



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



American Recovery and Reinvestment Act of 2009

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

Final Audit Report



Louisiana State Capitol Building

ED-OIG/A06K0003

April 2011

Abbreviations, Acronyms, and Short Forms Used in the Report

ARRA	American Recovery and Reinvestment Act of 2009
Calcasieu	Calcasieu Parish School Board
C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
East Baton Rouge	East Baton Rouge Parish School District
ESF	Education Stabilization Fund
FTE	Full-time equivalents
Jefferson	Jefferson Parish Public School System
IDEA	Individuals with Disabilities Education Improvement Act of 2004, Part B
ISU	Implementation and Support Unit
LDE	Louisiana Department of Education
LEA	Local Educational Agencies
MFP	Minimum Foundation Program
OESE	Office of Elementary and Secondary Education
OMB	Office of Management and Budget
OMB A-87	Office of Management and Budget Circular A-87 Cost Principles for State, Local, and Indian Tribal Governments
OMB M-09-21	Implementing Guidance for the Reports on the Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009
OSERS	Office of Special Education and Rehabilitative Services
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



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
Dallas Audit Region

April 11, 2011

Paul G. Pastorek
Superintendent
Louisiana Department of Education
1201 North Third Street
Baton Rouge, Louisiana 70804-9064

Dear Superintendent Pastorek:

This **final audit report** presents the results of our review titled “Louisiana: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs.”

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.

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

Alexa Posny, Ph.D.
Assistant Secretary for Special Education and
Rehabilitative Services
U.S. Department of Education
400 Maryland Ave., S.W.
Washington, DC 20202

Ann Whalen
Deputy Director for Programs
Implementation and Support Unit
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/

Keith Maddox
Regional Inspector General for Audit

Enclosure

**Louisiana: Use of Funds and Data Quality for
Selected American Recovery and Reinvestment Act Programs**
Control Number ED-OIG/A06K0003

PURPOSE

The American Recovery and Reinvestment Act of 2009 (ARRA) places a heavy emphasis on accountability and transparency. Federal agencies and others who are affected by ARRA have the responsibility to ensure that ARRA funds reach intended recipients and achieve intended results. This includes effectively implementing and controlling funds at the Federal, State, and local levels; 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. Proper systems of internal control are essential for ensuring ARRA funds are administered properly and used in ways that comply with the requirements of ARRA.

The purpose of our audit was to determine whether the Louisiana Department of Education (LDE) and selected local educational agencies (LEA) ensured (1) ARRA funds were used in accordance with applicable laws, regulations, and guidance; and (2) ARRA data reported by recipients and subrecipients were accurate, reliable, and complete. Our audit covered the period July 1, 2009, through June 30, 2010. The LEAs selected for review were the Jefferson Parish Public School System (Jefferson), East Baton Rouge Parish School District (East Baton Rouge), Calcasieu Parish School Board (Calcasieu), and the Recovery School District (RSD).

RESULTS IN BRIEF

The four LEAs we reviewed generally used ARRA funds in accordance with applicable laws, regulations, and guidance. However, we did identify instances of noncompliance with applicable Federal requirements resulting in more than \$179,757 in unsupported payroll expenses paid with ARRA Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (Title I); Individuals with Disabilities Education Act, Part B (IDEA); and State Fiscal Stabilization Fund (SFSF) funds. In addition, at RSD, we identified more than \$29,000 in unallowable expenses paid with ARRA IDEA funds.

LDE and the selected LEAs did not ensure that data reported were accurate, reliable, and complete. Jefferson, East Baton Rouge, Calcasieu, as well as LDE, all had data quality errors in the expenditure information that were reported by LDE to FederalReporting.gov for the first four ARRA reporting periods. The LEAs understated expenses for the first four reporting quarters. In addition, all four LEAs visited incorrectly reported jobs saved or created to LDE. LDE did not have internal controls to ensure that policies or procedures were followed to verify and report required ARRA data elements to include expenditures, jobs created/retained, and for reporting errors identified after submission of reports.

We provided a copy of our draft report to LDE for review and comment on February 18, 2011. LDE concurred with Finding No. 1 and its recommendations; it partially concurred with Finding No. 2 and its recommendations. LDE described corrective actions it has implemented or will implement regarding both findings. Based on information and comments received, we modified Finding No. 2 to include LDE's instructions to the LEAs regarding the timeline for submission of

quarterly data. In addition, we modified Recommendation 2.1 to require LDE to establish and implement controls to ensure policies and procedures are followed and reworded Recommendation 2.2 to address the date at which data accumulation is discontinued for reporting data. LDE also provided comments to issues identified in the Other Matters section of the report. As a result, we removed the subsection discussing Louisiana's Treasury-State Cash Management Agreement. LDE's comments are summarized at the end of each finding, and the entire narrative is included as an Enclosure to this report. Because of the voluminous nature of the Attachments to Louisiana's comments, we have not included them in the Enclosure; however, copies are available on 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 accountability and transparency in government spending. To ensure transparency and accountability of ARRA spending, recipients are required to submit quarterly reports on ARRA awards, spending, and jobs impact (§ 1512 of ARRA). According to the Office of Management and Budget (OMB), the reports should contain detailed information on the projects and activities funded by ARRA and will provide the public with transparency into how Federal dollars are being spent. The reports are also intended to help drive accountability for the timely, prudent, and effective spending of ARRA funds.

On April 1, 2009, the U.S. Department of Education (Department) awarded LDE 50 percent of its ARRA Title I and IDEA funds allocation. According to the Grant Award Notifications, Louisiana received ARRA Title I and IDEA 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 was allocated more than \$177 million in ARRA Title I funds and more than \$188 million in ARRA IDEA funds. As of June 30, 2010, LDE had drawn down from the Department and distributed more than \$73 million in ARRA Title I and approximately \$62 million in ARRA IDEA funds to LEAs. The Governor's Office was awarded \$388 million in SFSF Education Stabilization Fund (ESF) funds for the period ending in September 2010. The Governor's Office planned to use \$100 million of its \$388 million in the SFSF ESF allocation to restore the level of State support for elementary and secondary education in FY 2010 to FY 2008 levels.

Table 1 identifies the ARRA funding allocated to LDE, the amount drawn down from the Department, and the amount disbursed to subrecipients as of June 30, 2010.

Table 1: ARRA Allocations to LDE (in millions)				
Grant Title	Catalog of Federal Domestic Assistance No.	Total ARRA Allocation	Total Drawn Down from the Department	Total Disbursed to Subrecipients
Title I	84.389	\$177	\$73	\$73
IDEA	84.391	\$188	\$62	\$62
SFSF ESF	84.394	\$100 ¹	\$100	\$100
Total		\$465	\$235	\$235

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – Louisiana LEAs Could Not Support Some ARRA Expenditures

The four LEAs we visited used ARRA IDEA, Title I, and SFSF funds to pay teacher salaries but did not maintain documentation to support \$179,757 in payroll costs. Jefferson, East Baton Rouge, and Calcasieu did not maintain documentation to support some of their ARRA IDEA and Title I payroll expenditures, while RSD could not support some payroll expenditures paid with ARRA IDEA and SFSF. RSD also used ARRA IDEA funds to pay \$29,301 in unallowable payroll expenditures to non-IDEA employees.

We selected and reviewed a total of 261 payroll expenditures, at the 4 LEAs, and found inadequate documentation for 61 (23 percent) of the payroll expenditures tested. Specifically, the LEAs did not have time and effort documentation, the applicable semi-annual certifications, personnel activity reports, or attendance documentation for the employees paid with ARRA IDEA, Title I, and SFSF. Details regarding the inadequate documentation at the four LEAs can be found in the Appendix.

Table 2 identifies the amount of unsupported ARRA payroll expenditures for each LEA by program:

Table 2: Unsupported ARRA Payroll Expenditures					
Program	Jefferson	East Baton Rouge	Calcasieu	RSD	Totals
IDEA	\$20,765	\$834	\$13,092	\$86,300	\$120,991
Title I	\$31,376	\$7,979	\$14,046		\$53,401
SFSF				\$5,365	\$5,365
Total	\$52,141	\$8,813	\$27,138	\$91,665	\$179,757

¹ The \$100 million represents the amount of SFSF ESF funds LDE was allocated for the LEAs out of the entire \$388 million in SFSF ESF funds awarded to the Governor's Office.

In addition, RSD used \$29,301 in ARRA IDEA funds to pay unallowable payroll expenditures for three non-IDEA employees. The three employees paid with ARRA IDEA funds either allocated their time to Restart, Minimum Foundation Program (MFP),² or the timekeeping form did not list a program charged for the employees' time. RSD was unable to provide documentation to support that these employees could be paid with ARRA IDEA funds.

OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Government" (OMB A-87), identifies the principles for determining allowable costs for the grants to a State.³ Attachment B (8)(h)(3) of OMB A-87 requires periodic, at least semi-annual, self-certifications of time and effort by employees who work solely on a single Federal grant. Attachment B (8)(h)(4) of OMB A-87 requires employees that work on multiple activities or cost objectives to support the distribution of their salaries or wages by personnel activity reports or equivalent documentation. Attachment A(C)(1)(j) of OMB A-87 requires that all expenditures of the Federal grant be adequately documented. Although OMB A-87 does not specifically apply to SFSF funds, the Department's guidance dated December 24, 2009, entitled "Guidance for Grantees and Auditors State Fiscal Stabilization Fund Program," states that records must be kept to support salaries in the same manner as records that are kept for personnel performing similar duties that are paid with State and local funds. In Louisiana, LEA staff paid with only State and local funds are required to maintain attendance documentation.

Although Jefferson did not have a semi-annual certification process, East Baton Rouge, Calcasieu, and RSD did have semi-annual certification processes in place, but the LEAs did not always follow their own policies and procedures. Calcasieu and East Baton Rouge did not always follow other aspects of their time and effort policy as well. As a result, Jefferson, East Baton Rouge, Calcasieu, and RSD used ARRA IDEA, Title I, and SFSF funds to pay teacher salaries but did not maintain documentation to sufficiently support \$179,757 in payroll costs. In addition, RSD used IDEA ARRA funds to pay the salary of non-IDEA employees resulting in \$29,301 in unallowable payroll expenditures.

RECOMMENDATIONS

We recommend that the Assistant Secretary for the Office of Special Education and Rehabilitative Services (OSERS) in conjunction with the Assistant Secretary for the Office of Elementary and Secondary Education (OESE) and the Director of the Implementation and Support Unit (ISU) require LDE to —

- 1.1 Provide documentation to adequately support \$179,757 in ARRA Title I, IDEA, and SFSF payroll expenditures or return the funds to the Department,
- 1.2 Return \$29,301 of unallowable ARRA IDEA payroll expenditures to the Department, and
- 1.3 Ensure that all LEAs provide training to appropriate staff regarding Federal payroll requirements.

² MFP is the State general education aid.

³ The cost principles in OMB A-87 are codified in Title 2 of the Code of Federal Regulations (C.F.R.), Part 225.

Auditee Comments:

LDE concurred with this finding and all three recommendations. For Recommendation 1.1, LDE plans to initiate audit resolution procedures regarding the unsupported \$179,757 in ARRA Title I, IDEA, and SFSF payroll. In addition, LDE plans to provide technical assistance and training to the LEAs regarding procedures to properly maintain payroll certifications.

For Recommendation 1.2, LDE plans to initiate audit resolution procedures regarding the \$29,301 in unallowable ARRA IDEA payroll expenditures by RSD.

For Recommendation 1.3, LDE plans to work to strengthen its technical assistance and training for the identified LEAs. LDE plans to work with the identified LEAs to strengthen their awareness of the Federal payroll requirements.

OIG Response:

We consider LDE's comments to be responsive; however, because we found payroll problems at all four of the LEAs visited, we encourage LDE to provide additional information and technical assistance concerning Federal payroll documentation requirements to all of its LEAs.

FINDING NO. 2 – LDE and Selected LEAs Did Not Ensure § 1512 Data Are Accurate, Reliable, and Complete

LDE and the selected LEAs had data quality errors in information reported to FederalReporting.gov for the first four reporting periods. Specifically, Jefferson, East Baton Rouge, and Calcasieu submitted incomplete expenditure data for their quarterly reports to LDE. In addition, all four LEAs we visited incorrectly reported jobs saved or created to LDE.

LEAs Submitted Incomplete Data for Their Quarterly Reports

Jefferson, East Baton Rouge, and Calcasieu submitted incomplete expenditure data in their quarterly reports. LDE reports LEAs' actual expenditures instead of funds disbursed to LEAs.⁴ In order to collect the information in a timely manner, LDE requires LEAs to submit all report data by the last day of the reporting quarter. However, quarterly instructions include a deadline for submission that is midway between the close of the quarter and the Federal reporting due date. To meet this reporting requirement, the LEAs cut off their expenditure accounting data by as much as 2 weeks before the end of the reporting period. The use of cutoff⁵ dates resulted in expenditures not being included in the correct reporting quarter. Expenses that occur between the cutoff date and the end of the quarter are not included on the quarter's report, which in effect underreports expenditures. Because expenditures are reported on a cumulative basis, the underreported expenditures would be reported in the subsequent quarter. However, the cumulative total is always

⁴ OMB M-10-34, "Updated Guidance on the American Recovery and Reinvestment Act" (September 24, 2010), defines expenditures as the sum of cash disbursements for direct charges for property and services; the amount of indirect expense charged; and the amount of cash advance payments and payments made to subcontractors and subawardees.

⁵ Cutoff is a term used to identify the date at which data accumulation is discontinued for reporting purposes.

underreported for the reporting quarter because of the early cutoff dates. The underreported amounts occasionally included large payroll amounts, as much as \$1.275 million. While these results are only from the three LEAs that we visited, the understatement of expenditures within the reporting quarter could be much larger because there are 135 LEAs (Parishes, Charters, and other schools that are administered as LEAs) in Louisiana all of which are required to submit their data on the last day of the reporting quarter.

A continuous corrections period takes place after the data are submitted to FederalReporting.gov and before the next reporting cycle begins. During the continuous corrections period, Federal agencies and recipients should review data and correct errors. LDE did not correct the incomplete information during the continuous corrections period. In addition, LDE did not notify the Department or the Federal reporting Web site officials about the incomplete reports.

Table 3 indicates the cutoff dates used at the LEAs visited, as well as the underreported expenditure amounts for each quarter.

Table 3: Early Cutoff and Underreported Amounts								
LEA**⁶	9/30/2009 Qtr. Rpt.		12/31/2009 Qtr. Rpt.		3/31/2010 Qtr. Rpt.		6/30/2010 Qtr. Rpt.	
	Cutoff Date	Under-reported Amount	Cutoff Date	Under-reported Amount	Cutoff Date	Under-reported Amount	Cutoff Date	Under-reported Amount
Jefferson	9/25/2009	\$116,065	12/15/2009	\$360,978	3/19/2010	\$364,217	6/29/2010	\$1,275,094
East Baton Rouge	9/28/2009	\$32,818	12/22/2009	\$112,738	3/31/2010	\$17,900	6/30/2010	\$158,096
Calcasieu							6/24/2010	\$403,598
Totals		\$148,883		\$473,716		\$382,117		\$1,836,788

According to OMB M-09-21, “Implementing Guidance for the Reports on Use of Funds Pursuant to the ARRA” (June 22, 2009), prime recipients are to —

- (1) initiate appropriate data collection and reporting procedures to ensure that Section 1512 reporting requirements are met in a timely and effective manner, (2) implement internal control measures as appropriate to ensure accurate and complete information, and
- (3) perform data quality reviews for material omissions and/or significant reporting errors, making appropriate and timely corrections to prime recipient data and work with the designated subrecipient to address any data quality issues.

The Department’s April 2, 2010, Clarifying Guidance on ARRA Section 1512 Quarterly Report states —

Recipients may make changes to their reports until the 21st day after the end of the quarter, so they may update their reports to reflect new data available during that period. Between days 22 and 29 after the end of the quarter, the recipient should contact the program officer at the Department if reconciliation results in a material difference from the data that were

⁶Information from RSD was incomplete because the current employee responsible for submitting the quarterly reports is unable to access the former employee’s files to determine how the quarterly reports were compiled. According to RSD’s Information Technology personnel, the computer files have been lost.

reported for the quarter. The Department can reopen a recipient's report to allow the recipient to make corrections. After day 21, if the difference is not material, it is acceptable to wait till [sic] the next report to update the data. Because the reports are cumulative, the reconciliation will be reflected in the report the following quarter.

LDE officials stated that they implemented the submission dates to give LDE enough time to review and submit the reports to the Federal Web site. By cutting off accounting data early, the LEAs we reviewed understated expenses for the quarter ended June 30, 2010, by \$1.8 million, which in turn caused LDE to report inaccurate and incomplete data to FederalReporting.gov.

Incorrectly Reporting Jobs Saved or Created

Jefferson, East Baton Rouge, Calcasieu, and RSD incorrectly reported jobs saved and created. LDE developed and disseminated a spreadsheet to assist the LEAs with the jobs created and/or saved calculations. However, the spreadsheet was not protected from modification or deletion so Jefferson, East Baton Rouge, and Calcasieu were able to overwrite the formulas with estimated full-time equivalents (FTE) on the State provided spreadsheet. LDE's review process did not identify the errors we noted at the three LEAs we visited or the two LEAs we reviewed while at LDE.

East Baton Rouge, Jefferson, and Calcasieu revised the final FTE calculation in some cases because they were unsure how the formulas worked, and they did not want to overestimate the jobs created or saved. For example, East Baton Rouge revised the FTE amount to .25 for the number of ARRA Title I third quarter substitute jobs saved when the actual number should have been 14.09. Jefferson's third quarter ARRA IDEA jobs calculation identified 10 full-time employees; however, Jefferson only reported 3 jobs. Although the magnitude of these errors is relatively small, we reviewed only 4 LEAs out of the 135 total LEAs in Louisiana, so the total misstatement of jobs created and/or saved could be much larger across the State.

We identified other errors in the jobs calculation at the LEAs. Specifically:

- East Baton Rouge computed the total hours worked for each type of position, then backed into the numbers on the spreadsheet so that the hours worked and funding matched.
- East Baton Rouge and Jefferson used the incorrect number of weeks in a quarter to determine the quarterly hours in a full-time schedule.
- RSD only funded full-time positions with ARRA funds; therefore, their jobs calculation was straightforward. However, RSD did not make adjustments when employees no longer worked for the district. Specifically, two employees that were paid with SFSF funds left the district before the end of the third quarter, but those employees were counted as full-time for the entire third quarter.

OMB M-09-21 requires prime recipients to report an estimate of jobs directly created or retained. Additional guidance issued on December 18, 2009, affected how the figure is calculated beginning in the second reporting quarter. This guidance, OMB's "Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates" § 5.2.2, states, in calculating an FTE, the number of actual hours worked in funded jobs are divided by the number of quarterly hours representing a full work schedule for the kind of job

being estimated. These FTEs are then adjusted to count only the portion corresponding to the share of the job funded by ARRA funds. In order to perform the calculation, a recipient will need the total number of hours worked by employees in the most recent quarter (the quarter being reported) in jobs that meet the definition of a job created or a job retained. The recipient will also need the number of hours in a full-time schedule for the quarter. In addition, OMB M-09-21 states that the subrecipients are to implement internal control measures as appropriate to ensure accurate and complete information.

LEA staff assigned to calculate and report jobs created and/or saved information did not understand their responsibilities or the program guidance. LEA officials stated that they were provided conflicting guidance and received limited training on the correct methodology for calculating jobs created and/or saved. LDE officials thought the jobs spreadsheet and accompanying instructions were detailed and self explanatory but provided additional guidance or follow-up with the LEAs on an as-needed basis. LDE officials also stated that the spreadsheet was designed based on the guidance provided by the Department; however, that guidance was changed by the Department in the middle of the year which confused and complicated the reporting process.

By failing to establish internal controls and to review data for accuracy and completeness, the LDE and the selected LEAs did not ensure that data reported met the transparency requirements of ARRA or was reported correctly to FederalReporting.gov.

RECOMMENDATIONS

We recommend that the Director of ISU in conjunction with the Assistant Secretaries for OESE and OSERS require LDE to —

- 2.1 Establish and implement controls to ensure policies and procedures are followed to verify and report required ARRA data elements to include expenditures and jobs created/retained information, and
- 2.2 Work with LEAs to establish a consistent cut-off date for reporting data and to utilize the continuous corrections period to update information when necessary.

Auditee Comments:

LDE “partially concurred” with this finding and will refine existing policies and procedures to verify and report required ARRA data elements. LDE staff currently review reports using established policies and procedures to ensure that accurate and complete information has been reported. LDE has implemented corrective actions for issues identified in the finding. Specifically, LDE has password protected the formulas in the jobs created and/or saved spreadsheet; LDE will review vendor payments to ensure that vendor payment information has been accurately completed; and LDE sent a memo requiring each LEA to establish written policies and procedures for ARRA reporting.

LDE was unaware that certain LEAs reported incomplete expenditure data. Starting with the March 2011 reporting cycle, LDE will clarify with all LEAs that complete data must be submitted

prior to Federal reporting deadlines; and if incomplete data must be submitted, the LEA shall notify LDE and subsequently submit complete data. LDE stated that this change will likely mean that it will be unable to complete verification of the LEA data during the initial collection period but will have to submit updated data when the Federal reporting system re-opens.

OIG Response:

LDE's statement of "partially concurred" was not explained in the comments. We therefore contacted a senior LDE official and were told LDE agreed with the finding but took exception to the recommendations that it establish policies and procedures. The LDE official stated LDE believe policies and procedures are established and only needed to be refined. Although we agree that LDE had policies and procedures, the internal controls or lack thereof created a situation in which those procedures were not sufficiently followed. Consequently, the procedures failed to identify data that were not accurate and failed to identify errors in FTE calculations or that certain LEAs reported incomplete expenditure data as acknowledged by LDE. The additional controls and procedures LDE discusses address the issues in the finding, but because the corrective actions have not been completed nor reviewed, we have not changed our finding. We modified Finding No. 2 to include LDE's instructions to the LEAs regarding timeline for submission of quarterly data. We also reworded Recommendation 2.1 to acknowledge that policies and procedures were in place but needed modification of controls and reworded Recommendation 2.2 to address the date at which data accumulation is discontinued (cutoff date) for reporting data.

OTHER MATTERS

Inadequate Documentation for ARRA Non-Payroll Expenses

Jefferson, East Baton Rouge, and Calcasieu did not maintain the documentation needed to support purchases and travel expenses totaling \$20,106 made with ARRA IDEA and Title I funds. Specifically, we found instances where the LEAs did not have prior approval for purchases, or in some cases, did not have documentation to support purchases or travel expenses. In addition, both Jefferson and East Baton Rouge were not following their own policies and procedures by allowing purchases to be made without prior approval.

Table 4 identifies the amount of non-payroll expenditures that were not adequately supported:

Table 4: ARRA Non-Payroll Expenses Unsupported				
Fund	Jefferson	East Baton Rouge	Calcasieu	Totals
IDEA		\$9,610	\$274	\$9,884
Title I	\$1,378	\$7,795	\$1,049	\$10,222
Total	\$1,378	\$17,405	\$1,323	\$20,106

A basic guideline of OMB A-87 is that costs must be adequately documented to be allowable under Federal awards.

Jefferson Did Not Require Schools to Document SFSF Expenditures

Jefferson disbursed \$151,920 in SFSF funds directly to 87 schools without requiring the schools to document how the funds were used. Jefferson treated the SFSF funds as MFP payments, which do not require LEAs to document fund usage. Therefore, Jefferson was unable to provide supporting documentation for the use of the funds.

The Department's April 2009 Guidance on the State Fiscal Stabilization Fund Program states –

Whether an LEA uses its Education Stabilization funds for activities authorized under the Impact Aid program or for activities authorized under any of the other programs in the Elementary and Secondary Education Act, the IDEA, the Adult Education and Family Literacy Act, or the Perkins Act, the LEA must (a) maintain records that separately track and account for its Education Stabilization funds and (b) report on the specific uses of those funds.

Because the SFSF funds were combined with the LEA's State MFP payments, Jefferson was unaware that the SFSF funds would require tracking.

Although initially unable to document how \$151,920 in SFSF funds was spent, Jefferson took corrective action and reclassified previous items classified as SFSF expenses and replaced them with allowable transportation and electricity expenses in July 2010.

SCOPE AND METHODOLOGY

The purpose of our audit was to determine whether LDE and selected LEAs ensured (1) ARRA funds were used in accordance with applicable laws, regulations, and guidance; and (2) ARRA data reported by recipients and subrecipients were accurate, reliable, and complete. Our audit covered the period July 1, 2009, through June 30, 2010.

To accomplish our objectives, we performed the following procedures.

- Examined prior reviews conducted by the Office of Inspector General and reviewed the legislative auditors' audit documentation supporting their OMB Circular A-133 Single Audit Report for the year ended June 30, 2008.
- Reviewed Section 1512 quarterly reports and identified anomalies and other purchases of interest (i.e., expenditures to employees, non-education vendors, contractor payments, electronic purchases, and large purchases).
- Reviewed documentation for the four selected LEAs audited to determine the allowability of items purchased using SFSF funds.
- Requested and obtained a list of LEAs that received ARRA funding from July 2009 through June 2010.
- Requested and obtained the award documents for the State.
- Requested and reviewed the supporting documentation for all of the expenditures selected for review.
- Reviewed quarterly reports and Title I expenditure reports to ensure they met the requirements of the ARRA grant.
- Assessed internal controls over the administration of the ARRA funds and the reporting of data at the State and two of the LEAs, East Baton Rouge and RSD, in our audit report – "Systems of Internal Control Over Selected American Recovery and Reinvestment Act of 2009 Funds in the State of Louisiana," Control Number ED-OIG/A06K0001.
- Assessed internal controls over the administration of the ARRA funds and the reporting of data at the other two LEAs, Jefferson and Calcasieu, during this audit by reviewing answers to questions provided by the LEAs related to data quality, cash management, and use of funds.
- Interviewed Louisiana State officials and LEA officials.

We conducted our work at LDE and the four selected LEAs from June 2010 through November 2010. We discussed the results of our review and recommendations with LDE on January 4, 2011.

To test whether LDE awarded and reported ARRA funds correctly, we selected four LEAs to review. The LEAs were judgmentally selected based on a review of past performance, ARRA funds, and other risk based factors. We reviewed the expenditures of the grant and tested data to ensure that the data were being reported correctly on quarterly reports.

To test the expenditures of grants, we selected a judgmental sample of expenditures from ARRA Title I, IDEA, and SFSF. We selected a separate sample of both payroll and non-payroll expenditures for ARRA Title I, IDEA and SFSF, if applicable.

Table 5 provides the universe and sample information for each of the samples reviewed during the audit.

Table 5: Universe and Sample Information for Use of Funds Testing at LEAs						
	<u>Title I Payroll</u>	<u>Title I Non- payroll</u>	<u>IDEA Payroll</u>	<u>IDEA Non- payroll</u>	<u>SFSF ESF Payroll</u>	<u>SFSF ESF Non- payroll</u>
Jefferson						
Universe Dollar Size	\$2,445,047	\$5,425,709	\$832,311	\$2,930,838		\$4,734,194
Dollar Sample Size	\$40,678	\$4,609,388	\$31,817	\$393,108		\$4,734,194
Sample Size	35	41	35	25		22
East Baton Rouge						
Universe Dollar Size	\$2,792,172	\$2,584,479	\$1,805,423	\$2,742,602	\$4,079,255	\$1,070,850
Dollar Sample Size	\$46,093	\$1,170,501	\$11,976	\$489,808	\$30,675	\$472,604
Sample Size	26	25	5	36	15	6
Calcasieu						
Universe Dollar Size	\$1,829,070	\$4,589,681	\$998,190	\$3,063,133	\$3,098,304	
Dollar Sample Size	\$86,598	\$1,864,178	\$62,805	\$1,062,880	\$110,110	
Sample Size	25	20	25	30	25	
RSD						
Universe Dollar Size	\$162,127		\$2,315,682		\$1,333,780	
Dollar Sample Size	\$69,991		\$280,715		\$372,425	
Sample Size	10		30		30	

To achieve our audit objective for reviewing ARRA transactions, we relied, in part, on computer-processed ARRA Title I, IDEA, and SFSF funds request forms submitted to the LDE. We verified the completeness of the data by comparing source records to computer-generated request forms and verified the authenticity by comparing computer-generated request forms to source documents. We also obtained listings of expenditures and data on jobs saved or created from the LEAs. Based on our testing, we concluded that, except for the jobs data not being available as discussed in Finding No. 2, the computer-processed data were sufficiently reliable for the purpose of our audit.

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

APPENDIX

LEA Details for Unsupported ARRA Payroll Expenditures

Jefferson did not have semi-annual certifications for 15 of the 35 ARRA Title I employees sampled resulting in \$31,376 of the \$40,678 ARRA Title I expenditures being unsupported. Jefferson also did not have semi-annual certifications for 13 of the 35 ARRA IDEA employees sampled resulting in \$20,765 of the \$31,817 ARRA IDEA expenditures being unsupported. This occurred because Jefferson did not have a process to obtain required semi-annual certifications or personnel activity reports. Instead of semi-annual certifications, Jefferson provided a spreadsheet that contained the employees' electronic signature certifying each paycheck. However, the electronic signature document did not show the time an employee spent working on specific programs. Jefferson officials thought the electronic payroll certification process they used was sufficient to address the OMB A-87 time certification requirements. However, we determined that the documents provided did not comply with the requirements of OMB A-87 for the support of salaries and wages because the employees were not certifying their time worked on a specific program.

East Baton Rouge did not have attendance documentation to support the amount paid for 5 of the 26 ARRA Title I employees sampled resulting in \$7,979 of the \$46,093 ARRA Title I expenditures being unsupported. In addition, one employee paid with ARRA IDEA funds, out of the five sampled, did not have the semi-annual certification for the period tested resulting in \$834 of the \$11,976 in ARRA IDEA payroll expenditures being unsupported. East Baton Rouge officials stated that the individuals we identified failed to comply with the LEAs policy and the infraction was not identified through the LEA's normal payroll review process.

Calcasieu was unable to locate time and effort documents for 4 of the 25 ARRA Title I employees sampled, resulting in \$14,046 in unsupported expenditures out of \$86,598 sampled. According to Calcasieu officials, a high school within the district was experiencing personnel changes in their administrative office, during our audit period, and could not locate the time and effort information for some of the employees sampled. Calcasieu also was unable to provide timesheets (evidence that employees actually worked the pay period selected) for 3 of 25 ARRA IDEA employees sampled, resulting in \$6,747 in unsupported expenditures out of \$62,805 sampled. In addition, Calcasieu could not locate semi-annual certifications for 2 of the 25 ARRA IDEA funded employees sampled, resulting in \$6,345 in unsupported expenditures out of the same \$62,805 sampled.

At RSD, 4 of the 30 SFSF employees sampled did not have adequate documentation to support their full paycheck, resulting in \$5,365⁷ in unsupported expenditures. For example, one employee only worked 1 day in the pay period but received \$3,346 more than what that employee earned. RSD did not provide adequate documentation to support the additional pay. The remaining three employees received a total of \$2,019 in similar payroll overpayments of SFSF.

In addition, RSD did not have semi-annual certifications for 14 of the 30 ARRA IDEA employees sampled, resulting in \$86,300 of the \$280,715 ARRA IDEA expenditures being unsupported.

⁷ The \$5,365 is out of \$372,425 in SFSF sample payroll expenditures.

RSD's semi-annual certifications are incorporated into the employees' biweekly timesheets; however, we determined that RSD employees were not completing the forms as required and, therefore, the biweekly timesheets did not meet the OMB A-87 requirements. According to RSD personnel officials, RSD did not receive training from LDE nor did RSD train its staff on how to complete their Sign-In Sheet Time Distribution forms. RSD officials stated that they did not realize that RSD was responsible for providing the Sign-In Sheet training because the Department⁸ letter, which approved the plan to implement a new time distribution system, was addressed to LDE. Nevertheless, RSD was able to provide acceptable semi-annual certifications for 16 of the 30 employees sampled. Some schools were obtaining semi-annual certifications that met OMB A-87 requirements, even though it was not required by RSD's official policy.

⁸ In December 2004, the Department approved LDE's plan to implement a new time distribution system, which couples a time and attendance section with a time distribution section. This new timesheet would be the employee's payroll certification and would fully address OMB A-87 requirements.

Enclosure:
Louisiana's Comments on Draft Audit Report



**STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
POST OFFICE BOX 94064, BATON ROUGE, LOUISIANA 70804-9064**
Toll Free #: 1-877-453-2721
<http://www.louisianaschools.net>

March 4, 2011

Keith M. Maddox
U.S. Department of Education
Office of Inspector General
1999 Bryan Street, Suite 1440
Dallas, TX 75201

RE: ED-OIG/A06K0003 – Louisiana: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs

Dear Mr. Maddox:

I am in receipt of your correspondence dated February 18, 2011, regarding the above referenced audit report. Enclosed is a response to each of the findings and recommendations identified within the audit listed above. Each response includes a concurrence with the finding and recommendation, a description of the corrective action already taken or planned, and a targeted completion date for the corrective action plan, if applicable.

The Louisiana Department of Education (LDE) remains committed to full compliance with all federal requirements and works diligently on a daily basis to correct all noted deficiencies.

The contact person for this matter is Charlotte Stevens, Director, Division of Education Finance, at (225) 342-4989 or via email at charlotte.stevens@la.gov.

Sincerely,

/s/
Paul G. Pastorek
State Superintendent of Education

PP:mh
Enclosure

C: Ollie S. Tyler, State Deputy Superintendent of Education
Patrick Weaver, Deputy Undersecretary
Elizabeth Scioneaux, Deputy Superintendent for Management and Finance
Charlotte Stevens, Director of Education Finance
Bernell Cook, Director of NCLB & IDEA Support

Preliminary Response to Audit Report ED-OIG/A06K0003

Finding No. 1 – Louisiana LEAs Could Not Support Some ARRA Expenditures

Recommendation 1.1– Provide documentation to adequately support \$179,757 in ARRA Title I, IDEA, and SFSF payroll expenditures or return the funds to the Department.

Response:

The Louisiana Department of Education (LDE) concurs with this finding and will initiate audit resolution procedures regarding this matter. Additional documentation will be requested from each of the identified LEAs to support the \$179,757 in ARRA Title I, IDEA, and SFSF payroll expenditures. In addition, technical assistance and training will be provided to the identified LEAs regarding procedures necessary to properly maintain payroll certifications. It is expected that these matters will be resolved in approximately 90 days from the date of this response. Any remaining unsupported expenditures will be addressed with the identified LEAs.

Recommendation 1.2– Return \$29,301 of unallowable ARRA IDEA payroll expenditures to the Department.

Response:

The Louisiana Department of Education (LDE) concurs with this finding and will initiate audit resolution procedures in this matter with the Recovery School District. It is expected that this matter will be resolved in approximately 90 days from the date of this response.

Recommendation 1.3– Ensure that all LEAs provide training to appropriate staff regarding Federal payroll requirements.

Response:

The Louisiana Department of Education (LDE) concurs with this finding and will work to strengthen its technical assistance and training to the identified LEAs. Existing practices include annual issuance of guidance regarding OMB A-87 requirements and evaluations of LEA internal control best practices. As part of the LEA evaluation and monitoring process, the LDE reviews the Fiscal Monitoring Internal Control Checklist. The Checklist includes, as part of the review of internal controls, whether the LEAs have a protocol for disseminating federal requirements to the appropriate staff. To enhance this process the LDE will work individually with the identified LEAs to strengthen their awareness of these federal payroll requirements. It is expected that this matter will be resolved in approximately 90 days from the date of this response. **(SEE ATTACHMENT 1 & ATTACHMENT 2)**

Finding No. 2 – LDE and Selected LEAs Did Not Ensure §1512 Data Are Accurate, Reliable, and Complete

Louisiana Department of Education

Response to ED-OIG A06K0003

March 4, 2011

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Recommendation 2.1 and 2.2– Establish policies and procedures to verify and report required ARRA data elements to include expenditures, jobs created/retained, and vendor information; Establish policies and procedures to verify and report required ARRA data elements for LEAs.

Response:

The Louisiana Department of Education (LDE) partially concurs with this finding and will refine existing policies and procedures to verify and report required ARRA data elements. LDE staff currently reviews the Periodic Expense Reports (PERs) using established policies and procedures to implement internal control measures to ensure accurate and complete information has been reported. The FTE Calculation spreadsheet is a mandatory document for local education agencies (LEAs) to use, and since the audit, the Department has password-protected the spreadsheet. Now the LEAs will be unable to over-write the spreadsheet formulas. The LEAs are already required to provide detailed documentation to support the calculations on the FTE Calculation spreadsheet. Examples of documentation include payroll ledgers and e-GMS budget detail pages. Additional documentation to support the number of jobs created and retained under ARRA will be requested in the future, as deemed necessary by the PER reviewer. Additionally, an ARRA PER Checklist has been developed to assist the reviewers in this process. **(SEE ATTACHMENT 3 & ATTACHMENT 4)**

Going forward, LDE staff will review vendor payments. The reviewers will ensure that vendor payment information has been accurately completed. The information will be checked for consistency with the requests made in the LEAs' e-Grant consolidated applications. The reviewers will verify that product or service descriptions are aligned with the budget description in the e-GMS consolidated application. In addition, the LEAs will be required to provide a detailed description of the items purchased from various vendors. This will begin with the next quarterly submission for the quarter ending March 2011.

The LDE was unaware that certain LEAs reported incomplete expenditure data. The LDE current policy is to request the PER report on the last day of the reporting quarter. However, quarterly instructions include a deadline for submission that is midway between the close of the quarter and the federal reporting due date. For example, in December 2010, the PER was requested by 12/31/10. As is evidenced by the December 10, 2010 quarterly transmittal memo, the LDE indicated that LEAs were allowed to transmit data until January 6, 2011. In fact, the LDE allows for submissions and corrections as long as the federal reporting site is open. The report dates were established in an effort to review the data for accuracy, and to allow time to contact LEAs that were not timely in their submission; thereby, assuring that all LEAs report by the due dates established per the federal reporting requirements. **(SEE ATTACHMENT 5)**

In the future, the LDE will continue to make available to the LEAs the LDE reporting system on the last day of the quarter to allow LEAs to submit as soon as the quarterly data is complete. Additionally, the LDE will clarify with all LEAs that complete data must be submitted prior to the federal reporting deadline; and in the event that incomplete data must be submitted, the LEA shall notify the LDE and subsequently submit complete data. In turn, the LDE will update the

quarterly data on the federal reporting site. This change will likely mean that the LDE will be unable to complete the verification of the LEA data during the initial collection period, but will

Louisiana Department of Education

Response to ED-OIG A06K0003
March 4, 2011
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have to submit updated data once the federal reporting system re-opens. These changes will begin with the March 2011 reporting cycle. Additionally, the LDE transmitted a memo on November 3, 2010 requiring that each LEA establish written policies and procedures for ARRA reporting. **(SEE ATTACHMENT 6)**

Other Matters

- **Inadequate Documentation for ARRA Non-Payroll Expenses**

The Louisiana Department of Education will work with these identified LEAs to ensure there is knowledge and proper implementation regarding supporting documentation for non-payroll expenses.

- **ARRA Programs Should Be Covered by Louisiana's Treasury-State Cash Management Agreement**

The State of Louisiana has a policy and procedure in place to ensure that the Treasury-State Agreement (TSA) includes all applicable Federal programs. Financial Management Service (FMS) is notified, through the State's submission of the TSA, on a yearly basis of any additions, deletions or changes to programs to be included for coverage in the TSA, which has an effective date of July 1st through June 30th of each year. This process is repeated annually by the Louisiana Office of Statewide Reporting and Accounting Policy (OSRAP). State agencies are notified by OSRAP when they have new programs to be included, when existing CMIA programs are being excluded for not meeting the State's CMIA threshold, and/or if clearance patterns need to be updated. **(SEE ATTACHMENT 7)**

According to 31CFR Subtitle B, Chapter II, Part 205, Subpart A §205.5(e), major Federal assistance programs to be included in the TSA, must be determined from the most recent Single Audit data available. Therefore, the programs to be included in the TSA are based on which programs meet the State's CMIA threshold as identified in the State's most recent Single Audit. The FYE 2008 Single Audit was the most recent Single Audit available for the FYE 2010 TSA, which was in effect at the time of this audit. ARRA Programs were first awarded to the State within FYE 2009, so this requirement was not applicable as of the date of this audit. **(SEE ATTACHMENT 8)**

**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.**

Call toll-free:

The Inspector General Hotline
1-800-MISUSED (1-800-647-8733)

Or write:

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Office of Inspector General
550 12th St. S.W.
Washington, DC 20024

Or e-mail:

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