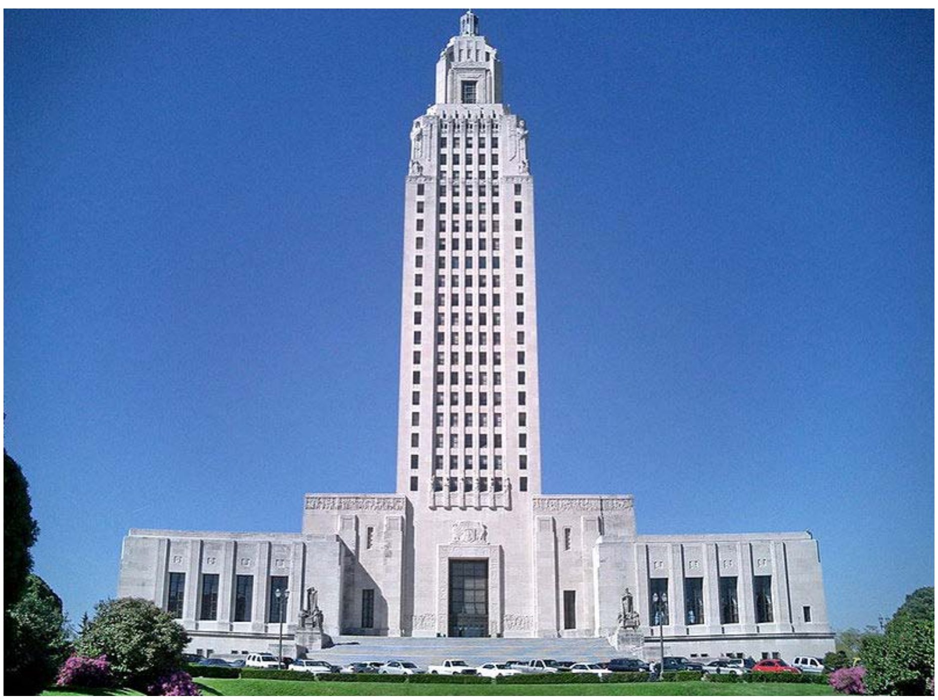
U.S. Department of Education
Office of Inspector General

American Recovery and Reinvestment Act of 2009

Systems of Internal Control Over Selected American Recovery and Reinvestment Act of 2009 Funds in the State of Louisiana

Audit Report



Louisiana State Capitol Building

ED-OIG/A06K0001 September 2010

Acronyms and Abbreviations Used in This Report

Algiers	Algiers Charter School Association
ARRA	American Recovery and Reinvestment Act of 2009
Department	U.S. Department of Education
DOA	Office of Governor's Division of Administration
DUNS	Data Universal Numbering System
EDGAR	Education Department General Administrative Regulations
FTE	Full-time Equivalent
GAO	United States Government Accountability Office
Governor's Office	Office of the Governor State of Louisiana
GSF	Government Services Funds
IDEA	Part B of the Individuals with Disabilities Education Improvement Act of 2004
Lafayette	Lafayette Parish School System
LDE	Louisiana Department of Education
LEA	Local Educational Agency
LRS	Office of Louisiana Rehabilitation Services
OMB	Office of Management and Budget
OMB M-09-21	Implementing Guidance for the Reports on the Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009
OMB M-10-08	Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates
RSD	Recovery School District
SFSF	State Fiscal Stabilization Fund
Title I	Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended
VR	Vocational Rehabilitation

September 29, 2010

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Dear Mr. Pastorek, Mr. Rainwater, and Ms. Starks:

This **final audit report** presents the results of our review of the *Systems of Internal Control Over Selected American Recovery and Reinvestment Act of 2009 Funds in the State of Louisiana*.

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

This report incorporates the comments you provided in response to our preliminary final 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.

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

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

Sincerely,

/s/

Keith M. Maddox
Regional Inspector General for Audit

Enclosure

Systems of Internal Control Over Selected American Recovery and Reinvestment Act of 2009 Funds in the State of Louisiana

Control Number ED-OIG/A06K0001

PURPOSE

The American Recovery and Reinvestment Act of 2009 (ARRA) places a heavy emphasis on accountability and transparency, and in doing so, increases the responsibilities of the agencies that are impacted by ARRA. Overall, the U.S. Department of Education (Department) is responsible for ensuring that education-related ARRA funds reach intended recipients and achieve intended results. This includes efficiently controlling funds at the Federal level, effectively ensuring that recipients understand requirements and have proper controls in place over the administration and reporting of ARRA funds, and promptly identifying and mitigating instances of fraud, waste, and abuse of the funds.

The purpose of our audit was to determine whether the Louisiana Department of Education (LDE), other State of Louisiana agencies, selected local educational agencies (LEA), and a charter school association charged with responsibility for overseeing ARRA funds had designed systems of internal control that are sufficient to provide reasonable assurance of compliance with applicable laws, regulations, and guidance. Our audit covered the designs for systems of internal control over the administration and use of ARRA funds as of March 31, 2010, for the organizations identified below.

We assessed the design of State-level internal control that the LDE, the Department of Social Services' Office of Louisiana Rehabilitation Services (LRS), and the Office of the Governor's Division of Administration (DOA) planned to use in administering funds received under ARRA. We assessed the design of internal control over the administration of ARRA funds for Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (Title I); Part B of the Individuals with Disabilities Education Improvement Act of 2004 (IDEA); the Vocational Rehabilitation Act (VR); and the State Fiscal Stabilization Fund (SFSF) programs. We assessed the design of State-level internal control over data quality, cash management, subrecipient monitoring, and use of funds. In addition, we assessed the design of control for the four areas listed above at the local school level for the East Baton Rouge School System, Lafayette Parish School System (Lafayette), Recovery School District, and the Algiers Charter School Association (Algiers).

RESULTS

The State and local agencies we reviewed in Louisiana had systems of internal control in place or were designing control systems to provide for the administration and use of education-related ARRA funds. These systems consisted of controls established prior to the passage of ARRA, modifications to existing controls in response to the Act, and/or planned controls not yet implemented at the time of our review. Based on our assessment of the designed systems of control planned for ARRA funds, we identified several areas in which controls need to be strengthened or established to provide reasonable assurance of compliance with applicable laws, regulations, and guidance. We concluded that, as of March 31, 2010—

- LDE could improve oversight of LEAs to ensure compliance with ARRA requirements;
- LDE needs to improve controls over data quality to ensure compliance with ARRA requirements;
- DOA needs to perform reviews of its subrecipients to ensure compliance with ARRA regulations; and
- LRS lacks sufficient controls over tracking ARRA funds.

LDE, LRS, and DOA provided comments to a preliminary version of this final audit report. Based on the information and comments received, we moved Finding 3 to the Other Matters section and renumbered Findings No. 4 and 5 to be Findings No. 3 and 4, respectively. We also modified the new Finding No. 4 to include language to clarify LRS's plan to use Vocational Rehabilitation funds, and we deleted comments concerning LRS's progress toward expending all available ARRA funds. Comments from each agency are summarized at the end of each finding. The entire narrative of each agency's comments is included as an attachment to this report. Because of the size of the documents, the attachments to the comments from LDE are not attached but can be provided upon request.

BACKGROUND

ARRA was signed into law on February 17, 2009, in an unprecedented effort to jumpstart the American economy. ARRA has three immediate goals: (1) create new jobs and save existing ones, (2) spur economic activity and invest in long-term growth, and (3) foster unprecedented levels of accountability and transparency in government spending. To ensure transparency and accountability of ARRA spending, recipients are required under § 1512 of ARRA to submit quarterly reports on ARRA awards, spending, and job impact. According to the Office of Management and Budget (OMB), the reports, which contain specific detailed information on the projects and activities funded by ARRA, will provide the public with an unprecedented level of transparency into how Federal dollars are being spent. They will also help drive accountability for the timely, prudent, and effective spending of the ARRA funds.

On April 1, 2009, the Department awarded Louisiana 50 percent of its Title I, IDEA, and VR ARRA funds allocation. According to the Grant Award Notifications, Louisiana received Title I, IDEA, and VR funds for the grant award period February 17, 2009, through September 30, 2010, and SFSF funds for the grant award period July 2, 2009, through September 30, 2010.

LDE currently has 650,000 students enrolled in its 153 LEAs with 135 of those LEAs allocated ARRA funds in fiscal year 2009-2010. Of the 153 LEAs,

- 69 LEAs are composed of public schools located in a parish,
- 77 are individual charter schools,[1]
- 6 are specialized schools, and
- 1 is designated a Recovery School District (RSD). The RSD is a special LEA created by the Louisiana legislature in 2003 to take academically unacceptable schools and transform the schools to academically acceptable. The RSD is a combination of 34 public schools administered as one LEA that is run by the LDE and follows State policies and procedures. RSD also oversees the academic activities of 48 of the 77 charter schools. Most of the RSD schools are located in New Orleans, but a few are located in other parishes.

LDE was allocated more than $177 million in Title I ARRA funds and more than $188 million in IDEA ARRA funds. As of March 31, 2010, LDE had distributed more than $49 million in Title I and approximately $40 million in IDEA ARRA funds to LEAs; whereas, LRS was the recipient of approximately $9.9 million in VR funds and distributed $640,458 in VR ARRA funds.

The Office of the Governor, State of Louisiana, (Governor's Office) was allocated more than $708 million in SFSF funds, which included approximately $579 million[2] (81.8 percent of SFSF funds allocated) in Education Stabilization Funds and approximately $129 million (18.2 percent of SFSF funds allocated) in Government Services Funds (GSF). On July 2, 2009, the Department approved the Governor's Office Application for Initial Funding under the SFSF program. The Governor's Office was awarded $517 million in SFSF funds for the period ending

[1] Charter schools are public schools that are independently operated and publicly funded.
[2] The $388 million in Education Stabilization SFSF funds was the initial installment. After our fieldwork, DOA allotted the FY2011 allocation of $191 million to the Louisiana Board of Regents

in September 2010. The $517 million includes $388[3] million in SFSF Education Stabilization funds and approximately $129 million in GSF. The Governor's Office planned to use $100 million of its $388 million in the Education Stabilization Fund allocation to restore the level of State support for elementary and secondary education in FY 2010. The application also indicated that the Governor's Office planned to allocate its GSF allocation to six State agencies to support law enforcement, to stabilize and improve the economy, and to provide other government services for fiscal years 2010 and 2011. As of March 31, 2010, the Governor's Office had disbursed $264 million in SFSF funds. The following table summarizes the Title I, IDEA, VR and SFSF ARRA amounts allocated to Louisiana and as of March 31, 2010, the total amounts that were drawn down and released by Louisiana.

Table: ARRA Allocations to LA State Agencies (in millions)

Grant Title	Catalog of Federal Domestic Assistance No.	Agency	Total Allocated[4]		Total Drawn Down	Total Released to Subrecipients[5]
Title I	84.389	LDE		$177	$49	$49
IDEA	84.391	LDE		$188	$40	$40
VR	84.390	LRS		$9.9	$.640	$.640
SFSF	84.394	DOA	Education Stabilization	$388	$224	$224
	84.397		Government Services	$129	$40	$40
Total				**$891.9**	**$353.64**	**$353.64**

[3]The Department of Education awarded over $388 million in Education SFSF to the Office of the Governor. DOA awarded more than $100 million to LDE to disburse to LEAs for fiscal year 2009-2010. DOA awarded approximately $190 million to the Louisiana Board of Regents to disburse to its Institutions of Higher Education for the same timeframe. After our fieldwork, DOA allotted the remaining balance of $98 million to the Louisiana Board of Regents. We did not perform audit work at the Louisiana Board of Regents.

[4] Total Allocated includes Title I, IDEA, VR and SFSF ARRA funds for the grant award periods ending September 30, 2010.

[5] The total released to subrecipients does not reflect the dollar value of Recovery Act funds spent by the subrecipients for goods/services or otherwise investment in the economy but reflects the amount of ARRA funds disbursed by the State to applicable subrecipients.

FINDINGS

FINDING NO. 1 LDE Could Improve Oversight of LEAs to Ensure Compliance with ARRA Requirements

LDE has procedures in place to monitor subrecipients but issues were identified at three of four sites reviewed. Specifically, the issues identified at Lafayette included inaccurately reported jobs data for the first two quarters and the lack of written ARRA reporting procedures. Lafayette also needs to strengthen its security controls for its computer system. In addition, we found that Algiers' purchasing procedures were inadequate. Further, RSD had no accounting policies or procedures in place to report ARRA funds usage.

Data Quality Issues at Lafayette

Lafayette inaccurately reported ARRA Title I jobs created and retained in the first and second ARRA reporting quarters. For Title I ARRA funds, Lafayette reported part-time jobs as full-time jobs instead of calculating the "full-time equivalents" (FTE) for the part-time jobs. Specifically, Lafayette reported creating and retaining 159 full-time jobs in the first ARRA quarter, which ended September 30, 2009, but we found that 72 of the 159 identified jobs were part-time jobs. In the second quarter, which ended December 31, 2009, Lafayette reported creating and retaining 96 full-time jobs, but our analysis identified 78 of the 96 jobs as part-time jobs.

In the first ARRA quarter, Lafayette officials initially reported to LDE zero jobs created and retained with $2.6 million in SFSF funds. The number of jobs created and retained was subsequently changed to 60 jobs after Lafayette officials learned from LDE that reporting procedures required a jobs created number.

OMB guidance dated June 22, 2009,[6] states that prime recipients are required to report an estimate of jobs directly created or retained and express the estimate as FTE. Calculation of an FTE is obtained by dividing total hours worked in a job by the number of hours in a full-time schedule for that job, as defined by the recipient. OMB updated the guidance in December 2009 to provide a simplified FTE formula limiting the hours worked to the reporting quarter. The FTE calculation did not otherwise change with the updated guidance.[7]

The Title I jobs created and retained were reported incorrectly because Lafayette did not understand the formula reporting requirements. In addition, according to Lafayette's Chief Financial Officer, miscalculation of jobs created and retained resulted from confusing and conflicting verbal instructions from LDE. For example, because software used by the State to track ARRA expenditures required jobs created number to be entered for SFSF funding, Lafayette officials said they were instructed to convert the $2.6 million in SFSF funds to an estimate of jobs created. Following those instructions, Lafayette reported the $2.6 million as 60 jobs created; however, in February 2010, the estimated 60 jobs created were changed to zero in

[6] *Implementing Guidance for Reports on the Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (OMB.M-09-21), Section 5.2, published on June 22, 2009.
[7] *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates* (OMB M-10-08), was published on December 18, 2009.

the reporting system to be in compliance with updated guidance issued by LDE in January 2010. The guidance stated that recipients will no longer be required to make a subjective judgment on whether jobs were created or retained as a result of ARRA. Instead, recipients will report on jobs funded with ARRA dollars. The verbal instructions, lack of understanding for reporting of Title I ARRA funds, and Lafayette not incorporating guidance provided by LDE or published by the Department into its ARRA reporting procedures resulted in data quality issues.

ARRA Procurement Needs Strengthening at Algiers

Algiers needs to strengthen its procurement procedures for the nine charter schools it manages to ensure that the approximately $1.5 million in ARRA funds it has received are used in accordance with applicable laws, regulations, and guidance. The issues with Algiers' procurement procedures are that it uses sole-source contracting without sufficient justification and does not require verification that vendors have not been debarred or suspended from receiving Federal funds.

34 Code of Federal Regulations (C.F.R.) § 80.36(b) provides that "Grantees and subgrantees will use their own procurement procedures . . . provided that the procurements conform to applicable Federal law and the standards identified in this section."[8] 34 C.F.R. § 80.36(c)(1) requires that "all procurement transactions will be conducted in a manner providing full and open competition," and § 80.36(d)(4) provides:

> Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:
>
> (A) The item is available only from a single source;
> (B) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;
> (C) The awarding agency authorizes noncompetitive proposals; or
> (D) After solicitation of a number of sources, competition is determined inadequate.

Algiers did not comply with these requirements. Additionally, Algiers did not comply with its own procurement policy, which requires that at least three written quotes be obtained for procurements between $500 and $100,000. Algiers does not maintain adequate justification when using a sole-source contract to purchase items or services through noncompetitive means. The use of sole-source contracts without adequate analysis and documentation places Algiers at risk of not using ARRA funds in accordance with applicable regulations and increases the risk of not obtaining the best price for goods or services.

Further, 34 C.F.R. § 80.35 prohibits debarred or suspended vendors from receiving Federal funds. Although Algiers uses vendors on LDE's approved vendors list, it places a priority on using local vendors without verifying whether they have been debarred or suspended. Awarding contracts funded by Federal funds to vendors that have been identified as debarred or suspended from receiving Federal funds would put Algiers in violation of Federal regulations. Algiers could utilize the U.S. General Services Administration's Excluded Party Listing System Web site

[8] 34 C.F.R. § 80.36(b) also requires that procurement procedures reflect applicable State and local laws and regulations; however, Louisiana law, 17 Louisiana Revised Statutes § 3996.B, exempts charter schools from State procurement competition procedures.

(www.epls.gov) to determine if firms are excluded from receiving Federal contracts or federally approved subcontracts.

Recovery School District Lacked Written Policies and Procedures

RSD has not documented its policies or procedures for the accounting and reporting of payroll funded with Federal funds. The RSD follows State policies and procedures for day-to-day financial operations for the 34 schools under its jurisdiction.[9] Existing State policies and procedures were modified from a State-level educational agency to fit RSD; however, the modifications made to the State's policies and procedures were not documented.

The Louisiana Legislative Auditor issued two Management Letters to RSD that identified payroll documentation issues for the periods ending June 2008 and 2009. The letters cited RSD for failing to ensure that (1) OMB Circular A-87 payroll certifications were signed and appropriately reflected the hours worked on Federal projects; (2) employees' pay and separation dates were accurate; and (3) payroll charges were adequately documented. As a result of the payroll issues identified, overpayments were made to former employees and never recouped.[10]

According to 34 C.F.R. § 80.20(a), fiscal control and accounting procedures of sub-grantees must be sufficient to permit (1) preparation of reports required by this part and the statutes authorizing the grant, and (2) tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

During our visit to RSD in March 2010, RSD management officials indicated that modifications were made to its payroll procedures; however, the modifications were not documented. We also noted that RSD has had a high turnover of staff including two Chief Financial Officers since May 2008. Further, RSD officials stated that they are planning to spend approximately 90 percent of their ARRA funds on payroll. Because undocumented policies and procedures can change and considering past payroll audit findings, staff turnover, and the more than $4.5 million in ARRA funds awarded, RSD needs to strengthen its internal control system relating to payroll. In addition, RSD needs to implement written procedures that are clearly communicated to its staff to ensure that ARRA funds are being used in accordance with applicable laws, regulations, and guidance.

[redacted] Needs Strengthening at Lafayette to Protect Data Quality

[redacted]

According to 34 C.F.R. § 80.20(b)(3), effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and

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[9] RSD's 48 charter schools are not required to follow State policies and procedures.
[10] On November 23, 2009, RSD identified the overpayments for fiscal years 2007 through November 2009 as $575,342. The overpayments did not include any ARRA funds.

subgrantees must adequately safeguard all such property and must ensure that it is used solely for authorized purposes

Lafayette's [redacted] stated that [redacted] Lafayette has been allocated more than $19 million in ARRA funds. [redacted]

LDE Could Improve Oversight of LEAs to Ensure Compliance with ARRA Requirements

LDE could improve its on-site monitoring reviews at LEAs based on internal control weaknesses noted at Lafayette, RSD and Algiers. LDE has modified its Title I and IDEA school monitoring procedures to include ARRA funds, but these supplemental procedures do not address data quality of ARRA jobs created and retained reporting. Also, LDE officials are considering a different monitoring scheme that would look at more current data. LDE's Director of Finance stated that the new monitoring process includes equal parts of field audits, desk reviews, and a self assessment that gives LDE the ability to look at every school district every year. With more than $466 million in ARRA funds awarded to LEAs, improvements are needed in LEA monitoring to ensure that ARRA funds are used in accordance with Federal requirements.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education and the Assistant Secretary of Special Education and Rehabilitative Services require LDE to—

1.1 Strengthen its LEA monitoring process regarding (1) procedures to ensure compliance with Federal requirements and (2) accuracy and timeliness of ARRA data; and

instruct—

1.2 Lafayette and Algiers to implement written procedures specifically designed to address ARRA reporting requirements to ensure consistency and accuracy in future ARRA reporting;
1.3 Algiers to implement purchasing procedures that comply with Federal regulations including documenting justification for using sole-source contracts and documentation of cost analysis; alternative items and services considered; and why the alternatives did not meet the needs of the school;
1.4 RSD to implement and document policies and procedures specifically designed to address Federal accounting and ARRA reporting requirements; and
1.5 Lafayette to implement written procedures to require that [redacted]

Auditee Comments

LDE stated it currently has processes in place to monitor LEAs for compliance with ARRA regulations through field audits, desk audits, and technical assistance. LDE has implemented additional monitoring of ARRA funds where every LEA that received ARRA program funding will be monitored.

For Recommendation 1.1, LDE plans to strengthen its LEA monitoring. LDE will provide guidance to LEAs relating to written procurement and ARRA reporting procedures and the requirement to maintain all supporting documentation. LDE assigned a staff member from each respective program as the primary data reviewer and coordinator for the Periodic Expense Reports.

For Recommendation 1.2, LDE will communicate to each LEA the requirement to have written ARRA reporting procedures and provide technical assistance, as needed. Lafayette and Algiers will be required to submit written procedures to LDE.

For Recommendation 1.3, LDE will work with Algiers to strengthen its operating procedures manuals to supplement the policies and procedures currently developed and adopted for procurement.

For Recommendation 1.4, LDE stated that RSD has developed written procedures to address A-87 requirements and such procedures are being added to their Employee Manual.

For Recommendation 1.5, LDE stated LDE and LEAs are required to follow LDE password policy standards. LDE will contact Lafayette and share standards for password security and recommend they implement these within their district.

OIG Response

We acknowledge LDE's response that it is making improvements to its oversight of subrecipients by strengthening its audit program, reissuing guidance, adding staff to review reported data, and reviewing subrecipient procedures. Future communication with the LEAs should include reference to updated guidance from the Department and OMB.

FINDING NO. 2 LDE Needs to Improve Controls Over Data Quality to Ensure Compliance with ARRA Requirements

LDE did not have an established plan or method to ensure accurate, complete, and timely reporting of required data by its 135 LEAs[11] that received ARRA funds in fiscal year 2009-2010. LDE had 6 LEAs that did not report the required ARRA data for the first quarter ending September 30, 2009. For the third quarter ending March 31, 2010, 30 charter school LEAs (22 percent of the LEAs receiving ARRA) failed to report required ARRA reporting data. Specifically, 18 LEAs did not submit data, and 12 LEAs were prevented from submitting ARRA

[11] The 135 LEAs consists of three types of schools: parish, charter, and specialized.

data because a previous quarter submission had been rejected and not yet corrected in LDE's ARRA reporting system.

Section 1512(c) of ARRA requires data to be reported not later than 10 days after the end of each calendar quarter. Each recipient shall submit a report that includes the amount of recovery funds received that were expended or obligated to projects or activities. The quarterly reports must also have an estimate of the number of jobs created and retained by the project or activity. OMB M-09-21, § 2.10 states that non-compliance with § 1512's reporting requirement is considered a violation of the award agreement because awards made with ARRA funds have a specific term requiring such compliance. OMB M-10-8, Part 1 states that recipients who have failed to submit a § 1512 report as required by the terms of their award are considered to be non-compliant. Non-compliant recipients, including those who are persistently late or negligent in their reporting obligations, are subject to Federal action, up to and including the termination of Federal funding or the ability to receive Federal funds in the future.[12]

LDE has no provisions for enforcement of the submission policies even though it awarded more than $466 million in ARRA Title I, IDEA, and SFSF Education Stabilization Funds to its 135 LEAs. LDE officials stated that as the filing deadline approaches, Title I and IDEA program staff email each LEA that has not submitted its data; however, LDE program officials were unsure of the reason but stated that some charter schools simply did not submit required ARRA data. LDE program officials were not concerned about incomplete submission because the data reporting was cumulative. LDE considered it sufficient if reported in the following quarter. The officials also stated that they were not aware of how to enforce the reporting requirements.

OMB guidance (M-10-8) states that recipients should not report jobs created or saved on a cumulative basis and provides enforcement remedies for non-compliant recipients. Without implementing procedures for accurate and timely submission of ARRA reporting data, LDE will not be able to provide reasonable assurance that information reported in its quarterly report submissions is complete or accurate.

Recommendation

We recommend that the Assistant Secretary for Elementary and Secondary Education require LDE to implement written procedures specifically designed to address the ARRA reporting requirements to ensure consistency and accuracy in future ARRA reporting. These procedures should include enforcing policies requiring LEAs to timely submit accurate reports and promptly notifying Department officials when material omissions or significant reporting errors are discovered in the reports.

[12] OMB published additional guidance on May 4, 2010 to Federal agencies– *Holding Recipients Accountable for Reporting Compliance under the American Recovery and Reinvestment Act* (OMB M-10-17). This guidance provides additional actions and strategies for implementation to improve ARRA reporting compliance and the potential recapture of ARRA funds from noncompliant prime recipients.

Auditee Comments

LDE stated that it has established and implemented written policies and procedures to ensure consistent and accurate ARRA reporting. The ARRA Reporting Requirements policy was updated to specifically state that LDE will pursue corrective action, as outlined in OMB Memorandum M-09-21 §2.10 for LEA non-compliance. To ensure LEAs are aware of these requirements, the entire memorandum is an attachment to the policies and procedures. Specific notice to Department officials when a material omission or significant reporting error is discovered is also addressed. The policy includes implementation guidance addressing the requirements of recipient reporting, the recipient reporting process, and data quality. The recent implementation of this policy resulted in achieving 100 percent compliance for the latest reporting quarter.

OIG Response

The LDE policy update does not address the issue of promptly notifying Department officials when material omissions or significant reporting errors are discovered in the reports. The prompt notification requirement is contained in the OMB Memorandum M-9-21 but is not discussed in the LDE ARRA Reporting Requirements policy. Further, certain aspects of M-9-21 have been updated and revised by OMB Memoranda M-10-08 and 10-17. We suggest that LDE also make LEAs aware of the updated and revised guidance.

FINDING NO. 3 Division of Administration Needs to Perform Reviews of its Subrecipients to Ensure Compliance with ARRA Regulations

At the time of our review, the Division of Administration (DOA) had not developed subrecipient monitoring procedures or performed monitoring reviews at the six State agencies that received SFSF Government Services Funds (GSF). The Department awarded approximately $129 million in GSF funds to the Office of the Governor of Louisiana who designated the administration of the funds to its DOA, the administrative office for Louisiana State agencies.

According to 34 C.F.R. § 80.40(a),

> 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.

DOA did not verify the accuracy of ARRA expenditures and job data submitted by six State agencies for the first ARRA quarter. The DOA official responsible for ARRA reporting stated that data submitted by the six State agencies were assumed to be correct. DOA obtains certifications from each agency that quarterly reported data are presented in accordance with Federal requirements.

As of March 1, 2010, DOA had developed a monitoring plan and protocols for GSF subrecipients. The GSF monitoring protocol includes questions relating to fiscal oversight and reporting. DOA performed its first review in June 2010. In addition, DOA hired a staff member in the second ARRA quarter to review data submitted by the agencies. DOA's preliminary recipient monitoring schedule show plans to review all six agencies reviewed by June 2011.

Recommendation

We recommend that the Assistant Secretary for Elementary and Secondary Education require the Office of the Governor to instruct DOA to complete monitoring reviews at the six State agencies that received GSF funds.

Auditee Comments

DOA agreed that it must perform reviews of subrecipients to ensure compliance with ARRA. As noted, to meet the requirements for reporting and monitoring compliance by subrecipients of the ARRA program, the DOA hired an ARRA Coordinator. The ARRA Coordinator has developed and implemented internal control and procedures for the reporting and subrecipient monitoring requirements of the program.

A monitoring plan was developed to monitor the six subrecipient agencies that received reimbursement from the SFSF-GSF program. The first monitoring visit is complete, and the report has been issued. The second visit is in progress, and DOA is effectively pursuing the completion of one monitoring visit for each of the six subrecipients of the SFSF-GSF Program by June 30, 2011.

OIG Response

The DOA comments were responsive to the recommendations.

FINDING NO. 4 Louisiana Rehabilitation Services Lacks Sufficient Controls Over Tracking ARRA Funds

LRS does not have sufficient controls to provide reasonable assurance that VR ARRA funds can be tracked. The LRS accounting process does not track ARRA expenditures separately from non-ARRA expenditures. LRS uses both computer-generated and manual journal entries to account for VR ARRA funds. LRS uses a computer system (referred to as AWARE) to manage clients' cases and to support delivery of vocational rehabilitation services. Data on its clients that receive services and vendors that provide the services are maintained in this computer system. Services to be provided to clients are entered into the system with a unique code identifying the service. Once services are provided, LRS electronically transfers payment data to the State computer system to issue vendors payments.

ARRA funding codes are not assigned in the LRS system. Instead, ARRA funded services are identified when payment data is transferred to the State computer system. Once the data are electronically transferred, LRS makes manual entries to the State computer system to identify specific service codes designated by LRS as funded by ARRA. LRS then requests reimbursement from the Department for the VR ARRA services. Once the Federal draw down is received, LRS makes another manual entry to classify the deposit as VR ARRA funds received.

LRS' plan was to use the VR ARRA funds on or after July 1, 2009, to pay for on-the-job training and vocational rehabilitation services for eligible clients placed in Order of Selection[13] Groups I & II. LRS believes that, because all of the on-the-job training services are funded with ARRA, they can use the code assigned to these services as a way to track clients that received ARRA funded services in its computer system. However, unless all services provided to clients in an Order of Selection Group are funded by ARRA then the code assigned to the Order of Selection Group cannot be used as a way to track services funded with ARRA funds.

According to 34 C.F.R. § 80.20(a), a State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its sub-grantees and cost-type contractors, must be sufficient to permit tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. Departmental guidance on VR ARRA states that all ARRA funds must be spent with an unprecedented level of transparency and accountability. Accordingly, recipients of ARRA funds must maintain accurate, complete, and reliable documentation of all ARRA expenditures. Recipients are also required to separately account for, and report on, how ARRA funds are spent.

The LRS current accounting process does not separately account for ARRA funds and can only track ARRA clients and expenditures if the service provided is completely ARRA funded. Services partially funded by ARRA and ARRA vendor data cannot be tracked. LRS does maintain in its computer system records of services provided to clients and the related expenditures for the services. In addition, LRS does not assign or track ARRA funds electronically. LRS assigned ARRA only in the State's computer system by manual journal entries after the services have been paid. By not identifying client services paid with VR ARRA funds upfront, LRS' accounting for VR ARRA funds is cumbersome and susceptible to errors and puts VR ARRA funds at risk of not being used as intended or reported correctly.

We believe that identifying clients served by ARRA will be difficult if not impossible when LRS starts using ARRA funds to pay for services that are partially funded by ARRA. LRS will no longer be able to use its current coding system to identify services funded by ARRA. Individual client data will need to be reviewed to separate services funded by ARRA from services not funded by ARRA. Also, because ARRA fund codes are not assigned in LRS's computer system, LRS will not be able to track ARRA vendors, which may result in inaccurate vendor data being reported to FederalReporting.gov.

Recommendation

We recommend that the Assistant Secretary for Special Education and Rehabilitative Services require Louisiana's Department of Social Services to implement policies and procedures for LRS to modify the current accounting system to ensure fund-specific VR ARRA accounting codes are utilized upfront for each transaction involving VR ARRA funds.

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[13] LRS follows an "Order of Selection" for providing vocational rehabilitation services. This means that individuals with the most significant disabilities are given a priority over those with less significant disabilities, as required by the Rehabilitation Act of 1973.

Auditee Comments

LRS did not concur with the finding. According to LRS, (1) the draft report did not fully document its plan to use the ARRA funds, and (2) the AWARE Case Management System provided the means to identify who would receive services provided by ARRA funds. LRS stated that more than half of its ARRA funds have been spent by September 30, 2010. LRS also stated that it is on target to spend the remaining ARRA funds by September 30, 2011.

OIG Response

We have modified our description of LRS' planned use of funds. However, during our fieldwork we were shown a flowchart and the process was explained to us concerning the AWARE Case Management System. The flowchart and process indicated that clients who would receive services provided by ARRA funds can be identified only in the following cases: (1) all clients who receive the same type service are provided that service with ARRA funds or (2) all clients in an Order of Selection Group only receive services provided by ARRA funds. Because the additional information has not demonstrated how the AWARE Case Management System provides the means to identify in all cases who receive services funded by ARRA, we have not changed our recommendation.

OTHER MATTERS

Controls Over Cash Management Need to Take into Account the LEAs' Cash Needs

LDE was responsible for disbursing more than $100 million in SFSF Education Stabilization Funds in fiscal years 2009-2010. LDE disbursed more than $75 million, as of March 31, 2010, in SFSF to its LEAs without considering their cash needs. LDE divided the SFSF funds awarded to each LEA into 12 equal allocations and increased its Minimum Foundation Program[14] payments to LEAs by the SFSF monthly allocations in October 2009. LDE does not have procedures in place to assess LEAs' cash needs before disbursing SFSF funds.

The cash management requirement prescribed by 34 C.F.R. § 80.21 states the basic standard and the methods under which grantees will make payments to sub-grantees. The basic standard is that the "[m]ethods and procedures for payments shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or sub-grantee…." Grantees and sub-grantees shall be paid in advance if they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time between receipt and disbursement of the funds to pay program costs. The Department reinforced these cash management requirements in its *Guidance on the State Fiscal Stabilization Fund Program* issued in April 2009. The guidance encourages States to make "prompt allocations to local educational agencies" to ensure that the expenditures and activities under the Education Stabilization program occur as quickly as possible consistent with prudent management, under ARRA § 807(a)(2). The guidance also states "A State must have an effective system for managing the flow of funds that ensures that entities are able to draw down funds as needed to pay program costs but that also minimizes the time that elapses between the transfer of the funds and their disbursement by the grantee or subgrantee…."

Although the Department has encouraged prompt allocation, it is important that grantees do not draw and disburse ARRA funds before they are needed. By not determining each LEA's cash needs prior to disbursing SFSF cash advances, LDE did not ensure that LEAs are not maintaining excess cash. Further, when Federal funds are drawn down and disbursed to LEAs in advance of the LEAs' immediate cash needs, there is an additional cost to the U.S. Treasury and an increased risk that SFSF could be misused.

Problems With Required Data Universal Numbering System Numbers

Problems with required Data Universal Numbering System (DUNS) numbers resulted in both LDE and LRS reporting incomplete data for the quarter ending September 30, 2009. LDE had two charter schools that experienced DUNS number errors when attempting to submit first quarter reports. The two schools were unable to report their first quarter information. LDE corrected the DUNS errors for the second quarter ending December 31, 2009. The LRS DUNS number was also rejected by FederalReporting.gov when attempting to submit first quarter reports in October 2009. Consequently, LRS did not report any first quarter information. LRS resolved its DUNS number issue and was able to submit their second quarter data in January 2010.

[14] The Minimum Foundation Program is a formula adopted by the State Board of Elementary and Secondary Education and approved by the Legislature which determines the cost of a minimum foundation program of education in all public elementary and secondary schools and helps to allocate the funds in monthly payments to the LEAs. LEAs are afforded the flexibility to spend these funds as they determine to be in their best interest while satisfying all mandated program requirements.

SCOPE AND METHODOLOGY

Our audit covered LDE's and other State of Louisiana agencies' designs for systems of internal control over the administration and use of ARRA funds as of March 31, 2010. We assessed the design of State-level internal control that LDE, the Department of Social Services' LRS, and the Office of Governors' DOA planned to use in administering funds received under ARRA. We assessed the design of internal control over the administration of ARRA funds only for the Title I, IDEA, Vocational Rehabilitation Act, and SFSF programs. We assessed the design of State-level internal control over data quality, cash management, subrecipient monitoring, and use of funds. In addition, we assessed the design of internal control at Algiers[15] and three LEAs: East Baton Rouge School System, Lafayette and RSD.

Because our audit objective was to assess the design of internal control, we performed limited tests to determine whether internal control was put into place but did not perform sufficient tests to determine whether internal controls were implemented effectively. Also, during and subsequent to our fieldwork, LDE, LRS, and the DOA were continuing the process of designing and implementing internal control over their administration of ARRA funds. Thus, the plans and processes that we reviewed during our audit could be substantially modified or not implemented as designed. Because of the limited nature of our review and the other factors mentioned, it is possible that other opportunities for improvement in the State and local-level systems of internal control could exist but not be identified by our audit.

To assess the design of the control, we:

- Reviewed prior single audits and applicable reports issued by ED-OIG, LDE Bureau of Internal Audit, Louisiana Legislative Auditor, Independent CPA firms, LDE monitoring reports, and the Department's Student Achievement and School Accountability monitoring report for Louisiana;
- Identified funds allocated and awarded under ARRA to LDE, LRS, and DOA for the Title I, IDEA, Vocational Rehabilitation, and SFSF programs;
- Gained an understanding of the law, regulations, Department guidance, and OMB Circulars relevant to the audit's objectives;
- Interviewed LDE's program and fiscal officials for Title I, IDEA, and SFSF programs; DOA's officials for SFSF; and LRS' officials for VR;
- We also interviewed officials from the Louisiana's Office of Finance & Support Services, Louisiana's Legislative Auditors, and the Department's Office of Special Education and Rehabilitative Services;
- Interviewed program and fiscal personnel at Algiers and three LEAs;
- Reviewed organizational charts for LDE, LRS, Algiers, and three LEAs;
- Obtained and reviewed written policies and procedures related to data quality, cash management, subrecipient monitoring, and use of funds for Title I, IDEA, Vocational Rehabilitation, and SFSF from LDE, LRS, Algiers, and three LEAs, as applicable;
- Reviewed answers to questions provided to LDE, LRS, DOA, Algiers, and three LEAs related to data quality, cash management, subrecipient monitoring, and use of funds; and

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[15] Algiers is a charter school association that manages nine schools. LDE considers each of these schools as separate LEAs.

- Obtained and reviewed Louisiana's approved SFSF application.

We conducted our work at LDE, LRS, DOA, Algiers and the three selected LEAs from November 2009 through March 2010.[16] We discussed the results of our review and recommendations with LDE, LRS, and the Office of the Governor of Louisiana on June 14, 2010.

We assessed the reliability of computer-processed data by (1) observing the entry of data into the State's electronic Grant Management System, (2) reviewing the process used by LEA's to calculate jobs created, and (3) reviewing the process used by LEAs to extract expenditure data from their accounting systems. We determined that the data was sufficiently reliable for the purposes of this report.

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.

[16] We conducted our work at LDE, LRS, and DOA; East Baton Rouge Parish School System in Baton Rouge, Louisiana; Lafayette Parish School System in Lafayette, Louisiana; and at the Recovery School District and Algiers Charter School Association in New Orleans, Louisiana.

Enclosure:
DOA's Comments on Preliminary Version of Report

BOBBY JINDAL
GOVERNOR

PAUL W. RAINWATER
COMMISSIONER OF ADMINISTRATION

State of Louisiana

Division of Administration
Office of the Commissioner

August 25, 2010

Mr. Keith Maddox
Regional Inspector General for Audit
U.S. Department of Education
1999 Bryan Street, Suite 1440
Dallas, Texas 75201

Subject: Response to the United States Department of Education, Office of Inspector General Audit Report entitled *Systems of Internal Control Over Selected ARRA Funds in the State of Louisiana* **(Control Number ED-OIG/A06K0001)**

Dear Mr. Maddox:

The State of Louisiana Division of Administration (DOA) would like to thank you and your staff for conducting an audit of the state's systems of internal control over selected American Recovery and Reinvestment Act of 2009 (ARRA) funds.

We have reviewed the preliminary audit report that presents the results of your audit. This letter includes written comments we would like to offer for consideration in the final report. One finding and recommendation was included in the report that relates to DOA's subrecipients of the State Fiscal Stabilization Fund (SFSF) - Government Services Funds (GSF) Program under the ARRA (Finding No. 4, page 11 of 15). The finding is titled, "Division of Administration Needs to Perform Reviews of its Subrecipients to Ensure Compliance with ARRA Regulations."

We concur that the DOA must perform reviews of subrecipients to ensure compliance with ARRA regulations, and we provided evidence that these reviews are being performed. The finding indicates that the audit began in November 2009. The DOA began reimbursing subrecipients with SFSF-GSF funds late in September 2009. As noted, to meet the requirements for reporting and monitoring compliance by subrecipients of the ARRA program, the DOA hired an ARRA Coordinator. The ARRA Coordinator has developed and implemented internal controls and procedures for the reporting and subrecipient monitoring requirements of the program.

A monitoring plan was developed to monitor the six subrecipient agencies that received reimbursement from the SFSF-GSF program. In addition, a schedule of monitoring visits was established to perform a monitoring visit to each of the six subrecipients by June 30, 2011. The first monitoring visit is complete, and the report has been issued. The second visit is currently in progress. We are effectively pursuing the completion of one monitoring visit for each of the six subrecipients of the SFSF-GSF Program by June 30, 2011.

The audit report includes a recommendation that "the Assistant Secretary for Elementary and Secondary Education require the Office of the Governor to instruct DOA to complete monitoring reviews at the six state agencies that received GSF funds." As previously stated, we anticipate completing the monitoring visits for each subrecipient by June 30, 2011; thus, DOA is already performing reviews of subrecipients to ensure compliance with the ARRA regulations.

We appreciate your thorough review of the state's systems of internal control over selected American Recovery and Reinvestment Act of 2009 (ARRA) funds. We intend to continue the successful actions we have already taken to improve our management of ARRA programs.

Sincerely,

/s/

Paul Rainwater
Commissioner of Administration

PR/mvg

Cc: Mark Brady, Deputy Commissioner
Steven Procopio, Interim Deputy Undersecretary of Finance
Barry Dusse, Director, OPB
Afranie Adomako, Director, OSRAP
Marianne Patin, Director, OFSS
Devery Pierce, Asst. Director, OSRAP
Belinda Olivier, Asst. Director, OFSS
Dianne Shelmire, ARRA Coordinator
Marsha Guedry, Internal Audit Administrator

Enclosure:
LRS's Comments on Preliminary Version of Report

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Louisiana Rehabilitation Services

September 2, 2010

Keith M. Maddox
Regional Inspector General for Audit
1999 Bryan Street, Suite 1440
Dallas, TX 75201

Re: Systems of Internal Control Over Selected ARRA Funds in the State of Louisiana, ED-OIG/A06K0001

Dear Mr. Maddox:

This is in response to the preliminary audit report titled "Systems of Internal Control Over Selected ARRA Funds in the State of Louisiana" dated August 13, 2010. The response specifically addresses the finding related to the Vocational Rehabilitation Program under the auspices of Louisiana Rehabilitation Services (LRS).

Finding No. 5 – Louisiana Rehabilitation Services Lacks Sufficient Controls Over Tracking ARRA Funds

LRS does not concur with this finding for the following reasons:

The Preliminary Audit Report does not fully document LRS' plan to use the ARRA funds. In a memo dated May 4, 2009, LRS documented that ARRA funds would be designated; (1) for the provision of services for those consumers in Order of Selection Groups I & II, and (2) for the provision and enhancement of On-the-Job Training opportunities for eligible LRS consumers. The audit report only indicates that funds would be expended for on-the-job training and does not mention the other expenditure category (services for consumers in Order of Selection Groups I and II).

The AWARE Case Management System provides the means to identify on the front end those consumers who would receive services provided by ARRA funds. Consumers determined eligible for vocational rehabilitation services and placed in Order of Selection Groups I & II on or after July 1, 2009 were identified on the front end to receive ARRA funded services. Consumers who received on-the-job training services on or after July 1, 2009 were identified on the front end to receive ARRA funded services.

The Preliminary Report also indicates that "LRS will need to designate other services to be funded with ARRA to avoid having an excessive amount of funds on hand at the end of the award period." The Governor of the State of Louisiana required state agencies receiving ARRA funds to use half of the total award for State Fiscal Year 2010 and the other half for State Fiscal

Year 2011. The preliminary report accurately documents that at the time of the audit, LRS had expended approximately $640,000; however, it should be noted that this amount was only for on-the-job training services and did not reflect ARRA expenditures for consumers in Order of Selection Groups I & II. At the end of SFY 2010 approximately $3.1 million was spent on services provided to consumers in Order of Selection Group II and approximately $1 million was spent on services provided to consumers in Order of Selection Group I. Approximately $900,000 was spent on on-the-job training services. Approximately $5 million was spent in the first year to serve over 5000 individuals with disabilities. LRS is on target to spend the remaining $4.9 million in ARRA funds by September 30, 2010.

LRS sincerely appreciates the opportunity to review and comment on the preliminary audit report. We are committed to strengthening the systems of internal control to provide reasonable assurance of compliance with applicable laws, regulations, and guidance and assure accountability and transparency in the use of ARRA funds. If you have any questions, or need additional information, please contact Ken York at (225) 219-2231 or kyork@lwc.la.gov

Sincerely,

Roseland Starks
LRS Director

RS:KY

Enclosure:
LDE's Comments on Preliminary Version of Report
Attachments Not Included But Available Upon Request

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August 27, 2010

Mr. Keith Maddox
Regional Inspector General for Audit
US Department of Education
Office of Inspector general
1999 Byran [sic] Street, Suite 1440
Dallas, TX 75201

Dear Mr. Maddox:

This letter is being provided by the Louisiana Department of Education regarding the draft audit entitled "Systems of Internal Control over Selected ARRA Funds in the State of Louisiana." We take seriously the administration and management of these federal funds. We appreciate being provided the opportunity to comment on these issues and are committed to addressing each one.

Response to Audit Report ED-OIG/A06K0001

Finding 1.1(a)

Recommendation 1.1 (a) – LDE should strengthen its LEA monitoring process regarding established procedures to ensure compliance with Federal requirements.

Response:
The Louisiana Department of Education currently has processes in place to monitor LEAs for compliance with ARRA regulations. As part of the LEA monitoring process, the LDE performs field audits, desk audits, and technical assistance. The process of selecting which LEAs will be monitored each year requires the consideration of various risk factors and the rotational cycle. The LDE currently requests and reviews the LEA's written procurement policy, tests a sample of expenditures to the supporting documentation, and determines if the test items are allowable and in compliance with the LEA's policy. Contracts funded under ARRA are reviewed to determine if they are awarded as fixed price contracts through the use of competitive procedures. The LDE audit staff also tests salary expenditures specifically for compliance with OMB Circular A-87 requirements, and altered the existing fiscal monitoring audit program to include a review of ARRA expenditures to be performed at the same time as the fiscal monitoring.

Because ARRA programs are new and the associated risk is high, the LDE has implemented additional monitoring of ARRA funds whereby every LEA that received ARRA program funding during the 2009-2010 fiscal year will be monitored for at least one ARRA program based on a risk analysis relative to the amount of ARRA funding allocated and requested for reimbursement.

In an effort to strengthen its LEA monitoring process to ensure compliance with Federal requirements, the LDE plans to review and revise, as necessary, the subrecipient monitoring audit program used to monitor ARRA funds. Any revisions made will be for the purpose of ensuring greater alignment with the current Federal compliance requirements. The LDE audit staff will update its field audit and desk audit procedures to include: (1) testing that the LEA is complying

Mr. Keith Maddox
August 27, 2010
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with its procurement policy and ensuring the policy complies with Federal compliance requirements, including suspension and debarment, where applicable; (2) reviewing the LEA's written policies and procedures that establish internal controls over payroll to ensure compliance with Federal compliance requirements; (3) reviewing a sample of the reported ARRA data to test for reasonableness; and (4) reviewing the LEA's documented ARRA reporting procedures.

To tailor its technical assistance more toward the ARRA funds, the LDE audit staff will reissue the guidance on sole source procurement and OMB A-87 time distribution requirements (*see Attachment A)* to the LEAs. Additionally, the LDE will provide guidance to the LEAs notifying them of the requirement to have written procurement and ARRA reporting procedures that ensure compliance with Federal requirements. Although prior guidance disseminated did not specifically identify that written ARRA reporting procedures are required, we recognize they are necessary to ensure adequate internal controls over the quality and timelines of the data. In addition, the LEAs will be reminded to maintain all supporting documentation for reporting and procurement procedures, including proof of consideration of suspension and debarment. As confirmation that these requirements have been clearly communicated, the LDE will schedule a conference call with LEA staff to reiterate these requirements and extend an opportunity to the LEAs to inquire and obtain a clear understanding of the requirements.

Finding 1.1(b)

Recommendation 1.1 (b) – The LDE should strengthen its LEA monitoring process regarding adequacy and timeliness of ARRA data.

Response:

The LDE has strengthened the ARRA data monitoring process to ensure adequate and timely ARRA data submission. This was accomplished by first assigning a dedicated LDE staff member from each respective program as the primary data reviewer and coordinator for the Periodic Expense Reports (PERs). The PERs are used to collect LEA-level data through the Department's Electronic Grants Management System (eGMS). Additional communication with the LEAs included reference to OMB Circular M-09-21, §2.10 regarding possible corrective action available to the LDE in the event LEAs were noncompliant with reporting requirements. This information was utilized by the respective program staff and further communicated to the LEAs that demonstrated the potential of not meeting the required reporting deadlines *(see Attachment B).* This process resulted in achieving 100% compliance for the latest reporting quarter.

Finding 1.2

Recommendation 1.2 – Lafayette and Algiers to implement written procedures specifically designed to address ARRA reporting requirements to ensure consistency and accuracy in future ARRA reporting.

Response:

The LDE will communicate to each of these LEAs the requirement to have written ARRA reporting procedures. Technical assistance will be provided to these LEAs, as needed, in the development of these procedures. Lafayette and Algiers will be required to submit these written procedures to the LDE as evidence they have complied with the requirements. The LDE will

Mr. Keith Maddox
August 27,2010
Page 3

review these procedures for completeness to ensure they comply with ARRA reporting requirements.

Finding 1.3

Recommendation 1.3 -Algiers to implement purchasing procedures that comply with Federal regulations including justification for using of sole source contracts and documentation of cost analysis; alternative items and services considered; and why the alternatives did not meet the needs of the school.

Response: LDE will work with Algiers to strengthen its operating procedures manuals to supplement the policies and procedures currently developed and adopted for procurement. This includes:

1. Developing detailed written procedures to help ensure procurement activities are performed in accordance with statutes, rules, and management's directives including a revision of control procedures to record the changing requirements for procurements.
2. Incorporating a cost analysis into the process prior to contracting to ensure that prices paid to contractors are fair and reasonable including a market survey (P.P.I., c.P.I. or other recognized index). The analyses should be documented and maintained in the contract files especially for sole source contracts. Since they are not competitively solicited, this process ensures price reasonableness.
3. Creating a sole source checklist/form to support justification of only one contractor with multiple levels of approvals including but not limited to the Chief Procurement Officer.
4. Developing a Debarment and Suspension Policy.
5. Developing sound practices for documentation and retention of documents to substantiate compliance with internal purchasing procedures.

Finding 1.4

Recommendation 1.4 -RSD to implement and document policies and procedures specifically designed to address Federal accounting and reporting requirements.

Response:

RSD has now developed written procedures to address the concerns on A-87 requirements *(see Attachment* C) and such procedures are being added to their Employee Manual. The written procedures include information on the critical importance of the time sheets, and also the responsibilities of the employee, the school managers and division directors in this process.

Finding 1.5

Recommendation 1.5 -Lafayette to establish written procedures to [redacted]

Response:

[redacted]

[redacted] The LDE will contact Lafayette and share these standards [redacted] with them also recommending they implement these within their district.

Finding 2

Recommendation 2 -The LDE should implement written procedures specifically designed to address the ARRA reporting requirements to ensure consistency and accuracy in future ARRA reporting. These procedures should include enforcing existing policies requiring LEAs to timely submit accurate reports and promptly notifying Department officials when material omissions or significant reporting errors are discovered in the reports.

Response:

The LDE has established and implemented written policies and procedures to ensure consistent and accurate ARRA reporting *(see Attachment B).* Recently, the ARRA Reporting Requirements policy was updated to specifically state that the LDE will pursue corrective action, as outlined in OMB Circular M-09-2l §2.l0 for LEA non-compliance. To ensure the LEAs are aware of these regulations, the entire circular is an attachment to the policies and procedures. Specific notice to Department officials when a material omission or significant reporting error is discovered is also addressed. Additionally, the policy includes implementation guidance addressing the requirements of recipient reporting, the recipient reporting process, and data quality requirements. The recent implementation of this policy resulted in achieving 100% compliance for the latest reporting quarter.

Finding 3

Recommendation 3 -The LDE should implement cash management procedures that consider the cash needs of the LEAs before disbursing ARRA funds.

Response:

The Louisiana Department of Education (LDE) has implemented adequate cash management procedures that take into account the cash needs of the LEAs.

- Prior to the disbursement of SFSF funds, the LDE had several conference calls with LEA business managers to discuss individual needs and abilities for spending SFSF funds so that SFSF fund disbursements could be aligned with the actual cash needs. LEAs were notified in the conference calls that they could request a decrease in the monthly scheduled funding if necessary in order to maintain compliance. At least one such request was granted.
- From these communications with the LEAs, the LDE determined that no SFSF funds should be released until October 2009. The first payroll for most districts was September 2009. Releasing SFSF funds at the end of October allowed LEAs to have payroll expenditures for September and October before receiving SFSF funds.
- Districts were also notified *(see Attachment* £) they could claim an amount greater than the estimated monthly SFSF funds if they incurred allowable expenditures in a different timeframe than monthly. Several districts did request changes from their regularly monthly scheduled

SFSF payments because they expended funds earlier than the regularly scheduled payments.

- All SFSF funds for LDE were expended in FY2009-! O. No SFSF funds remain for FY2010-11.

Thank you for this opportunity to offer our thoughts and comments regarding these matters. Should you have any questions, please contact Beth Scioneaux: at 225-342-3617 or via Email at beth.scioneaux@la.gov.

Sincerely,

Paul G. Pastorek
State Superintendent of Education

PGP:BS

C Ollie Tyler, Deputy Superintendent of Education
Beth Scioneaux

Anyone knowing of fraud, waste, or abuse involving U.S. Department of Education funds or programs should call, write, or e-mail the Office of Inspector General.

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