Enclosure B

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE DEPUTY SECRETARY

June 28, 2016

Honorable Hanseul Kang
State Superintendent of Education
Office of the State Superintendent of Education
District of Columbia
810 First Street, N.W., 9th Floor
Washington, DC 20002

Dear Superintendent Kang:

We are pleased to inform you of the U.S. Department of Education's (Department) decision to remove the Department-wide special conditions from all grants issued by this Department to the District of Columbia, Office of the State Superintendent of Education (DC OSSE), effective as of the date of this letter.[1] The Department will continue to provide technical assistance for DC OSSE's administration of the Department's grants to ensure that DC OSSE sustains the improvements accomplished from implementing corrective actions and that its financial and grants management systems are operating to ensure management and administration of Department grant awards consistent with applicable Federal requirements.

In April 2006, the Department designated the DC Public Schools (DCPS) a "high-risk" grantee under the authority in 34 CFR § 80.12 based on systemic problems identified through repeat findings of audits performed under the Single Audit Act for fiscal years 2003 through 2005, the fiscal year 2006 DC Government Consolidated Annual Financial Report audit, and unresolved findings of noncompliance from program reviews conducted in 2006. At that time, special conditions were placed on all Department grants awarded to DCPS. The special conditions were intended to result in important improvements to Federal grants administration by DCPS so that the systemic problems identified by audits and reviews would not recur. On July 1, 2006, the Department imposed revised special conditions on all grants it awarded to DCPS for Federal fiscal year (FFY) 2006, and required DCPS to develop a comprehensive high-risk corrective action plan (HRCAP) to resolve and correct applicable audit findings on all matters affecting funds under Department grant programs and various uncorrected program review findings.

On June 1, 2007, the President signed H.R. 2080 (P.L. 110-33), effectively permitting the Mayor and City Council of DC to assume responsibility for DC schools in accordance with the DC Public Education Reform Act of 2007 (DC Act 17-0038), approved by the City Council and signed into law by the Mayor on April 23, 2007. These statutes transferred authority to the Mayor's Office for the purpose of administering Federal grants, the functions of the State educational agency (SEA), the local educational agency (LEA), and the State agencies responsible for Adult Education and Literacy and the Individuals with Disabilities Education Act (IDEA) Part C Early Intervention Program for Infants and Toddlers with

[1] The removal of the Department-wide special conditions does not prohibit the Department from imposing programmatic special conditions where necessary.

Disabilities. The transfer became effective October 1, 2007. The DC Government established DC OSSE as the SEA with an appropriate structure and sufficient grant and fiscal management capacity to carry out the State agency responsibilities for Federal grants from this Department.

Because DC OSSE had not yet demonstrated that it had sufficient financial, record-keeping, and internal control systems and procedures in place, in June of each year from FFY 2008 through FFY 2013, the Department imposed revised special conditions on all grants awarded to DC OSSE. The core elements of the special conditions required DC OSSE to continue to maintain a current, comprehensive HRCAP to be used as the basis for tracking DC OSSE's progress in resolving its fiscal management deficiencies, grants management deficiencies, and program noncompliance.

In June 2014, the Department made a decision to remove DC OSSE's Department-wide "high-risk grantee" designation based on DC OSSE's demonstrated progress in making the improvements necessary to address longstanding financial and grants management and programmatic compliance issues that confronted DC OSSE in its administration of Federal education grants. However, the Department determined that DC OSSE still had critical action steps to complete in the areas of indirect costs, time and effort distribution, and subrecipient monitoring, and imposed FFY 2014 Department-wide special conditions on all FFY 2014 Department grant awards made to DC OSSE. Further, though DC OSSE had made progress in financial and grants management issues, due to continuing noncompliance with programmatic requirements, the Office of Special Education Programs (OSEP) continued in FFY 2014 to designate DC OSSE as a "high-risk grantee" under Part B of the IDEA.

Based on the outcome of an onsite visit conducted by the Department in May 2015 and review of DC OSSE's special conditions progress reports, the Department concluded that DC OSSE had made further progress in addressing corrective action items identified in its FFY 2014 special conditions. However, the Department determined that it needed to continue to monitor DC OSSE's progress in completing critical action steps in the areas of the indirect cost calculation and claiming process, time and effort distribution, and subrecipient monitoring. Therefore, in June 30, 2015, the Department continued to impose special conditions on all grants awarded to DC OSSE for FFY 2015. In addition, due to continuing noncompliance with programmatic requirements, OSEP continued in FFY 2015 to designate DC OSSE as a "high-risk grantee" under Part B of the IDEA.

With respect to indirect cost calculation and claiming, DC OSSE agreed to initiate a separate engagement with its A-133 auditors to conduct a review of its indirect cost claiming process and the calculation of indirect costs claimed for completeness and accuracy. However, despite its continued efforts, DC OSSE was unable to come to a contractual agreement with its A-133 auditors for an independent review of its indirect cost claiming process. In consideration of this challenge, the Department revised its approach to address this issue and sought advice from the subject matter experts from the Department's Indirect Cost Group of the Office of the Chief Financial Officer. The Director of the Indirect Cost Group and the Department's designated indirect cost negotiator for DC OSSE advised that without conducting an audit they would not be able to validate the accuracy of DC OSSE's actual indirect cost claiming process. However, they reviewed the DC OSSE's indirect cost claiming procedures and allocation approach, as well as the sample spreadsheet. While no figures were included in the sample spreadsheet and thus they were unable to test it, the Department's Indirect Cost Group staff concluded that the underlying formulas should produce the desired outcomes for indirect cost claiming and allocation.

Based on this feedback along with our belief that DC OSSE has made a good faith effort in resolving this issue, the Department has determined that DC OSSE has met the special condition related to this area and,

thus, **the Department is removing the special condition related to indirect cost calculation and claiming.** The Department will revisit the issue once the FY2015 A-133 audit is completed in FY2016. To this end, DC OSSE recently informed the Department that its indirect cost claiming in FY2015 is being reviewed as part of the agency's A-133 audit, which will allow the Department to verify DC OSSE's compliance with indirect cost calculation and claiming requirements. If there are no findings related to DC OSSE's compliance with indirect cost requirements, the Department will consider this matter closed.

With respect to time and effort distribution, the Department has determined that DC OSSE has policies and procedures in place that are reasonably designed to support compliance with time and effort requirements. Through several discussions and technical assistance provided by the Department, DC OSSE has successfully revised its time and effort distribution policy that: demonstrates effective internal controls to accomplish after-the-fact allocation of time and effort; meets record-keeping and reporting requirements; and satisfies the cost principles governing salaries charged to Federal programs. DC OSSE has demonstrated that it continues to comply with its revised policy by implementing the personnel activity reporting (PAR) and periodic certification process within its Human Resources virtual portal, PeopleSoft. In addition, DC OSSE has continually offered ad-hoc trainings and technical assistance to new and existing agency employees regarding Federal time and effort distribution requirements. To monitor its employees to ensure continued full compliance with its time and effort distribution policy, DC OSSE sends out regular, bi-weekly reminders to those employees who are required to complete PARs within PeopleSoft, as well as to the employees' supervisors. Based on this, the Department has determined that DC OSSE has met the special condition related to this area and, thus, **the Department is removing the special condition related to time and effort distribution.**

Regarding DC OSSE's subrecipient monitoring, the Department is pleased with the overall progress in addressing the concerns, issues, and necessary corrective measures identified in the Department's FFY2015 special conditions. DC OSSE has completed the revisions to its subrecipient monitoring policy (Policy) to ensure alignment with the standards outlined in section 2 CFR § 200.331 of the Uniform Guidance. As such, the revised Policy: provides a list of risk-assessment criteria to be considered for the purposes of determining appropriate subrecipient monitoring approaches; provides clarity regarding the issuance of management decision letters to subrecipients to address instances of noncompliance, such as A-133 audit findings; and establishes a firm timeline for all stages of monitoring for both DC OSSE and its subrecipients. Although the Department believes that DC OSSE's recently revised Policy is designed to reasonably support DC OSSE in meeting its subrecipient monitoring responsibilities, the Department has identified certain areas of the Policy and procedures that would benefit from revisions to improve clarity and transparency. These areas include, for example, providing guidance on how the SEA will evaluate and assess each risk criterion in order to prioritize each LEA systematically to determine the appropriate monitoring approach. The Department will continue to provide technical assistance as necessary toward these revisions.

DC OSSE recently standardized its onsite monitoring procedures, provided trainings to staff on the core aspects of onsite monitoring activities, and developed and began to implement internal tracking tools, the Enterprise Grants Management System (EGMS), to ensure consistency and timeliness related to all onsite monitoring. Considering the fact that the EGMS has been recently implemented and is in the early stage of full implementation, the Department will continue to monitor implementation progress.

In addition, DC OSSE has submitted a sample of two monitoring reports to demonstrate onsite monitoring activities completed for the 2015-2016 school year and that the reports were issued within the

timeline established in the Policy. DC OSSE has also submitted a list of 13 LEAs selected (of the total 52 LEAs) for onsite monitoring, based on its risk-assessment, to serve as evidence for implementing risk-based monitoring activities. However, it was unclear to the Department how these 13 LEAs were prioritized or how risk was evaluated for all 52 LEAs, in the absence of a risk matrix or similar tool that would have demonstrated how the 52 LEAs were evaluated and assessed to determine the monitoring priority. The Department will continue to offer technical assistance as necessary in order to expand on the details of the risk assessment process.

Based on the review of DC OSSE's special conditions progress reports, revised Policy, and accompanying supporting documentation, the Department has determined that DC OSSE has met the special condition related to this area and, thus, **the Department is removing the special condition related to subrecipient monitoring.** The Department will continue to monitor DC OSSE's compliance, through such measures as review of DC OSSE audits and program reviews conducted by the Department's program offices, and will provide technical assistance as appropriate.

We appreciate the open dialogue and ability to work with DC OSSE in partnership to achieve this critical point and look forward to continuing to work with you to sustain the progress towards improving accountability for Department funds to support the delivery of education services that benefit students and their families in DC.

Sincerely,

Philip A. Maestri, Director
Risk Management Service

cc: Honorable Jennie Niles, Deputy Mayor for Education