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

American Recovery and Reinvestment Act

Virginia: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs

Final Audit Report

Virginia State Capitol

ED-OIG/A03K0008 **June 2011**

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
PHILADELPHIA REGION

June 9, 2011

Dr. Patricia I. Wright
Superintendent of Public Instruction
Virginia Department of Education
P.O. Box 2120
Richmond, VA 23218

Dear Superintendent Wright:

This **final audit report** presents the results of our audit to determine whether (1) the Commonwealth of Virginia (Virginia) and selected subrecipients used and accounted for Recovery Act funds in accordance with Recovery Act recipient plans, approved applications, and other applicable laws and regulations, and (2) data reported by Virginia were accurate, complete, and in compliance with Recovery Act reporting requirements.

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 actions to be taken will be made by the appropriate Department of Education officials.

This report incorporates the comments you provided in response to our preliminary audit report. If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department officials, who will consider them before taking final Departmental action on this audit:

Ann Whalen
Deputy Director for Programs
Implementation and Support Unit
U.S. Department of Education
400 Maryland Ave., S.W., Room 7W206
Washington, DC 20202

Thelma Meléndez de Santa Ana, Ph.D.
Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Ave., S.W., 3W315
Washington, DC 20202

Alexa E. Posny, Ph.D.
Assistant Secretary
Office of Special Education and Rehabilitative Services
U.S. Department of Education
400 Maryland Ave, S.W.
Washington, DC 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 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/
Bernard E. Tadley
Regional Inspector General for Audit

Enclosure

Abbreviations, Acronyms, and Short Forms Used in this Report

C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
Fairfax County	Fairfax County Public Schools
ESEA	Elementary and Secondary Education Act of 1965
Handbook	Handbook of Procedures and Forms for Federal Program Reimbursements and Amendments
Henrico County	Henrico County Public Schools
IDEA	Individuals with Disabilities Education Act, Part B Grants to States
LEA	Local Educational Agency
MOE	Maintenance of Effort
Norfolk	Norfolk Public Schools
OMB	Office of Management and Budget
OMEGA	Online Management of Education Grant Awards
Recovery Act	American Recovery and Reinvestment Act of 2009
SFSF	State Fiscal Stabilization Fund
Title I	Title I, Part A of the Elementary and Secondary Education Act of 1965
Virginia Education	Virginia Department of Education

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Control Number ED-OIG/A03K0008

PURPOSE

The American Recovery and Reinvestment Act of 2009 (Recovery Act) places a heavy emphasis on accountability and transparency and, in doing so, increases the responsibilities of the agencies that are impacted by the Act. The U.S. Department of Education (Department) is ultimately responsible for ensuring that education-related Recovery Act funds reach intended recipients and achieve intended results. This report provides the results of our audit to determine whether (1) the Commonwealth of Virginia (Virginia) and selected subrecipients used and accounted for Recovery Act funds in accordance with Recovery Act recipient plans, approved applications, and other applicable laws and regulations, and (2) data reported by Virginia were accurate, complete, and in compliance with Recovery Act reporting requirements.

We reviewed four education-related grants funded under the Recovery Act: State Fiscal Stabilization Fund (SFSF) Education Stabilization; SFSF Government Services; Title I, Part A of the Elementary and Secondary Education Act of 1965 (Title I); and the Individuals with Disabilities Education Act, Part B Grants to States (IDEA). We reviewed selected costs charged to these grants and quarterly data reported during the period February 17, 2009, through June 30, 2010. Our review covered seven data elements that must be reported under Section 1512 of the Recovery Act—estimated number of jobs created or retained, vendor information, project status, and the amount of funds awarded, subawarded, received, and spent. We conducted our review at the Virginia Department of Education (Virginia Education), as well as three local educational agencies (LEAs) within Virginia: Fairfax County Public Schools (Fairfax County), Henrico County Public Schools (Henrico County), and Norfolk Public Schools (Norfolk). We also reviewed two sheriffs' offices—Prince William County and Fredericksburg County—based on the appropriated uses of SFSF Government Services funds.

RESULTS IN BRIEF

We concluded that Virginia's Recovery Act expenditures were generally expended and accounted for in accordance with recipient plans and applications, and applicable laws, regulations, and guidance. However, we found that Virginia Education needs to improve its fiscal monitoring to ensure LEAs comply with Federal fiscal requirements related to the use of and accounting for Recovery Act funds. We noted fiscal issues at Norfolk and Fairfax County. Virginia Education approved reimbursement requests submitted by the LEAs that included unallowable and incorrectly coded expenditures. We did not identify any exceptions at Henrico County or at the two sheriffs' offices.

For the quarterly Section 1512 reporting, we concluded that Virginia Education and the selected LEAs' reporting processes provided reasonable assurance that all of the reported data elements we reviewed were generally accurate and complete. The Recovery Act data reported by Virginia Education were accurate and complete and in compliance with Recovery Act reporting requirements.

This report discusses the (1) instances of insufficient fiscal monitoring by Virginia Education of its LEAs' Recovery Act expenditure reimbursement requests, (2) specific actions taken or planned to address our finding and recommendations; and (3) additional actions needed to improve compliance with Federal requirements for subrecipient monitoring.

We provided a preliminary copy of this report to Virginia Education for review and comment on April 26, 2011. Virginia Education did not concur with our finding and stated that the finding and recommendations did not fully reflect the steps it had taken to monitor subrecipient fiscal and compliance requirements with Recovery Act funds. Virginia Education's comments included an overview of its four-step monitoring process and clarifying information related to statements or conclusions made in the preliminary report. Virginia Education did not indicate whether it concurred with our recommendations. However, Virginia Education provided additional information for Recommendations 1.1 and 1.2, and indicated corrective actions taken or planned to be taken for Recommendations 1.3 and 1.4, respectively. Although we considered Virginia Education's comments, we did not modify our finding and recommendations. Virginia Education's comments are summarized at the end of the finding. The full text of Virginia Education's comments is included as an Enclosure to this report.

BACKGROUND

The Recovery Act was signed into law on February 17, 2009, and had three immediate goals: (1) create new jobs and retain existing ones, (2) spur economic activity while encouraging investment in long-term growth, and (3) foster unprecedented levels of accountability and transparency in government spending. To help achieve the third goal, recipients of Recovery Act funds are required to submit quarterly reports on awards, spending, and job impacts under Section 1512 of the Recovery Act. According to the Office of Management and Budget (OMB), the reports should contain detailed information on the projects and activities funded by the Recovery Act in order to provide the public with transparency into how Federal dollars are being spent. The reports also help drive accountability for the timely, prudent, and effective spending of Recovery Act funds.

Funding: Virginia was awarded a total of $1.6 billion in Recovery Act funds for the grants we reviewed. This consisted of $1.2 billion for SFSF funds ($219 million for Government Services and $984 million for Education Stabilization), $281 million for IDEA funds, and $164 million for Title I funds (see Table 1 at the end of this report section). Virginia received 67 percent of its SFSF Education Stabilization funds in May 2009. The initial award of $659.2 million was allocated between LEAs and public higher education institutions based on budget restoration calculations. The Virginia General Assembly approved specific allocations for the remaining SFSF Education funds in December 2010 and required the funds to be expended by

September 30, 2011. The Virginia General Assembly appropriated SFSF Government Services funds of $109 million a year to partially offset payroll costs across 78 sheriffs' offices and regional jails for fiscal year 2009 and 19 sheriffs' offices and regional jails for fiscal year 2010.

Administration and Reporting: Virginia Education oversaw the State's education system and was responsible for administering Recovery Act funds. It administered Recovery Act funds through its Online Management of Education Grant Awards (OMEGA) system, an automated grant application and reimbursement system through which LEAs were reimbursed for requested grant expenditures. The OMEGA system enabled LEAs to review award balances for all open awards, prepare and submit grant applications, submit grant reimbursement requests, and receive bulletin board communications. All grants were administered on a reimbursement basis. Expenditure data supporting reimbursement requests were entered by file upload or by online forms. Expenditure data were reviewed and approved by Virginia Education through the OMEGA system. Virginia Education fulfilled Section 1512 reporting requirements on behalf of its LEAs, including the compilation of jobs data for submission to FederalReporting.gov.

During the audit period, Virginia Education expended more than $764.6 million in Recovery Act funds. Virginia Education oversaw the State's 132 LEAs, consisting of 1,881 elementary and secondary schools, which served more than 1.2 million students during the 2009–2010 school year. The following table summarizes the Recovery Act funds awarded and expended by program as of June 30, 2010.

Table 1: Virginia Recovery Act Awarded and Expended Amounts by Program Reviewed

Program	Catalog of Federal Domestic Assistance No.	Total Amount Awarded	Total Expended Through June 30, 2010
SFSF Education Stabilization Fund	84.394	$983,865,903	$425,475,820
IDEA Part B	84.391	$281,415,033	$75,475,401
SFSF Government Services Fund	84.397	$218,904,149	$218,904,149
Title I Part A	84.389	$164,458,751	$44,794,283
Total		**$1,648,643,836**	**$764,649,653**

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – Virginia Education Needs to Improve Its Fiscal Monitoring Over Recovery Act Funds

Virginia Education needs to improve its monitoring of expenditures to ensure LEAs comply with Federal fiscal requirements related to the use of and accounting for Recovery Act IDEA and Title I funds. Two of the three LEAs that we reviewed incorrectly received reimbursements for Recovery Act expenditures that Virginia Education approved without adequate fiscal monitoring.

The Federal regulation at 34 Code of Federal Regulations (C.F.R.) Part 80.40(a) (revised as of July 1, 2010) addresses the State Educational Agency role in monitoring subrecipients as follows:

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

Fairfax County Improperly Spent Recovery Act IDEA Maintenance of Effort Flexibility Option Funds

Fairfax County expended $4.75 million in Recovery Act IDEA funds for non-special education programs from July 1, 2009, through March 31, 2010. During the implementation of the Recovery Act, Virginia Education issued a letter on May 1, 2009, to LEAs informing them that the IDEA maintenance of effort (MOE) flexibility option (34 C.F.R. § 300.205) was available. However, the letter did not provide specific guidance to the LEAs on how to implement the option. The Virginia Education letter referred LEAs only to the Department's Web site for guidance on meeting the MOE requirement.

The MOE provision of 34 C.F.R. § 300.205 allows an LEA certain flexibility in any fiscal year in which the LEA's IDEA allocation exceeds the amount the LEA received in the previous fiscal year. The LEA may reduce its level of expenditures from local funds or a combination of State and local funds for special education and related services by not more than 50 percent of the amount by which the LEA's allocation exceeds the previous year's allocation. The LEA must use those local funds or a combination of State and local funds that, under the MOE flexibility option, were not used for special education and related services on activities authorized under the Elementary and Secondary Education Act of 1965 (ESEA).[1] However, IDEA Part B Recovery Act funds can be used only for special education and related services. The Department's guidance, "Funds for Part B of the Individuals with Disabilities Education Act Made Available Under The American Recovery and Reinvestment Act of 2009," dated April 2009, specifies that "[a]n LEA must use IDEA Part B Recovery Act funds only for the excess costs of providing special education and related services to children with disabilities, except where IDEA specifically provides otherwise."

[1] As amended by the No Child Left Behind Act of 2001.

An official from Fairfax County's Compliance and Strategic Planning Office indicated that Fairfax County misunderstood the guidance. The official believed that the Recovery Act IDEA funds could be used for any allowable expenditure under ESEA. Fairfax County used the $4.75 million in Recovery Act IDEA funds to reinstate some of its non-special education programs. The LEA did not become aware that it could not use the funds for non-special education expenditures until a June 15, 2010, conference call about the MOE flexibility option with Virginia Education and other LEAs. During the call, Fairfax County realized that non-special education expenditures made as a result of using the MOE flexibility option could not be claimed for reimbursement using Recovery Act IDEA funds. Fairfax County notified Virginia Education of the issue and subsequently submitted adjustments to its April 2010 reimbursement request[2] to offset the $4.75 million incorrectly expended.

According to Virginia Education, 32 other LEAs (nearly 25 percent of all LEAs) used the IDEA MOE flexibility option. Therefore, Virginia Education needs to provide clear guidance to its LEAs to ensure Recovery Act IDEA funds are being used appropriately.

Norfolk Incorrectly Included Capital Outlay Expenditures in Its Indirect Cost Calculations

Norfolk submitted a reimbursement request for Recovery Act Title I funds for $94,587 that resulted in it being reimbursed $3,784 for indirect costs.[3] We found that Norfolk should have sought reimbursement for only $21,983 in expenditures including $879 in indirect costs (4 percent of $21,983). Norfolk incorrectly included $72,604 of capital outlay[4] expenditures in its indirect cost calculations, resulting in an excess reimbursement of $2,905 ($3,784 minus $879). When we brought this to the attention of Norfolk officials, they acknowledged the error and indicated that the incorrectly claimed indirect costs would be returned within 10 business days of the date we notified the officials of the error.

Federal regulation 2 C.F.R. Part 225, "Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87)," Appendix B, 15. b.(5) states that equipment and other capital expenditures are unallowable as indirect costs.

We asked Virginia Education about its process for reviewing indirect cost calculations submitted by LEAs. Virginia Education's Director of Grants Accounting and Reporting stated that her office estimated the allowable direct costs from the OMEGA system reimbursement request, and if the total was equal to or greater than the amount claimed by the LEA, her office approved the indirect cost. The official also informed us that Virginia Education had denied multiple reimbursement requests submitted by Norfolk for indirect costs that had been calculated incorrectly.

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[2] The April 2010 reimbursement requests submitted by Fairfax County had not been approved by Virginia Education at the time of the June 15, 2010, conference call.
[3] Norfolk's indirect cost rate was 4 percent (4 percent of $94,587 = $3,784).
[4] In Virginia Education's, "Procedures and Forms for Federal Program Reimbursements and Amendments," capital outlay is defined as equipment for instruction, buildings, remodeling, and all other equipment.

Only three indirect cost expenditures were contained within our sample. Although we found only one example of unallowable expenditures being included in Norfolk's indirect cost calculations, additional unallowable expenditures may exist. Although Virginia Education does review indirect cost calculations, it needs to improve its monitoring process because not all of the calculation errors were detected. Virginia Education also needs to ensure that the process LEAs use to calculate indirect costs does not permit unallowable costs to be included.

Norfolk Allocated Expenditures to Incorrect State Object Codes

Of the 15 Recovery Act IDEA expenditures we sampled, 6 expenditures for materials and supplies were incorrectly allocated as equipment/capital outlay, including 3 office chairs and miscellaneous office supplies. In addition, Norfolk incorrectly bundled the cost of multiple items resulting in additional misallocated expenditures. Some of these misallocations affected indirect cost calculations because expenditures allocated to equipment/capital outlay cannot be claimed in the calculation of indirect costs.

Virginia Education's "Handbook of Procedures and Forms for Federal Program Reimbursements and Amendments" (Handbook) outlined criteria for its LEAs on the classification of materials and supplies, as well as equipment/capital outlay. According to the Handbook, materials and supplies should be coded to object code 6000, while equipment/capital outlay (meeting the capitalization threshold of $500) should be coded to object code 8000. The Handbook specifically defined materials and supplies as "articles and commodities which are consumed or materially altered when used and minor equipment (less than $500) which is not capital outlay (i.e., instructional materials, administrative supplies, etc.)."

Norfolk's process of allocating expenditures to equipment/capital outlay was based partly on its multiple capitalization thresholds. Norfolk generally used a $5,000 threshold for capitalization expenditures; however, for highly pilferable items (e.g., computers) Norfolk used a $500 threshold. In addition, Norfolk stated that the effort of coding expenditures to the State object codes was daunting, and as a result, expenditures were allocated to equipment/capital outlay to facilitate its inventory processes. Norfolk further stated that by allocating expenditures to equipment/capital outlay, purchases could be inventoried and, therefore, accounted for easily. The six expenditures noted as incorrectly allocated to the State's object codes are not equipment/capital outlay or highly pilferable, and all cost less than $500. Therefore, these expenditures are not required to be part of Norfolk's inventory and should be allocated to materials and supplies. Although the financial impact of these six incorrectly coded expenditures totals only $2,032, these transactions represented 40 percent of the IDEA transactions sampled. These incorrect allocations further exemplify the need for Virginia Education to improve fiscal monitoring of its subrecipients.

During its review of reimbursement requests in the OMEGA system, Virginia Education officials had the ability to review the object codes used by the LEAs. Although Virginia Education reviewed expenditure data through the OMEGA system, the data were not sufficient to allow it to monitor the reasonableness and allowability of the expenditures. LEAs were not required to submit supporting documentation (e.g., invoices or purchase orders) with the reimbursement requests. It is Virginia Education's responsibility to perform risk-based monitoring of the expenditures included in the reimbursement requests submitted by the LEAs, including the validity, accuracy, and allowability of the expenses.

Virginia Education primarily relied on single audits by independent public accountants to monitor LEA expenditures. These single audits occurred well after payments were disbursed to the LEAs and were performed too late to ensure early detection of the inappropriate use of funds. In addition, Virginia Education's Director of Grants Accounting and Reporting stated that her office relied on the honesty and integrity of the LEA officials' charged with the local approval of expenditures in the OMEGA system as an internal control mechanism to show that the expenditure was valid, accurate, and allowable. However, during the audit period, Virginia Education did not review supporting documentation for the information entered into the OMEGA system, nor did it perform testing of the validity, accuracy, and allowability of the expenditures through fiscal monitoring activities.

As a result of Virginia Education's insufficient fiscal monitoring, there may be an increased risk that LEAs will charge unallowable, unsupported, or unreasonable expenditures to Recovery Act grants. Without proper fiscal monitoring, inappropriate payments for LEA expenditures may go unnoticed.

Subsequent to our fieldwork, Virginia Education implemented a plan to monitor the use of and accounting for Recovery Act funds, as well as the data quality for its LEAs, for all Recovery Act programs. In February 2011, Virginia Education provided us with its subrecipients' monitoring plan that included fiscal monitoring of Recovery Act funds. Virginia Education scheduled site visits with all of its subrecipients, using a risk-based scoring system, through the last quarter of 2011. The first site visits occurred at the end of September 2010. We reviewed the monitoring plan and concluded that it should improve Virginia Education's monitoring of Recovery Act funds by increasing its oversight of LEA compliance with fiscal requirements related to the appropriate use of and accounting for these funds.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education, in conjunction with the Assistant Secretary for Special Education and Rehabilitative Services, require Virginia Education to −

1.1 Continue to implement its risk-based fiscal monitoring procedures to ensure timely oversight of LEA compliance with fiscal requirements related to the appropriate use of and accounting for Recovery Act IDEA and Title I funds;

1.2 Verify that all LEAs that implemented the IDEA MOE flexibility option used Recovery Act IDEA funds only for special education and related services;

1.3 Ensure that the excess reimbursement of funds that were allocated for indirect costs are returned; and

1.4 Provide information on the finding contained in this report to all LEAs in Virginia.

Virginia Education's Comments and OIG Response

Virginia Education did not agree with the finding and stated that the finding and recommendations did not fully reflect the steps it took to ensure fiscal monitoring and compliance with selected Recovery Act funds. Virginia Education stated that it used a four-step review process for monitoring fiscal compliance with the Recovery Act. The four steps included the following:

- reviewing subrecipients planned use of Recovery Act funds through applications and budget requests;
- reviewing subrecipient reimbursement request details for allowability through its OMEGA system;
- reviewing single audits that help to assure the accuracy of Recovery Act data, the allowability of expenditures, and the validity of controls over Recovery Act funds; and
- reviewing data quality through on-site reviews of expenditure supporting documentation, fiscal controls, and the subrecipient's most recent single audit.

Further, subrecipients are required to certify that expenditures were allowable and that documentation of the expenditures is available.

OIG Response. We believe that we included the steps Virginia Education had taken to ensure fiscal monitoring and compliance with the Recovery Act funds reviewed in the report. However, we found that Virginia Education's monitoring process could be improved. We did not discuss the review of subrecipient applications and budgets because those are only the planned use of the funds and could vary from the actual use of the funds, which was the focus of our review. In the finding, we noted that Virginia Education implemented a plan to monitor the use of and accounting for its LEAs' Recovery Act funds and the quality of Recovery Act data.

Virginia Education provided us with clarifying information to statements made in the preliminary report. We have numbered the clarifying statements below followed by the OIG response to each statement.

1. In response to the finding subsection "Fairfax County Improperly Spent Recovery Act IDEA Maintenance of Effort Flexibility Option Funds," Virginia Education stated that Fairfax County made the error in submitting the $4.75 million reimbursement request because it misinterpreted the Department's Recovery Act IDEA guidance. Fairfax County submitted a subsequent reimbursement request to Virginia Education to correct the error. Shortly after discovery of the error, Fairfax County incurred $4.75 million in allowable Recovery Act IDEA costs that were not reimbursed; therefore, there was a $0 net impact on the Recovery Act funds.

Virginia Education's response included a letter from Fairfax County in which it objected to the report stating that Fairfax County improperly expended the Recovery Act IDEA MOE flexibility funds. Fairfax County believed that the reader of the report might interpret the statement to mean that the funds were improperly *expended*. Fairfax County believed that the report should state that it improperly *claimed* reimbursement for the funds.

OIG Response. We agree that Fairfax County misunderstood the MOE flexibility option guidance, and that because Fairfax submitted a reimbursement adjustment, the net impact was $0. However, as we stated in the report, the guidance provided by Virginia Education did not include specific information on how to implement the MOE flexibility option. Fairfax County improperly expended the MOE flexibility option funds between July 2009 and March 2010, and requested and received reimbursement for those funds. If the funds were not already expended, then a reimbursement request should not have been made. Although Fairfax County adjusted a later reimbursement request, the funds were originally expended on non-special education activities.
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2. In response to our conclusion that Virginia Education needs to provide clear guidance to its LEAs to ensure Recovery Act funds were being used appropriately, Virginia Education stated that it has provided substantial guidance to LEAs regarding the use of Recovery Act IDEA funds, including direct links through its own Web site to written guidance provided by the Department's Office of Special Education Programs. Virginia Education also stated that it provided guidance through phone conferences and in-person training sessions.

   OIG Response. We do not dispute that Virginia Education provided information to its subrecipients about the use of Recovery Act IDEA funds; however, the guidance provided did not include specific information about the use of the Recovery Act IDEA MOE flexibility option funds. We reviewed the information on the Web site Virginia Education provided in its response and found that while it did include references to various Recovery Act IDEA guidance documents, it did not include any clarifying explanations related to the MOE flexibility option.

3. In response to the finding subsection "Norfolk Incorrectly Included Capital Outlay Expenditures in Its Indirect Cost Calculations," Virginia Education stated that the funds for Norfolk's reimbursement request that would have included the indirect cost recovery were not drawn down from the Department until July 2010. Virginia Education asserted that, as of June 30, 2010, in aggregate, Norfolk requested less reimbursement for indirect cost recovery than it could have, and that a reduction for the unallowable indirect costs discussed in the report has been included in a subsequent Norfolk reimbursement request.

   OIG Response. Although Norfolk might have been able to claim reimbursement for more funds than it did, the indirect costs noted in the report that were claimed for reimbursement were overstated because Norfolk included capital outlay expenditures in its indirect cost recovery calculations. We commend Norfolk for proactively reimbursing the unallowable indirect costs.

4. In response to the finding subsection "Norfolk Allocated Expenditures to Incorrect State Object Codes," Norfolk stated (through Virginia Education) that it did not include any of the purchases in question in its capital assets for financial reporting purposes, and that these items are not capital assets and are eligible for indirect cost recovery. Virginia Education asserted that the OMEGA system does not replace subrecipient financial systems or their financial system reporting. Therefore, the object code categorization in the OMEGA system should not be the absolute control for allowing indirect cost recovery on a controlled noncapitalized item in the subrecipient's financial system.

   OIG Response. Even though Norfolk did not include the miscoded expenditures in its financial reporting, it did include some of the miscoded expenditures in its indirect cost recovery calculations. We agree that some of the items, which were coded as capital assets, were not capital assets and were eligible for indirect cost recovery; however, some were capital assets and were included in an indirect cost recovery calculation. In Virginia Education's comments, Norfolk acknowledged that the expenditure coding data reported to Virginia Education through the OMEGA system could differ from its financial reporting, based on an internal review performed by Norfolk's Fixed Asset Accountant. Therefore, the expenditure coding data input into the OMEGA system did not accurately represent the data reflected in Norfolk's financial reporting. Because Virginia Education's expenditure review process (which includes the review of indirect costs) relies on the OMEGA system, we agree that the OMEGA system should not be the absolute control for allowing indirect cost recovery. Virginia Education needs to perform additional fiscal monitoring to ensure LEAs are properly coding expenditures and including only allowable costs in indirect cost calculations.

5. In response to our statement that "Virginia Education primarily relied on single audits by independent public accountants to monitor LEA expenditures," Virginia Education stated that it relied and continues to rely on the OMEGA system as its primary first line monitoring tool for reviewing subrecipient Recovery Act expenditure reimbursement requests.

   OIG Response. We were informed by Virginia Education's Director of Grants Accounting and Reporting that it relied on the single audits to monitor LEA expenditures. We do not dispute that Virginia Education also relies on the OMEGA system to monitor subrecipient reimbursement requests. However, because Virginia Education did not require LEAs to submit detailed supporting documentation with the reimbursement requests, using the OMEGA system as the primary monitoring tool was not sufficient.

6. In response to our conclusion that single audits occurred well after payments were disbursed to the LEAs and were performed too late to ensure early detection of the inappropriate use of funds, Virginia Education stated that the single audits are generally completed by the fall/winter of the year audited, ensuring a timely review of a significant portion of expenditures.

   OIG Response. Although the single audit fieldwork may be completed by the fall/winter of the year being audited, the audit reports are not normally issued until nine months after the end of the fiscal year, well after the funds have been spent. We believe that this amount of time does not allow for early detection of the inappropriate use of Recovery Act funds.

7. In response to our statement that "Virginia Education did not review supporting documentation for the information entered into the OMEGA system, nor did it perform testing of the validity, accuracy, and allowability of the expenditures through fiscal monitoring activities," Virginia Education stated that it does review the allowability of subrecipient Recovery Act expenditures through the OMEGA system. This review included vendor payments; check or voucher number; expenditure date, amount, and description; and total salaries and benefits. Virginia Education also stated that it ensures that the subrecipient acknowledged the online certification statement. Virginia Education stated that it provided us documentation of its planned Recovery Act data quality reviews of Virginia's subrecipients, and that by April 2011, 36 percent of the on-site reviews had been conducted.

   OIG Response. Although Virginia Education did perform a review of subrecipient reimbursement requests submitted through the OMEGA system, the data submitted did not include enough detailed information to fully show that the expenditures were reasonable and allowable Recovery Act program expenditures. A review of vendor paid, check or voucher number, date, and general description is not adequate to determine whether the expenditure was reasonable and allowable. Expenditure descriptions can be misleading, and having only a vendor name or check number does not mean that the expenditure was proper. Although we agree it is good to require subrecipients to certify the data they submitted, subrecipient self-certification does not ensure that the data submitted are reasonable, allowable, and adequately supported program expenditures. We acknowledged Virginia Education's on-site monitoring reviews in the report and stated that this process should assist Virginia Education in improving its fiscal monitoring.

Virginia Education's comments included responses to the report's recommendations. In response to Recommendation 1.1, Virginia Education stated that it has conducted data quality reviews and technical assistance visits at 47 LEAs to date in its efforts to continue its fiscal monitoring of LEAs. In response to Recommendation 1.2, Virginia Education restated that it had provided substantial guidance to LEAs regarding Recovery Act IDEA funds. In response to Recommendation 1.3, Virginia Education reported that Norfolk's overstated indirect costs have been deducted from a subsequent reimbursement request. In response to Recommendation 1.4, Virginia Education stated that it will provide a link to the final report to its LEAs.

OIG Response. Virginia Education's response to Recommendation 1.1 directly addresses the recommendation and should contribute to its timely monitoring and oversight of subrecipient fiscal requirements. Virginia Education's response to Recommendation 1.2 does not adequately address the recommendation. We reiterate that Virginia Education should verify that the LEAs that implemented the IDEA MOE flexibility option used Recovery Act IDEA funds for only special education and related services. Virginia Education's response to Recommendation 1.3 directly addressed the recommendation and we commend Norfolk for proactively returning the unallowable indirect costs. Virginia Education's response to Recommendation 1.4 does not adequately address the recommendation. While providing a link to the final audit report is an adequate first step, Virginia Education should also actively communicate the finding issues with its LEAs.

We did not modify our finding or recommendations based on Virginia Education's comments.

SCOPE AND METHODOLOGY

The purpose of our audit was to determine whether (1) Virginia and selected subrecipients used and accounted for Recovery Act funds in accordance with Recovery Act recipient plans, approved applications, and other applicable laws and regulations, and (2) data reported by Virginia were accurate, complete, and in compliance with Recovery Act reporting requirements. Our audit covered the use of funds and the quality of data submitted to FederalReporting.gov for Recovery Act funds for the Title I, IDEA, and SFSF grants.

We obtained background information about the programs, activities, and organizations being audited. To gain an understanding of the requirements applicable to use of funds and data reporting requirements for Federal grant programs at State and local agencies receiving Recovery Act funds, we reviewed Federal laws, regulations, OMB Circulars, and Recovery Act guidance issued by OMB and the Department. We reviewed prior Virginia Comprehensive Annual Financial Reports, prior independent audit reports, and applications for Recovery Act funds submitted by the LEAs to Virginia Education and by Virginia Education to the Department.

To gain an understanding of the processes and systems pertaining to the scope of our review, we interviewed the following officials at Virginia Education: Director of Grants Accounting and Reporting; Director of Business and Risk Management; Coordinator of Compliance and Strategic Planning; Senior Controller; Senior Director of Accounting; Senior Director of Special Education; Human Resource Manager; and administrators for Title I and IDEA. At the LEAs, we interviewed officials responsible for each Recovery Act program. In addition, for the SFSF Government Services grant, we interviewed Virginia's Assistant Director of Financial Reporting.

We performed audit steps to determine whether Virginia complied with Federal requirements in the following areas:

Use of Funds: We performed limited assessments of the three selected LEAs' policies and procedures by selecting a judgmental sample of personnel and nonpersonnel expenditure transactions at each LEA to determine whether expenditures charged to Recovery Act grants complied with Recovery Act recipient plans, approved applications, laws, regulations, and guidance. We selected 78 transactions totaling more than $29.5 million for the period February 17, 2009, through June 30, 2010. The personnel transactions at two of the LEAs reviewed were generally consistent, so we selected at least 25 percent of the total costs. At one

LEA, we could review only three personnel transactions.[5] We also reviewed personnel files, time and effort certifications, and personnel activity reports.

For nonpersonnel expenditures, we reviewed each LEA's universe of transactions, including dollar amounts and expenditure descriptions. We judgmentally selected expenditures for large dollar purchases of goods and services and expenditures with descriptions that appeared to have had questionable grant charges. We considered whether these expenditures were specifically prohibited under the Recovery Act. The personnel and nonpersonnel costs and transactions selected for testing are summarized in Table 2 at the end of this report section.

We reviewed Virginia Education's procedures for approving and accounting for Recovery Act expenditures and issuing expenditure reimbursements to LEAs. We also reviewed Virginia Education's ability to separately account for Recovery Act funds. We discussed the monitoring of LEAs with Virginia Education officials and reviewed guidance provided by Virginia Education to LEAs about compliance with Recovery Act requirements. We obtained information regarding the internal control structure at the State and local level through interviews with administrators and through reviews of policies, procedures, and related documentation.

We reviewed the use of and accounting for SFSF Government Services funds at two sheriffs' offices, Prince William County and Fredericksburg County, that received $978,114 of the $218 million[6] awarded to the State. We judgmentally selected the sheriffs' offices that received the smallest SFSF Government Services awards. To conduct our review, we obtained supporting documentation for the payroll transactions for the month of February 2010 for Prince William County and the month of September 2009 for Fredericksburg County sheriffs' offices.[7] We reviewed all 35 transactions, totaling $797,388, from the Prince William County sheriff's office and all 11 transactions, totaling $180,726, from the Fredericksburg County sheriff's office. To test personnel costs, we reviewed computer-generated records and supporting documentation provided by Virginia's Compensation Board. We verified employment and confirmed that the employees were paid with SFSF Government Services funds by comparing payment transactions to the State's salary report. We also reviewed the transactions for timeliness to verify that the payroll expenditures occurred prior to the reimbursements.

Data Quality: We reviewed Virginia Education's procedures to collect and report the required data for Section 1512 reporting. We verified that LEA data submitted to Virginia Education were supported by source documentation. Lastly, we used Virginia Education's data as control totals to verify the accuracy and completeness of the statewide LEA data and the aggregate recipient data.

To achieve our audit objectives, we relied, in part, on computer-processed data provided by Virginia Education and the three selected LEAs. We assessed the reliability of computer-processed data by comparing the reimbursement data from OMEGA to amounts for "total federal

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[5] Because Henrico County had only three personnel expenditures funded by the Recovery Act during our audit period, we selected all three.
[6] All $218 million in SFSF Government Services funds were expended for payroll costs.
[7] We selected only one month per office because the same personnel were paid with SFSF Government Services funds for the entire fiscal year.

Recovery Act expended" and "total federal Recovery Act received" in the quarterly reports. For "jobs funded," we reviewed supporting documentation and traced the data from origination to its posting on FederalReporting.gov. To determine whether the data were accurate, complete, and in compliance with Recovery Act reporting requirements, we reviewed supporting documents provided by Virginia Education and LEAs. We then compared the data reported by Virginia Education with data queries we extracted from FederalReporting.gov. Based on our testing, we determined that the computer-processed data used were sufficiently reliable for the purposes of this audit.

We conducted fieldwork at Virginia Education's office in Richmond, Virginia, in July 2010.[8] We also conducted fieldwork at Fairfax County, Henrico County, and Norfolk from August 2010 through October 2010. We held an exit conference with Virginia Education officials to discuss the results of the audit on March 15, 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[8] During our fieldwork at Virginia Education, we obtained sheriffs' offices expenditure information.

Table 2: Universe and Sample Selection of Recovery Act Costs and Transactions by Grants and LEAs

LEA	Personnel Costs			Nonpersonnel Costs			Total
	SFSF Education	Title I	IDEA	SFSF Education	Title I	IDEA	
Fairfax County							
Total Costs	$21,926,638	$5,099,104	$9,435,078		$145,590	$2,087,790	**$38,694,200**
Total Transactions in Universe	20	66	14	N/A	74	268	**442**
Expenditure Amounts Selected	$5,056,608	$2,031,335	$4,312,350		$61,950	$420,231	**$11,882,474**
Number of Transactions Selected	4	10	4		9	13	**40**
Henrico County							
Total Costs	$8,964,763		$3,326		$0	$712,690	**$9,680,779**
Total Transactions in Universe	1	N/A	2	N/A	0	54	**57**
Expenditure Amounts Selected	$8,964,763		$3,326		$0	$214,418	**$9,182,507**
Number of Transactions Selected	1		2		0	7	**10**
Norfolk							
Total Costs	$19,014,335	$2,930,882	$96,807		$954,182	$1,905,422	**$24,901,628**
Total Transactions in Universe	16	403	18	N/A	289	593	**1319**
Expenditure Amounts Selected	$7,076,013	$92,151	$74,988		$631,558	$589,911	**$8,464,621**
Number of Transactions Selected	2	4	2		7	13	**28**
Total							
Total Costs	$49,905,736	$8,029,986	$9,535,211		$1,099,772	$4,705,902	**$73,276,607**
Total Transactions in Universe	37	469	34	N/A	363	915	**1,818**
Expenditure Amounts Selected	$21,097,384	$2,123,486	$4,390,664		$693,508	$1,224,560	**$29,529,602**
Number of Transactions Selected	7	14	8		16	33	**78**

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COMMONWEALTH of VIRGINIA

Patricia I. Wright, Ed.D.
Superintendent of Public Instruction

DEPARTMENT OF EDUCATION
P.O. BOX 2120
Richmond, Virginia 23218-2120

Office: (804) 225-2023
Fax: (804) 371-2099

May 9, 2011

Mr. Bernard Tadley
Regional Inspector General Audit
Region III
U.S. Department of Education
The Wanamaker Building
100 Penn Square East, Suite 502
Philadelphia, Pennsylvania 19107

Dear Mr. Tadley:

Attached is the Virginia Department of Education's (VDOE) response to the preliminary copy of your audit report entitled *Virginia: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act (ARRA) Programs*, Audit Control Number ED-OIG/A03K0008. The preliminary audit report was sent to VDOE on Tuesday, April 26, 2011, under the expedited issuance process for audit reports related to ARRA. In accordance with the expedited issuance process, we are providing our response in time for the May 10, 2011, deadline.

VDOE disagrees with the finding as stated in the preliminary audit report. Based on the clarification provided in the attached response document, we believe the finding should be withdrawn.

Thank you for the opportunity to respond to this preliminary audit report. We look forward to our continued collaborative relationship in the future.

Sincerely,

Patricia I. Wright

PIW/KHL/cle

Attachments

Virginia Response to U.S. Department of Education (USED) Office of Inspector General (OIG) Findings Related to Virginia Use of Funds & Data Quality for Selected American Recovery & Reinvestment Act (ARRA) Programs

Preliminary Finding No. 1: Virginia Needs to Improve its Fiscal Monitoring Over Recovery Act Funds.

The Virginia Department of Education (VDOE) respectfully disagrees with the finding (and accompanying narrative) as stated. Of the $29,529,602 expenditures selected (page 11) for sample, 72% were State Fiscal Stabilization funds, from which there were no audit findings. Additionally, the Finding and Recommendations section does not fully reflect the steps taken by Virginia to ensure fiscal monitoring and compliance with selected ARRA funds. Virginia has used a four-step review process for monitoring fiscal compliance with the ARRA as follows:

1. Review of the planned used of funds

Prior to VDOE making the ARRA funds available for reimbursement, each subrecipient submitted a plan (application/annual plan/budget request) for use of funds that had to be reviewed for allowability and approved by program specialists at VDOE.

2. Review of ARRA reimbursement requests

As per the Virginia Cash Management Agreement with the U.S. Treasury, VDOE is reimbursement based for the subrecipients of federal education grants, meaning federal funds are not drawn/expended from USED until requests for reimbursement are disbursed to the subrecipients. "Reimbursement" also means each subrecipient records federal expenditure throughout the grant period and receives "federal" funds in arrears once requests for reimbursement are submitted, approved, and disbursed.

VDOE requires each subrecipient of the ARRA education grant awards to submit requests for reimbursement of funds through use of its Online Management of Education Grant Awards (OMEGA) system. The details of reimbursement requests are compared to the subrecipients' approved planned use of funds while being reviewed for allowability and validity by VDOE prior to disbursement of funds. Through OMEGA, the subrecipient also certifies allowable use of funds and availability of back-up documentation. VDOE's primary fiscal monitoring mechanism is the review that occurs through OMEGA.

3. OMB 133 Audits

The new Catalog of Domestic Assistance Numbers created for each ARRA education award triggered new programs for auditing purposes. These new programs/revenue streams represent "high risk" to auditors as per section .520 (e) of the A-133 Compliance Supplement. As a result of the "high risk" of ARRA programs, the fiscal year 2010 independent audits of Virginia localities included the ARRA grants. These audits are timely when the grants are processed on a reimbursement basis, especially when it is taken into account that less than one-third of the Title I ARRA (CFDA 84.389) and IDEA ARRA (CFDA 84.391) funds were drawn from USED as of the ARRA reporting quarter ended June

30, 2010. These audits have helped to assure the accuracy of ARRA reporting, validity and allowability of expenditures, and local controls on ARRA funding.

4. Recovery Data Quality Review Process

VDOE planned an on-site ARRA data quality review process prior to the OIG audit and implemented the process during the audit by OIG. The process includes: sampling fiscal documentation of every ARRA grant reimbursed, collecting copies of the supporting documentation to ensure the accuracy and validity of OMEGA reimbursement requests as well as reviewing the most current OMB-133 audit outcomes for the subrecipients under review. Included in this subrecipient review are discussions identifying both best practices and potential process improvements.

The tables that follow list the statements made by the OIG in the Preliminary Audit Report and VDOE clarifying statements:

Preliminary Audit OIG Audit Report Statement	VDOE Clarifying Statement
Page 4 of 12: "Fairfax County expended $4.75 million in Recovery Act IDEA funds for non-special education programs from July 1, 2009, through March 31, 2010."	As of June 30, 2010, Fairfax County incurred a total of $15.92 million in allowable Recovery Act IDEA expenditures. During the audit period ending June 30, 2010, Fairfax County was reimbursed for $11.52 million of Recovery Act IDEA funds for expenditures through March 31, 2010 (only $11.52 million was drawn from USED's G5 system for Fairfax County as of June 30, 2010 - which is confirmed in the Recovery Act Reports as of June 30, 2010). During the month of June 2010 Fairfax identified an error in their interpretation of the USED ARRA IDEA guidance, which resulted in their recognition of $4.75 million requested for reimbursement in error. Shortly thereafter, Fairfax County recognized $4.75 million of allowable costs for IDEA Recovery Act funds that were incurred and not reimbursed as of June 30, 2010. The expenditure correction was recorded within a subsequent reimbursement request submitted to VDOE. The net impact of the error was $0 for federal ARRA funds. See attached Letter dated May 6, 2011 from Fairfax County.
Page 5 of 12: "Therefore, Virginia Education needs to provide clear guidance to its LEAs to ensure Recovery Act IDEA funds are being used appropriately."	Substantial guidance has been provided to LEAs regarding Recovery Act IDEA funds to be used only for special education and related services. Much of this information is summarized at: **http://www.doe.virginia.gov/school_finance/arra/idea/index.shtml** VDOE used direct links to written guidance provided by OSEP. This methodology ensures that LEAs are given the most accurate and timely guidance available. In addition, guidance on requirements related to Recovery Act IDEA funds was provided by VDOE to LEAs through phone conferences and in-person training sessions.

Preliminary Audit OIG Audit Report Statement	VDOE Clarifying Statement
Page 5 of 12: "Norfolk incorrectly included capital outlay expenditures in its indirect cost calculations. Norfolk incorrectly included $72,604 of capital outlay expenditures in its indirect cost calculations that resulted in incorrectly charged indirect costs of $2,904. Norfolk submitted a reimbursement request for Recovery Act Title I funds for $94,587 that resulted in reimbursed indirect costs of $3,784. The reimbursement request should have reflected $21,983 in eligible expenditures for the calculation of indirect costs, resulting in the reimbursement of $879 for indirect costs"	A review of the $3,885,064 total reimbursed and reported as of June 30, 2010, for ARRA Title I funds for Norfolk showed that, in the aggregate, Norfolk requested reimbursement for less indirect cost recovery than they were allowed. The analysis of this data has been sent to OIG. The reimbursement related to this finding by OIG was neither expended at the state level nor drawn from USED until July of 2010, and was not part of the June 30, 2010, ARRA reports. The over recovery in the July 2010 expenditure reimbursement has been included as a reduction to Norfolk in a subsequent request for reimbursement.
Page 5 of 12: "Of the 15 Recovery Act IDEA expenditures sampled, six expenditures for materials and supplies were incorrectly allocated as equipment/capital outlay, including 3 office chairs and miscellaneous office supplies. In addition, Norfolk incorrectly bundled the cost of multiple items resulting in additional misallocated expenditures. Some of these misallocations had an impact on the indirect cost calculations because expenditures allocated to equipment/capital outlay cannot be claimed in the calculation of indirect costs… As a result of misallocated expenditures, VDOE cannot ensure that the LEAs complied with Federal fiscal requirements related to use of and accounting for Recovery Act funds."	OMEGA is designed to allow subrecipients to request reimbursement for expenditures of federal funds. Use of budgeting to the major federal object codes is required to allow reviewers of requests to locate programmatic approval of use of funds in the related application for funds and budget transfers. OMEGA does not replace local financial systems, nor do the object code budgets in OMEGA supersede subrecipient financial system reporting. Norfolk Public Schools (NPS) provided additional information as follows: *"…It is NPS's practice to code all equipment and furniture purchases, no matter what the dollar value to object codes 8100-8220. Our fixed asset accountant then reviews each and every item that is purchased under these object codes to make a determination of whether or not an item should be added to our inventory for control purposes (which is the first decision) and whether or not it should be considered a capital asset and depreciated (the second part of the decision). NPS only capitalizes items which are more than $5,000 and in fact did not include any of the furniture or equipment in question in our capital assets for financial reporting purposes. Therefore, for indirect cost purposes, these items should not be considered capital assets at all and should be eligible for indirect cost recovery."* Consequently, the object code categorization in OMEGA should not be the absolute control on allowing indirect cost recovery on an item that is controlled but not capitalized in the subrecipient's financial system.
Page 7 of 12: "Virginia Education relied on single audits by independent public accountants to monitor LEA expenditures."	VDOE used and continues to rely on OMEGA as the primary first line monitoring tool for reviewing expenditure reimbursement requests from its subrecipients for the ARRA grants audited by OIG.

Preliminary Audit OIG Audit Report Statement	VDOE Clarifying Statement
Page 7 of 12: "These single audits occurred well after payments were disbursed to the LEAs and were performed too late to ensure early detection of the inappropriate use of funds."	The Virginia ARRA grants are available for reimbursement over a time period of 27+ months, encompassing three State fiscal years. As of 6/30/2010, only 28% of the Title I Part A ARRA funds, 27% of the IDEA 611 ARRA funds, and 44% of State Fiscal Stabilization Funds (Education) had been requested for reimbursement and drawn from USED's G5 system. For the ARRA reporting cycle ending June 30, 2010, 88% of the funds drawn by VDOE for the selected ARRA grants were reimbursed to LEAs in the latter half (January through June) of the fiscal year, at a time when many of the local audits were being planned. The local audits are generally completed by the fall/winter of the year audited, ensuring a timely review of the significant portion of expenditures.
Page 7 of 12: "... Virginia Education did not review supporting documentation for the information entered into OMEGA, nor did it perform testing of the validity, accuracy, and allowability of the expenditures through fiscal monitoring activities."	VDOE reviewed the allowability of the ARRA expenditures via review of the detailed expenditure information collected in OMEGA (including: vendor paid, check/voucher number, date of expense, amount of expense, description of expense, and totals of time period salaries and benefits expended) and acknowledgement of the divisions' online certification statement: "NAME PBLC SCHS hereby claims reimbursement of disbursement made during the period MM/DD/YYYY to MM/DD/YYY under the provisions of the program or grant indicated above. This is to certify that the expenditures listed in the reimbursement have been paid in accordance with the federal/state policies and/or regulations of Virginia Board of Education. It further certifies that documentation has been retained in the office of the educational agency/organization and is available upon request to support the claim. It is understood that this claim is subject to federal and/or state audits." Additionally, at the time of the audit, VDOE provided documentation for planned Data Quality Reviews of Virginia's subrecipients. These reviews began in September of 2010, as the amount of data available for review was limited through June 30, 2010, due to the close of the fiscal year and the timing of local audits. Included in the reviews are collections of back up documentation for a sample set of every ARRA CFDA reimbursed to the subrecipient to ensure accuracy and validity. By April 26, 2011, the date of the OIG Preliminary Audit Report, 36% of the ARRA on-site visits of the LEAs had occurred.

Preliminary Audit OIG Audit Report :	VDOE Response
1.1. Continue to implement risk-based fiscal monitoring procedures that provides timely oversight of LEA compliance with fiscal requirements related to the appropriate use of and accounting for Recovery Act IDEA and Title I funds.	VDOE is performing and will continue to perform ARRA data quality reviews and technical assistance visits in the sub recipient LEAs receiving ARRA funds. As of the date of the Preliminary Audit Report, Data Quality site visits had occurred at 47 LEAs. Within the first sites visited, were those LEAs with the highest risk scores from the VDOE risk assessment matrix.
1.2. Verify for all LEAs that implemented the IDEA MOE flexibility option, that the Recovery Act IDEA funds were used only for special education and related services;	Substantial guidance has been provided to LEAs regarding Recovery Act IDEA funds to be used only for special education and related services.
1.3. Ensure that the funds that were over allocated for indirect costs are returned; and	The over allocated indirect cost recoveries have been deducted from a subsequent reimbursement.
1.4. Provide information on the findings contained in this report to all LEAs within Virginia.	A link to the final audit report will be provided to the LEAs.

FAIRFAX COUNTY
PUBLIC SCHOOLS

Office of the Comptroller
8115 Gatehouse Road
Falls Church, Virginia 22042-1203

May 6, 2011

Mr. Kent Dickey
Deputy Superintendent for Finance and Operations
Virginia Department of Education
P.O. Box 2120
Richmond, VA 23218-2120

RE: Preliminary Audit Report ED-OIG/A03K0008

Dear Mr. Dickey:

Fairfax County Public Schools (FCPS) is in receipt of the *Virginia: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs* Preliminary Audit Report conducted by the U.S. Department of Education, Office of the Inspector General.

The e-mail communication sent by Bernard Tadley, Regional Inspector General for Audit, on April 26, 2011, to Patricia Wright at Virginia Department of Education, provides an opportunity for the LEA's who were reviewed to comment on the report.

FCPS comments are as follows:

- FCPS does not agree with the paragraph header stating "Fairfax County Improperly Spent Recovery Act IDEA Maintenance of Effort Flexibility Option Funds" or with the use of the word "expended" in the first sentence of the first paragraph of the Preliminary Audit report, both located on page 4. Readers of the report might interpret that FCPS improperly expended funds, which we believe is incorrect.

  FCPS misinterpreted the eligible expenditure reimbursement guidelines provided by the Virginia Department of Education under the Recovery Act and IDEA MOE option. The expenditures, originally claimed for reimbursement, were properly expended by the school division. However, upon further guidance from the Virginia Department of Education, it was determined the expenditures did not qualify for reimbursement.

FCPS would like to propose the following revisions:

- In the paragraph header, page 4, change header to "Fairfax County Improperly Claimed for Reimbursement Recovery Act IDEA Maintenance of Effort Flexibility Option Funds".

Mr. Kent Dickey
Virginia Department of Education
Page 2
May 5, 2011

- In the first sentence of the first paragraph, under the above heading, page 4, change sentence to "Fairfax County improperly claimed reimbursement of $4.75 million in Recovery Act IDEA funds...".

Thank you for your consideration of the proposed revisions. If you have any questions, please contact , grants compliance officer, at 571-423-3746.

Sincerely,

Meir Zupovitz
Comptroller

MZ:bz

Enclosures

cc: D. A'nglada
W. Jennings