure that Restart program funds were used for allowable and intended purposes. However, as discussed below and further in Finding 2,

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[8] Texas conducts its risk assessment annually, so a subrecipient's risk level can change from year to year.

[9] These reviews started in January 2019. As of October 14, 2019, Texas had issued separate preliminary subrecipient monitoring reports for the three LEAs, "Review of the Financial Management System Controls, Compliance with Requirements for Emergency Impact Aid for Displaced Students (EIA) Grant and Immediate Aid to Restart School Operations (Restart) Grant."

[10] Refer to Appendix A: Scope and Methodology under Tables 2 and 3 for the total transactions and costs in the universe and sample for each entity selected for review.

we found limited instances of noncompliance with Federal laws and regulations. See below for the results of testing for each entity that we reviewed.

Houston

Texas approved Houston's application for reimbursement of payroll and nonpayroll expenditures, totaling $3,452,142 and $9,188,003, respectively. We reviewed selected payroll (6 percent of $3,418,957, the expended amount of payroll) and nonpayroll (49 percent of $9,034,507, the expended amount of nonpayroll) expenditures that were charged to the Restart program. We found that a portion of the selected payroll expenditures for 4 of the 31 employees in our sample, amounting to $34,065 of the $200,562 that we reviewed, were not allowable under the Restart program. We discuss this further in Finding 2. We concluded that the 31 nonpayroll expenditures that we selected for review were allowable and supported. Houston spent Restart program funds on extra duty pay for teachers to recover some of the instructional time lost on days when students were not in school and on overtime pay for maintenance staff to repair damaged schools. Houston also spent Restart program funds on transportation costs.

Fort Bend

Texas approved Fort Bend's application for reimbursement of nonpayroll expenditures, totaling $5,165,637. We reviewed selected nonpayroll expenditures (58 percent of $5,165,637) that were charged to the Restart program. We concluded that the 30 nonpayroll expenditures that we selected for review were allowable and supported. Fort Bend spent Restart program funds on electrical charges for schools impacted by Hurricane Harvey.

Clear Creek

Texas approved Clear Creek's application for reimbursement of payroll and nonpayroll expenditures, totaling $276,021 and $2,151,868, respectively. We reviewed selected payroll (37 percent of $24,355, the expended amount of payroll) and nonpayroll (28 percent of $1,019,902, the expended amount of nonpayroll) expenditures that were charged to the Restart program. We concluded that the payroll expenditures for 6 employees and the 35 nonpayroll expenditures that we selected for review were allowable and supported. Clear Creek spent Restart program funds on extra duty pay for employees and on instructional materials and supplies and professional learning for instructional staff.

Region 4 ESC

Texas approved the ESC's application for reimbursement of payroll and nonpayroll expenditures, totaling $128,880[11] and $602,502, respectively. We reviewed the one payroll expenditure and selected nonpayroll (81 percent of $284,764, the expended amount of nonpayroll) expenditures that were charged to the Restart program. We concluded that the 1 payroll expenditure and 10 nonpayroll expenditures that we selected for review were allowable and supported. The ESC spent Restart program funds on salary costs for some ESC staff and on additional salary costs for other ESC staff who worked on disaster recovery under professional contract services.

We also reviewed the nonpublic schools' use of Restart program funds provided through the ESC. We found that the ESC used Restart program funds to reimburse two nonpublic schools for prior purchases without obtaining or maintaining control and ownership of the materials purchased by the nonpublic schools, which we discuss further in Finding 2. The nonpublic school that we reviewed spent Restart program funds on items such as books, bookcases, and wood lockers.

Because we found that Texas established and implemented systems of internal control that provided reasonable assurance that Restart program funds were allocated appropriately and that sufficiently ensured that LEAs and nonpublic schools used Restart program funds for allowable and intended purposes, we are not making any recommendations in Finding 1. We make recommendations that address the instances of noncompliance that we identified at Houston and the ESC in Finding 2.

[11] At the time of our review, the ESC had paid $99,942 to the one employee. We reviewed the full expended amount.

Finding 2. Houston and the Region 4 ESC Did Not Always Follow Restart Program Requirements

Effective systems of internal control are expected to provide reasonable assurance, not absolute assurance, regarding achievement of operational, financial reporting, and compliance objectives. We found that Texas's systems of internal control were sufficient to provide reasonable assurance that LEAs and nonpublic schools used Restart program funds for allowable and intended purposes. However, we identified instances of noncompliance with applicable Federal requirements and guidance at one of the three LEAs (Houston) and at the one ESC (Region 4 ESC) covered by our review. Houston improperly charged some of its personnel expenditures to the Restart program. The Region 4 ESC did not obtain or maintain control and ownership of materials at nonpublic schools that were funded by the Restart program.

Houston

Houston charged personnel expenditures that were not allowable under the Restart program. We selected and reviewed payroll transactions for 31 employees (7 teachers and 24 nonteachers) and identified improper charges of $34,065 in extra duty pay for 4 of 7 teachers, which represented about 17 percent of the $200,562 in payroll transactions that we reviewed at Houston.

Houston authorized teachers to work up to 1 extra hour per day from September 12, 2017, through December 21, 2017 (the last school day in 2017), to make up for lost instructional time when the schools were closed as a result of Hurricane Harvey. The extra hour was to be marked with a specific notation on the teacher's payroll record to distinguish it from extra hours worked for other activities unrelated to the hurricane. However, Houston requested reimbursement for extra duty pay that was not allowable. Specifically, we found the following.

- For four of the seven teachers, Houston requested reimbursement for extra duty pay unrelated to Hurricane Harvey.[12]
- For the same four teachers, Houston requested reimbursement for extra duty pay earned after the authorized deadline of December 21, 2017.

[12] The work occurred during the authorized period but exceeded 1 hour per day or was not notated as related to the hurricane.

- For one of the four teachers, Houston requested reimbursement for $4,288 of extra duty pay for work that occurred between July 3, 2017, through August 13, 2017, which was before the hurricane occurred.

The Cost Principles in 2 Code of Federal Regulations (C.F.R.), Part 200, Subpart E, state that for a cost to be allowable, the cost must be reasonable and necessary for the performance of the Federal award and be allocable (2 C.F.R. § 200.403). A cost is allocable to a specific Federal award or other cost objective if the goods or services involved can be charged or assigned to that Federal award or cost objective in accordance with relative benefits received (2 C.F.R. § 200.405). In addition, section 102(a)(2) of the HERA states that Restart funds are to be used to assist school administrators and personnel of LEAs or nonpublic schools with expenses related to the restart of operations in, the reopening of, and the reenrollment of students in elementary schools and secondary schools in affected areas.

According to Houston's Grant Accountant, the $34,065 ($29,777 + $4,288) in personnel costs should not have been charged to the Restart program. She attributed the errors to an accounting oversight. When Houston submitted its application to Texas for Restart program funds, it mistakenly included all extra duty pay for teachers for fiscal year 2018 (July 1, 2017, through June 30, 2018), which included extra duty pay for teachers who did not work on activities related to the Restart program.

Because Houston's application for the Restart program mistakenly included all extra duty pay for teachers for fiscal year 2018 and we found that the extra duty pay for four of seven teachers in our review was unallowable, it is likely that extra duty pay charged to the Restart program for other teachers that we did not select for review may also have been improperly charged to the program.

Region 4 ESC

The Region 4 ESC used Restart program funds to reimburse two nonpublic schools for prior purchases of materials (such as books, bookcases, and wood lockers), totaling $84,243, but it did not obtain or maintain control and ownership of the purchased materials.

Section 102(h)(3) of the HERA states that public agencies must maintain control of funds for services and assistance provided to nonpublic schools, including title to materials, equipment, and property purchased with such funds. In addition, the Department's 2018 FAQ for the Restart program, Question F-14, states that an SEA, LEA, or other public agency may not reimburse a nonpublic school for materials or equipment that the school previously purchased because the nonpublic school would have held title to the purchased materials or equipment, and these purchases would not have been under the control of a public agency.

The FAQ further notes that

> [h]owever, if the nonpublic school and a public agency [in this case, the ESC] both agree, the public agency may use Restart funds to purchase from the nonpublic school materials or equipment that the nonpublic school had previously acquired. The materials or equipment must be allowable Restart expenses and be secular, neutral, and non-ideological. The public agency may continue to allow the equipment and materials to be used in the nonpublic school. This use of Restart funds is allowable only if the nonpublic school transfers the title for the materials and equipment to the SEA, LEA, or other public agency and the public agency becomes responsible for controlling the materials and equipment.

The ESC's Chief Financial Officer told us that he was not aware that the ESC should have reimbursed the nonpublic school only after obtaining and maintaining control and ownership of the items purchased by the nonpublic schools. He further stated that ESCs typically do not administer Federal grants because this is a function usually carried out by LEAs. We spoke with Texas officials and they were not aware that the ESC did not obtain or maintain control of the purchased materials. The Associate Commissioner for Texas stated that Texas provided the Department's 2018 FAQ for the Restart program to the ESCs as guidance and believed that the ESC should have been aware of the requirement.

Without proper public control of the items purchased by the nonpublic schools, the ESC runs the risk that materials or equipment will be misappropriated. Although we did not find evidence of fraud or mismanagement during our review at this ESC, theft or misappropriation of materials or equipment could occur. Texas awarded $1,627,216 in Restart program funds to five ESCs. We reviewed one ESC that spent $377,194 of its $731,882 Restart program funds and determined that the ESC reimbursed the two nonpublic schools for purchases totaling $84,243 (22 percent of $377,194) without obtaining or maintaining control and ownership of the purchased items. Because the ESC's Chief Financial Officer was not aware of these requirements and because ESCs typically do not administer Federal grants, the four ESCs not covered by our review may also have failed to obtain and maintain control of any items purchased by the nonpublic schools using the Restart program funds.

Subsequent to our review of the Region 4 ESC, the Associate Commissioner for Texas informed us that he had visited and provided technical assistance to the ESC, which included a discussion about ESCs obtaining and maintaining control of items purchased by the nonpublic schools using Restart program funds. The Associate Commissioner and the ESC provided us with documentation showing that the ESC had inventoried and

assigned its asset tags on the materials at the two nonpublic schools. We did not physically verify that the items were tagged to show the ESC's ownership of the materials.

Recommendations

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

2.1 Require Houston to return to the Restart grant $34,065 in personnel expenditures that it charged for four teachers whose extra duty work was not for the purposes of the grant.

2.2 Review a random, statistically valid sample of the remaining payroll expenditures for teachers whose extra duty pay Houston charged to the Restart grant, determine whether the personnel expenditures were allowable under the grant, and require Houston to return funds to the grant for unallowable costs.

2.3 Provide additional guidance to ESCs providing equitable services and assistance to nonpublic schools that specifies how to handle items purchased by nonpublic schools using Federal funds. The instructions should ensure that the appropriate public agency holds the title to materials and equipment.

2.4 Verify transfer of the title for the materials and equipment purchased by the Region 4 ESC on behalf of nonpublic schools using Restart program funds or require the ESC to return funds to the grant for unallowable costs.

2.5 Review the other ESCs that are providing equitable services and assistance to nonpublic schools to ensure that the ESCs have maintained control and ownership to materials and equipment purchased using Restart program funds.

Texas Comments

In its comments on the draft audit report, Texas partially agreed with our finding and proposed corrective actions in response to our recommendations. Texas agreed with the part of our finding related to Houston and generally concurred with our recommendations. Texas stated that if the Department's program office requires it to do so, it will refer Houston to Texas's monitoring division and notify Houston of the finding and the requirement to repay $34,065 in questioned costs. Texas stated that this will be completed within 60 days after notification from the Department's program office. In addition, if required to do so by the Department's program office, Texas's monitoring division will conduct a monitoring review of Houston and perform a random selection of the remaining payroll expenditure transactions for teachers' extra duty pay. After the review, Texas will follow its standard monitoring protocols for enforcement

actions, which may include requiring repayment of questioned costs. Texas stated that this will be completed no more than 120 days after notification from the Department's program office.

Texas did not agree with the part of our finding related to the Region 4 ESC, but generally concurred with our recommendations. Texas stated that the ESC did not initially maintain control of the questioned equipment and materials; however, after the Associate Commissioner for Grant Compliance and Administration was notified of the potential finding, he conducted a site visit at the ESC. He notified the ESC of the requirements for maintaining control of items purchased using Federal funds, and the ESC agreed to inventory all equipment and materials. In addition, the ESC agreed to annually verify that the equipment and materials are in place at the private schools. Texas stated that the ESC has verified compliance with Texas's instructions.

Regarding our recommendations, Texas agreed to provide additional guidance to ESCs on how to maintain title to materials and equipment purchased by nonpublic schools using Federal funds by March 15, 2020. In addition, Texas stated that it will monitor the Region 4 ESC's inventory and verification process. Lastly, Texas agreed to review the other ESCs that are providing equitable services and assistance to nonpublic schools to ensure that they have maintained control and ownership to materials and equipment purchased using Restart program funds. Both of these corrective actions are scheduled to be completed by April 15, 2020.

OIG Response

Based on Texas's response, we have modified Recommendation 2.2 to allow for the review of a random, statistically valid sample of the remaining payroll expenditures for teachers' extra duty pay Houston charged to the Restart grant. Regarding the part of Finding 2 related to the Region 4 ESC, we already acknowledge in the report that Texas has taken some actions to correct this issue. However, we did not change the finding because we have not received sufficient documentation to confirm that the ESC has completed its inventory or now has title to the items purchased. Texas's planned corrective actions should address our recommendations if implemented as described.

Appendix A. Scope and Methodology

We assessed Texas's systems of internal control to determine whether they provided reasonable assurance that Restart program funds were allocated appropriately and that LEAs and nonpublic schools used Restart program funds for allowable and intended purposes. Our review covered Texas's internal controls from July 1, 2017, through May 16, 2019.

To achieve our audit objectives, we gained an understanding of the Federal laws, regulations, and guidance relevant to our audit objectives, including the HERA; the Bipartisan Budget Act of 2018; Cost Principles at 2 C.F.R. Part 200, Subpart E; and the Department's 2018 FAQ for the Restart program. We also performed the following procedures for Texas and the three selected LEAs and one ESC to achieve our audit objectives.

For Texas, we performed the following procedures:

- Interviewed Texas officials responsible for administering the Restart program to gain an understanding of the internal controls for how Restart program funds were allocated, awarded, and spent.
- Evaluated Texas's written policies and procedures for how Texas allocated, awarded, and spent Restart program funds.
- Reviewed Texas's written policies and procedures to gain an understanding of its established systems of internal control for ensuring that Restart program funds were used for allowable and intended purposes.
- Reviewed the organizational charts for Texas's Contracts, Grants, and Financial Administration program office to determine whether Texas had an organizational structure and process for administering the Restart program.
- Reviewed the State of Texas's audit report for 2017.
- Interviewed officials from the Texas State Auditor's Office to determine whether the Restart program was included as part of its review for 2018 or whether it will be included in its future audit plan.
- Reviewed approved Restart applications for Texas and the selected LEAs and ESC.
- Reviewed Texas's allocation calculations to determine whether the allocations to LEAs and ESCs were accurate.

For the three LEAs and one ESC selected for review, we performed the following procedures:

- Interviewed officials at the LEAs and ESC to obtain an understanding of how they spent Restart program funds.
- Reviewed the LEAs' and ESC's audit reports for 2017.
- Interviewed the LEAs' and ESC's external auditors who prepared annual audit reports for the year ending June 2018 to determine whether they included the Restart program in their reviews for 2018.
- Reviewed external auditors' working papers related to the Restart program.
- Conducted testing of samples of expenditures at the LEAs and ESC to determine the allowability of the expenditures for the Restart program (see "Sampling Methodology").
- Reviewed written policies and procedures at the LEAs and ESC related to payroll, professional contracted services, and supplies.

Local Entity Selections

To determine whether the LEAs and nonpublic schools used Restart program funds for allowable and intended purposes under the terms of the grant and applicable laws and regulations, we judgmentally selected 3 of 164 LEAs and 1 of 5 ESCs that provided services and assistance to nonpublic schools. When selecting local entities, we considered total funding amounts and expenditure types. We selected Houston because it received the highest amount of Restart program funds across all LEAs in Texas. We selected Fort Bend because it received a high amount of Restart program funds and spent all its program funds on one expenditure type: professional contracted services. We selected Clear Creek because it also received a high amount of Restart program funds and spent most of its program funds on supplies. Lastly, we selected the ESC with the highest amount of Restart program funds awarded so that we could evaluate the use of funds for equitable services for nonpublic schools. In total, Texas awarded $80,456,586 in Restart program funds; Texas awarded the local entities we visited $20,965,553 (26.1 percent) of those dollars (see Table 1). Because we judgmentally selected the local entities, results described in this report pertain to agencies we reviewed and cannot be projected to local entities that we did not visit.

Table 1. Selected LEAs and ESC with Total Restart Awards and Expenditures

Selected LEAs and ESC	Restart Funds Received	Restart Funds Spent as of March 22, 2019	Percentage of Restart Funds Spent
Houston	$12,640,145	$12,453,464	99% (a)
Fort Bend	$5,165,637	$5,165,637	100%
Clear Creek	$2,427,889	$1,044,257	43% (b)
Region 4 ESC	$731,882	$377,194	52% (c)
Total	$20,965,553	$19,040,552	Not applicable

(a) Houston had no plans to spend the remaining Restart program funds.

(b) Clear Creek planned to spend the remaining Restart program funds by the end of the grant period.

(c) The ESC planned to spend the remaining Restart program funds by the end of the grant period.

Sampling Methodology

At each LEA and ESC that we visited (see "Local Entity Selection"), we reviewed samples of both payroll and nonpayroll expenditures, as applicable. When designing each sample, we first reviewed the data to assess whether there were large expenditures. If we saw large amounts, we stratified the data to ensure selection of larger expenditures and in some cases also used a selection method that favored selection of larger amounts.

Payroll Samples

We reviewed samples of payroll for three of the local entities that we visited. For both Houston and Clear Creek, we stratified the employees based on amount paid to select the sample. For the six (Houston) and one (Clear Creek) employees that were in the higher paid stratum, we selected all. We randomly selected an additional 25 (Houston) and 5 (Clear Creek) employees from the remaining stratum using probability proportionate to amount paid. The ESC had only one employee whose payroll costs were funded under the Restart program, and we selected that employee. In total, we reviewed 38 employees' payroll out of 2,475 employees whose salaries were paid, in part, using Restart program funds for the local entities that we visited (see Table 2). For each selected employee, we reviewed the employee's timesheets to ensure that the employee worked on disaster activities and within allowable time periods. Because our payroll sample results were not weighted by probability of selection, our results might

not be representative of the universes and, therefore, cannot be projected to the universes.

Table 2. Universes and Samples of Payroll Expenditures for Restart

Selected LEAs and ESC	Universe Count and Dollar Amount (a)	Sample Count and Dollar Amount (a)	Selection Method
Houston	2,393 employees $3,418,957	31 employees $200,562	Stratified to select all 6 of highest salaries charged to the Restart program and selected an additional 25 using probability proportionate to overtime paid.
Fort Bend	None	None	Not applicable
Clear Creek	81 employees $24,355	6 employees $8,940	Stratified to select the employee with the largest payroll and an additional 5 using probability proportionate to payroll amount.
Region 4 ESC	1 employee $99,942	1 employee $99,942	Selected all
Total	2,475 employees $3,543,254	38 employees $309,444	Not applicable

(a) Payroll Restart program funds spent as of March 22, 2019, and March 31, 2019, for the three LEAs and the ESC, respectively.

Nonpayroll Samples

We reviewed samples of nonpayroll expenditures for all four of the local entities that we visited. Because each local entity spent funds differently, the unit of selection varied. We stratified the universe to allow us to ensure selection of certain transactions, and then randomly select the remaining sample selected for review (see Table 3 for selection method for each local entity). In total, we reviewed 107 nonpayroll transactions out of 448 nonpayroll transactions, 52 percent of the total expenditure amount charged to the Restart program for the local entities that we visited (see Table 3). For each selected transaction, we reviewed supporting documentation which included contracts, invoices, timecards, and proof of payment. Because our nonpayroll sample results were not weighted by probability of selection, our results might not be representative of the universes and, therefore, cannot be projected to the universes.

Table 3. Universe and Sample for Nonpayroll Expenditures for Restart

Selected LEAs and ESC	Universe Count and Dollar Amount (a)	Sample Count and Dollar Amount	Selection Method
Houston	79 transactions $9,034,507	31 transactions $4,468,760	Stratified invoices to ensure selection of the largest 6 and an additional 25 selected at random from the remaining invoices.
Fort Bend	73 transactions $5,165,637	30 transactions $3,013,136	Aggregated amount spent by school. Selected 10 schools with largest amounts plus an additional 20 selected at random.
Clear Creek	222 transactions $1,019,902	35 transactions $289,390	Selected all (5) Professional Service Contract expenditures, plus judgmental sample of 30 purchase orders.
Region 4 ESC	74 transactions $284,764	11 transactions $229,302	Stratified to select largest 2 contracts and an additional 8, with probability of selection proportionate to amount. In addition, we judgmentally reviewed one miscellaneous contracted service.
Total	448 transactions (b) $15,504,810	107 transactions $8,000,588	Not applicable

(a) Nonpayroll Restart program funds spent as of March 22, 2019, and March 31, 2019, for the three LEAs and the ESC, respectively.

(b) For the universe, Houston had invoices for professional service contracts, Fort Bend had schools' expenditures, Clear Creek had transactions, and Region 4 ESC had professional service contracts. We referred to these different cost descriptions as transactions for consistency in presenting in the report.

Use of Computer-Processed Data

We relied, in part, on computer-processed data from the selected LEAs' and the ESC's financial management systems, which consisted of a list of expenditures charged to their Restart grants, including purchase orders and related invoices that Texas paid using its Expenditure Reporting system from July 1, 2017, through May 16, 2019. We used the data to select our sample of Restart expenditures for testing. To assess the accuracy and completeness of the data in the financial management systems, we compared data elements of the sampled transactions, such as vendor name, purchase order number, and amount to supporting documentation. In addition, we compared the data received from the four local entities to information provided by Texas to ensure that the universe included all expenditures charged to the Restart program. Based on the work we performed, we determined that the information was sufficiently reliable for us to use in meeting the audit objectives. We also relied on computer-processed data obtained from

the Department's G5 system. We used G5 to identify the amount of Restart program funds that Texas had drawn down and the remaining balances as of October 16, 2019. The G5 is the official system of record for the Department's grants data. As a result, we considered it to be the best available data for the purpose of our audit.

We conducted site visits at Texas and the selected LEAs (Houston, Fort Bend, and Clear Creek) in December 2018, February 2019, March 2019, and May 2019, respectively. We also conducted a site visit at the Region 4 ESC, located in Houston, Texas, in May 2019. We performed additional work at our regional office in Dallas, Texas, from December 2018 through October 2019. We held an exit conference with Texas officials on October 16, 2019, to discuss the results of our audit.

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 objectives.

Appendix B. Acronyms and Abbreviations

Associate Commissioner	Associate Commissioner for the Department of Contracts, Grants, and Financial Administration
C.F.R.	Code of Federal Regulations
Clear Creek	Clear Creek Independent School District
Department	U.S. Department of Education
ESC	education service center
FAQ	Frequently Asked Questions
Fort Bend	Fort Bend Independent School District
HERA	Hurricane Education Recovery Act
Houston	Houston Independent School District
LEA	local educational agency
monitoring division	Federal Fiscal Monitoring Division
program guidelines	Immediate Aid to Restart School Operations Program Guidelines
Restart	Immediate Aid to Restart School Operations Program
SEA	State educational agency
Texas	Texas Education Agency

Texas's Comments

Texas Education Agency

Commissioner Mike Morath

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January 27, 2020

Christopher Gamble
Regional Inspector General for Audit
christopher.gamble@ed.gov

RE: Draft Audit Report, "Texas Education Agency's Administration of the Immediate Aid Restart School Operations Program," Control Number ED-OIG/A06T0001

Please find below TEA's response to the above-mentioned report.

TEA General Comments

TEA appreciates the OIG's thorough review of the Restart program. Hurricane Harvey was a devastating disaster that impacted, and continues to impact, many LEAs in south eastern Texas. Overall, TEA staff took on additional responsibilities to award these federal disaster grant funds and implement compliant programs. The funds came to the state late, nearing a year after the disaster which complicates the implementation of the grant program for affected LEAs. TEA and LEAs worked to implement the program effectively and efficiently to the best of their abilities in the time and situation. TEA followed its standard grant policies and procedures and monitored grant recipients.

Findings

Finding 1. Texas Had Sufficient Controls Over the Allocation and Use of Restart Program Funds

TEA concurs with this finding.

Finding 2. Houston and the Region 4 ESC Did Not Always Follow Restart Program Requirements

In regard to Houston ISD, TEA concurs with the finding.

Corrective Action:
If required by the USDE program office to do so, the program office at TEA will refer Houston ISD to the federal enforcement officer in the Federal Fiscal Monitoring Division. TEA will notify Houston ISD of this finding and require repayment of the $34,065 questioned costs.

Targeted Completion Date: 60 days after notification from the USDE program office.

In regard to Region 4 ESC, TEA disagrees with this finding. While Region 4 ESC did not initially maintain control of the questioned equipment and materials, the TEA Associate Commissioner for Grant Compliance and Administration conducted a site visit to Region 4 and met with applicable staff after being notified of this potential finding. TEA notified the ESC of the requirements for maintaining control of the private school equipment and materials. The ESC agreed to go back to the private schools and inventory all equipment and materials and to verify the equipment and materials are in place at the private school annually. Region 4 later verified compliance with TEA's instructions.

Action to Ensure Compliance:
TEA will monitor the ESC inventory and verification process.

Targeted Completion Date: April 15, 2020

Recommendations:
OIG recommends that the Assistant Secretary for the Office of Elementary and Secondary Education require Texas to—
2.1 Require Houston to return to the Restart grant $34,065 in personnel expenditures that it charged for four teachers whose extra duty work was not for the purposes of the grant.

Proposed Corrective Action:
If required by the USDE program office to do so the program office at TEA will refer Houston ISD to the federal enforcement officer in the Federal Fiscal Monitoring Division. TEA will notify Houston ISD of this finding and require repayment of the $34,065 questioned costs.

Targeted Completion Date: 60 days after notification from the USDE program office.

2.2 Review 100 percent of the remaining payroll expenditures for teachers whose extra duty pay Houston charged to the Restart grant, determine whether the personnel expenditures were allowable under the grant, and require Houston to return funds to the grant for unallowable costs.

Proposed Corrective Action:
If required by the USDE program office to do so the program office at TEA will refer Houston ISD to the Federal Fiscal Monitoring Division. The Federal Fiscal Monitoring Division will conduct a monitoring review of a random selection of remaining payroll expenditure transactions for teacher's extra duty pay charged to the Restart grant. Upon conclusion of the review, TEA will follow its standard monitoring protocols for enforcement actions, which may include requiring repayment of questioned costs.

Targeted Completion Date: 120 days after notification from the USDE program office.

2.3 Provide additional guidance to ESCs providing equitable services and assistance to nonpublic schools that specifies how to handle items purchased by nonpublic schools using

Federal funds. The instructions should ensure that the appropriate public agency holds the title to materials and equipment.

TEA concurs with this recommendation.

Targeted Completion Date: March 15, 2020

2.4 Verify transfer of the title for the materials and equipment purchased by the Region 4 ESC on behalf of nonpublic schools using Restart program funds or require the ESC to return funds to the grant for unallowable costs.

Proposed Corrective Action:
TEA will monitor the ESC inventory and verification process of Region 4, as stated above.

Targeted Completion Date: April 15, 2020

2.5 Review the other ESCs that are providing equitable services and assistance to nonpublic schools to ensure that the ESCs have maintained control and ownership to materials and equipment purchased using Restart program funds.

TEA concurs with this recommendation.

Targeted Completion Date: April 15, 2020

If you have any questions regarding this response, please contact me.

Sincerely,

Cory Green, Associate Commissioner
Department of Grant Compliance and Administration

Page 3 of 3