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

American Recovery and Reinvestment Act

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

Final Audit Report

ED-OIG/A09K0002 **APRIL 2011**

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
SACRAMENTO REGION

April 28, 2011

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Director, Governor's Office of Planning and Research
1400 Tenth Street
Sacramento, CA 95812

Tom Torlakson
State Superintendent of Public Instruction
California Department of Education
1430 N Street
Sacramento, CA 95814

Dear Director Alex and Superintendent Torlakson:

This **final audit report** presents the results of our audit to determine whether (1) selected local educational agencies (LEAs) in California used Recovery Act funds in accordance with applicable laws, regulations, and guidance; and (2) the California Department of Education and selected LEAs reported data that were accurate, reliable, complete, and in accordance with Recovery Act reporting requirements.

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

This report incorporates the comments you provided in response to our preliminary audit report. If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Department of Education 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/

Raymond Hendren
Regional Inspector General for Audit

Enclosure

Abbreviations, Acronyms, and Short Forms Used in this Report

ARRA	American Recovery and Reinvestment Act of 2009
California Education	California Department of Education
Department	U.S. Department of Education
Fresno	Fresno Unified School District
FTE	Full-Time Equivalent
GAO	U.S. Government Accountability Office
IDEA	Individuals with Disabilities Education Act, Part B Grants to States
LEA	Local Educational Agency
OIG	Office of Inspector General
OMB	Office of Management and Budget
Planning and Research	California State Governor's Office of Planning and Research
Recovery Act	American Recovery and Reinvestment Act of 2009
San Diego	San Diego Unified School District
San Francisco	San Francisco Unified School District
SELPA	Special Education Local Plan Area
SFSF	State Fiscal Stabilization Fund
Title I	Title I, Part A of the Elementary and Secondary Education Act of 1965

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

Control Number ED-OIG/A09K0002

PURPOSE

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

We reviewed three education-related grants funded under the Recovery Act: State Fiscal Stabilization Fund (SFSF) Education Stabilization; Title I, Part A of the Elementary and Secondary Education Act (Title I); and the Individuals with Disabilities Education Act, Part B (IDEA). We reviewed selected costs charged to these grants during the period July 1, 2009, to April 30, 2010, and data reported for the quarterly reporting period ending December 31, 2009. Our review covered seven data elements that must be reported under Section 1512 of the Recovery Act—estimated number of jobs created or retained, vendor information, project status, and the amount of funds awarded, subawarded, received, and spent.

RESULTS IN BRIEF

The three LEAs we reviewed generally used Recovery Act funds in accordance with applicable laws, regulations, and guidance. However, we did identify instances of noncompliance with applicable Federal requirements resulting in two LEAs improperly charging a total of about $23,000 to the Title I grant. We did not identify any reportable issues with respect to these two LEAs' use of Recovery Act funds from the SFSF Education Stabilization and IDEA grants, or the third LEA's charges to any of the three grants reviewed.

For the Section 1512 reporting period ending December 31, 2009, we concluded that California Education and the selected LEAs' reporting processes provided reasonable assurance that all but one of the reported data elements we reviewed were generally valid, accurate, and complete. However, we did identify significant data quality issues related to the information California Education reported on the number of jobs created or retained using Recovery Act funds. Based on our review, we concluded that California Education reported jobs data that were not reliable for the reporting period ending December 31, 2009. Moreover, control weaknesses in California Education's processes for compiling, processing, and reviewing the jobs data could affect the

reliability of future Section 1512 reports. We also concluded that the three LEAs we reviewed submitted Title I school-level expenditure reporting required under the Recovery Act to California Education on time and had accounting records that supported the reported information.

This report discusses the (1) instances of improper use of Recovery Act funds and Section 1512 data quality issues we identified, (2) specific actions taken or planned to address our findings and recommendations, and (3) additional actions needed to further enhance compliance with Federal requirements and improve the quality of data reported in future Section 1512 reports. In the Other Matters section of the report, we discuss the results of our review of LEA methodologies for calculating interest earned on Federal cash advances, as well as a transparency issue related to Section 1512 reporting of Recovery Act funds spent.

We provided a preliminary version of this report to the Governor's Office of Planning and Research (Planning and Research) and California Education for review and comment on February 18, 2011. Planning and Research, which had transferred responsibility for administering SFSF Education Stabilization funds to California Education, provided only high-level comments that did not specifically address our findings and recommendations. In its comments, Planning and Research stated that it is collaborating with California Education to monitor and address issues identified in the audit report specific to the SFSF program and will continue its efforts to ensure quality and accurate data. California Education did not state whether it agreed with our findings and recommendations in its comments but did describe corrective actions it was taking to resolve the findings, comply with the requirements of the Recovery Act, and/or improve operations. In response to its comments related to Section 1512 reporting, we did address the need for California Education to take additional corrective actions. Based on California Education's comments, we did not modify our findings and recommendations. California Education's comments are summarized at the end of each finding. The entire narrative of comments provided by Planning and Research and California Education are included as an Enclosure to this report.

BACKGROUND

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

The Department awarded $4.9 billion in SFSF Education Stabilization funds to Planning and Research, which entered into an interagency agreement with California Education in May 2009. The agreement designated California Education as the agency responsible for allocating and distributing these funds to LEAs. In contrast, the Department awarded Recovery Act funds totaling $1.5 billion for Title I and $1.2 billion for IDEA directly to California Education because it is responsible for allocating and distributing non-Recovery Act funds under the Title I and IDEA programs. California Education is responsible for administering all three grants covered by this review and for reporting required Section 1512 data for the grants. As of September 30, 2010, California had disbursed approximately 96 percent of the SFSF Education Stabilization, 64 percent of the Title I, and 60 percent of the IDEA funds allocated to its LEAs.

California Education oversees the State's elementary and secondary education system that served more than 7 million students at more than 9,000 schools during school year 2009-2010. California Education distributed all SFSF Education Stabilization funds not allocated to institutions of higher education, along with most of the Title I and IDEA funds drawn down to date, to more than 1,500 LEAs (subrecipients). California Education advanced Recovery Act funds to the LEAs, which reported Section 1512 data to the State agency.

In the Figure below, we summarize the Recovery Act funding allocated to the three LEAs selected for review—Fresno Unified School District (Fresno), San Diego Unified School District (San Diego), and San Francisco Unified School District (San Francisco)—and the amount of funds they received and spent as of September 30, 2010, for the grants covered by our review.

Figure: Recovery Act Allocations to, Funds Received by, and Amount Spent by LEAs as of September 30, 2010 (Dollar Amounts in Millions)

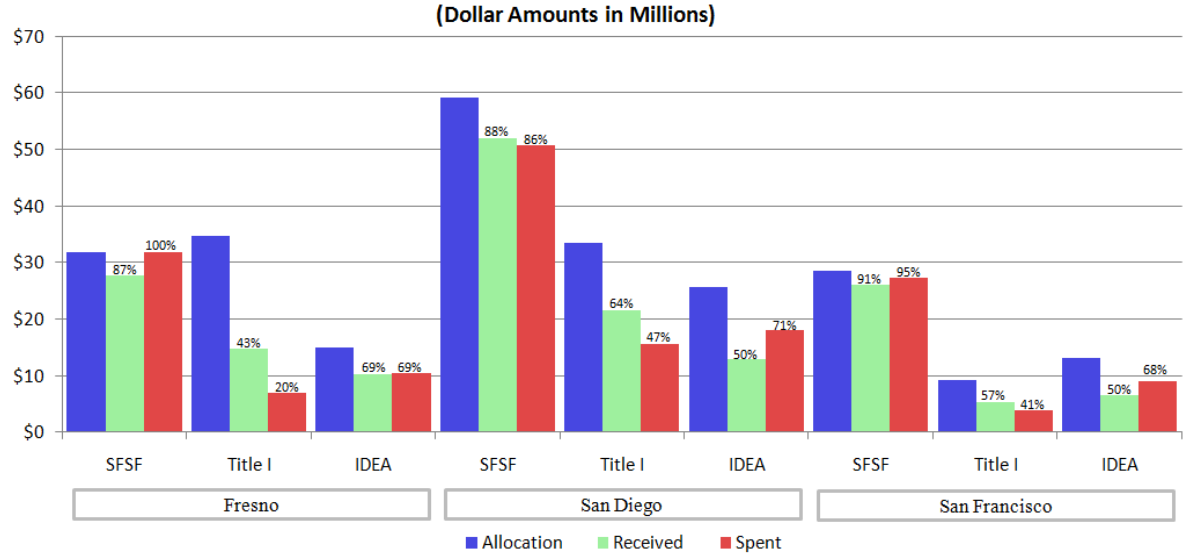

Figure Notes: All percentages shown are based on the respective allocation amount.
In some cases, funds spent exceeded the amount of funds received because LEAs recognized obligations as funds spent. For IDEA funds, LEAs were required to report incurred costs to California Education before receiving additional IDEA funds.

At the time of our review, the three LEAs had used or planned to use Recovery Act funds for a variety of purposes including teacher salaries, summer school programs, supplemental educational services, and other education-related purposes, as shown in Table 1.

Table 1: Actual or Planned Use of Recovery Act Funds by Selected LEAs

LEA	SFSF Education Stabilization	Title I	IDEA
Fresno	Major school building renovations School security officers Textbooks Summer school program	Teacher, nurse, librarian, and nurse's aide salaries	Professional development Needs assessment technology
San Diego	Teacher salaries Supplemental employee retirement benefits	Teacher salaries Class size reduction Supplemental education services	Employee benefits Teacher salaries Instructional assistants
San Francisco	Teacher salaries Transportation services Summer school program	Teacher salaries Transportation services Summer school program	Non-public school services Coordinated early intervention services

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – California Education Needs to Ensure That LEAs Use Recovery Act Funds According to Federal Requirements

The three LEAs we reviewed generally used Recovery Act funds in accordance with applicable Federal requirements. However, two of the three LEAs improperly charged about $23,000 to the Recovery Act grant for unallowable Title I personnel and entertainment costs. The improper costs were identified from a total of about $771,000 of Title I Recovery Act charges we reviewed at the three LEAs.[1]

Fresno Charges for Personnel Costs

Fresno improperly charged personnel costs that were not allocable to the Title I grant. We selected 20 payroll transactions and found improper charges for 4 LEA employees totaling $20,457, which represented 18 percent of the total dollar amount of payroll transactions we reviewed at Fresno. OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," Attachment A, Section C, describes the basic guidelines for determining the allowability of costs. Part 3.a states that "[a] cost is allocable to a particular cost objective if the

[1] We used a risk-based approach to judgmentally select expenditure transactions to review at each LEA. Detailed information on the number and amount of transactions we selected at each LEA and the respective universes of transactions is provided in Table 2 of the Scope and Methodology section.

goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

The improper charges included $15,097 in personnel costs associated with three health services positions that were not allocable to the Title I grant–$8,368 for a nurse who did not work at a Title I school and $6,729 for two health assistants who performed specialized services that Fresno's Fiscal Services Administrator told us did not benefit the Title I program.

Fresno's Fiscal Services Administrator told us that the personnel costs were initially charged to the Title I grant based on an estimated number of health services positions that the LEA expected to fund using Recovery Act funds. When selecting employees for its estimate, the LEA mistakenly included some employees whose duties were not allocable to the grant. Fresno used the personnel costs associated with these employees as placeholders and planned to reconcile and adjust the costs at the end of its fiscal year to reflect the actual time and effort charged to the Title I grant. Although the year-end reconciliation might have eventually identified the improper charges resulting in an adjustment to the amount charged to the grant, Fresno's procedures for estimating and reconciling grant expenditures resulted in overcharges to the Title I grant as of the time of our review. More timely reconciliations are important because LEAs must submit Recovery Act expenditure and jobs data to California Education on a quarterly basis.

Fresno also improperly charged $5,360 in personnel costs for an employee who was not performing any Title I activities. Fresno's Fiscal Services Administrator told us that these personnel costs should have been charged to a non-Federal grant and attributed the error to an accounting oversight.

In response to our finding, Fresno's Fiscal Services Administrator informed us in September 2010 that the LEA had made the appropriate adjustments to its financial system to correct the improper charges. Because the corrections were made after our on-site work, we did not verify them.

San Diego Charges for Nonpersonnel Costs

San Diego improperly charged entertainment costs to the Title I grant. We selected four nonpersonnel transactions and found improper payments for two field trips totaling $2,950. Although the improper costs represented only 3 percent of the total dollar amount of the nonpersonnel transactions reviewed at this LEA, OMB Circular A-87, Attachment B specifically prohibits charging entertainment costs to Federal grants:

> 14. Entertainment. Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

The improper charges included $1,050 for the partial cost of a field trip to an amusement park and $1,900 for a sport fishing trip. The two field trips were part of San Diego's 10-to-Succeed program.[2] A San Diego Budget Analyst told us that the amusement park trip included specialized tours covering engineering components of the rides and was linked to classroom goals for the participating students. The sport fishing trip was similarly linked to classroom instruction in the sciences. Moreover, San Diego's Federal and Special Programs Division office had approved both trips. However, we concluded that these trips represented entertainment under the definition provided in OMB Circular A-87 and, thus, were unallowable costs.

California Education's Monitoring of Recovery Act Spending

We previously reported that California Education's designed systems of control that were intended to provide oversight of LEA Recovery Act spending had several areas in which controls needed to be strengthened or established. Our prior review also identified instances in which LEAs either had planned to or had actually used Recovery Act funds improperly. As a result, we recommended that California Education improve existing monitoring procedures to (1) properly account for the SFSF Education Stabilization, Title I, and IDEA funds provided under the Recovery Act and (2) ensure timely and adequate oversight of LEA Recovery Act spending. In response to our finding, California Education officials informed us that subrecipient monitoring procedures were being developed to enhance accountability over LEA Recovery Act spending.[3]

At the time we visited the three LEAs we reviewed, California Education had not performed any monitoring of the LEAs' Recovery Act spending. California Education's Audits and Investigations Division subsequently told us that a risk-based approach for selecting which LEAs to monitor was adopted during spring 2010 in order to deploy monitoring resources more efficiently. Additionally, California Education implemented an accountability information system to track and account for LEA Recovery Act spending statewide.

Under its enhanced monitoring process, California Education conducted 17 on-site and 70 online reviews between April and June 2010 that looked at how LEAs spent SFSF Education Stabilization funds.[4] In January 2011, California Education expanded its monitoring reviews to include the fiscal monitoring of other Federal funds, including Title I funds under the Recovery Act. The fiscal monitoring reviews would cover LEA compliance with Federal requirements, including timekeeping, allowable costs, supplement not supplant, cash management, allocation of funds, and Section 1512 reporting. California Education began on-site reviews at 14 LEAs and online reviews at 47 LEAs in January 2011. We encourage the Department to review

[2] 10-to-Succeed is a school-based leadership development program (drop-out prevention and intervention) for ninth-grade boys and girls identified as being disengaged from school. The program includes social activities to provide the students with tangible rewards as well as to engage parents and other adults in motivating students to stay in school. San Diego's 14 high schools each received $10,000 in Title I funds under the Recovery Act to administer the program.

[3] "American Recovery and Reinvestment Act of 2009: State and Local Controls over ARRA Funds in California" (Audit Report, ED-OIG/A09J0006, January 15, 2010).

[4] As of June 2010, California Education still had not performed monitoring reviews at the three LEAs we reviewed but had scheduled an on-site monitoring review of San Diego for May 2011.

California Education's current LEA monitoring system to ensure that it will provide adequate oversight of LEAs' use of Recovery Act funds.

RECOMMENDATIONS

We recommend that the Director of the Implementation and Support Unit, in conjunction with the Assistant Secretary for Elementary and Secondary Education, require California Education to:

1.1 Ensure the deficiencies we identified for the Title I grant funded under the Recovery Act are corrected by (1) confirming that Fresno reimbursed its subgrant for the $20,457 ($15,097 + $5,360) in personnel costs that were improperly charged for four employees and (2) requiring San Diego to reimburse its subgrant for the $2,950 in nonpersonnel costs that were improperly charged for two field trips.

1.2 Require Fresno to strengthen its estimation and reconciliation procedures to ensure that only personnel costs allocable to Title I are charged to the Title I grant funded under the Recovery Act. Procedures could include (1) selecting only eligible employees whose costs are allocable to the grant when estimating personnel costs, and (2) performing reconciliations of actual personnel activity each quarter to correspond with Section 1512 reporting dates, rather than only at year-end.

1.3 Ensure that San Diego personnel responsible for charging or approving expenditures to Federal grants understand and follow Federal cost principles so that entertainment costs are not charged to Recovery Act grants in the future.

1.4 Notify LEAs statewide of the types of deficiencies identified in Finding No. 1 and instruct LEAs to identify and correct such deficiencies, if found, to ensure that similar unallowable costs are not charged to the Title I grant under the Recovery Act.

California Education Comments

California Education did not state whether it concurred with Finding No. 1 or the recommendations in our report. However, California Education did provide details regarding specific corrective actions it has initiated in response to each recommendation.

- **Recommendation 1.1.** California Education stated that it would request that Fresno and San Diego submit documentation of the reimbursements made to the appropriate Recovery Act subgrants by May 1, 2011.

- **Recommendation 1.2.** California Education stated that it would request that Fresno submit documentation of its (1) procedures to ensure that only personnel costs allocable to the Title I grant are charged under the Recovery Act and (2) reconciliations of actual personnel activities each quarter to correspond with Section 1512 reporting dates, by May 1, 2011.

- **Recommendation 1.3.** California Education stated that it has scheduled a monitoring visit during May 2011 to evaluate San Diego's compliance with applicable Federal requirements and to provide technical assistance to ensure that San Diego is spending Recovery Act funding appropriately.

- **Recommendation 1.4.** California Education stated that it has increased its efforts to ensure that LEAs spend Recovery Act funds in accordance with Federal requirements by providing links to guidance posted on its Web page, conducting webinars, and providing technical assistance during monitoring visits and by telephone. By April 15, 2011, California Education planned to provide additional guidance specific to the types of deficiencies identified in Finding No. 1.

The corrective actions identified by California Education that have already been taken or are planned sufficiently address our recommendations. We did not modify our finding or recommendations based on California Education's comments.

FINDING NO. 2 – California Education Needs to Ensure Reported Jobs Data Are Complete, Accurate, and Consistent with Reporting Guidance

California Education did not report jobs data in accordance with Federal guidance. For the reporting period ending December 31, 2009, we identified Section 1512 data quality issues related to the jobs data that California Education reported for the SFSF Education Stabilization, Title I, and IDEA grants funded by the Recovery Act. As a result, the reported jobs data were not reliable and did not accurately portray the jobs impact of the Recovery Act funds allocated to LEAs in California. Some LEAs' jobs estimates were not accurate and/or did not recognize all jobs paid with Recovery Act funds. Furthermore, California Education's reviews were not adequate to detect LEA reporting errors. Significant changes to OMB reporting guidance and an earlier than expected Federal reporting deadline also contributed to the data quality issues. Lastly, California Education did not issue reporting guidance to LEAs that clearly communicated the Section 1512 reporting requirements in a timely manner. LEA jobs estimates must be complete and consistently estimated and accurately reflect jobs resulting from Recovery Act funds in order for the reported jobs data to be valid, reliable, and transparent. Although California Education did not report accurate jobs data for the reporting period ending December 31, 2009, correction of the reporting errors is not warranted. OMB Memorandum M-10-34, "Updated Guidance on the American Recovery and Reinvestment Act," September 24, 2010, prohibits recipients from making changes to the jobs data for prior Section 1512 reports.

California Education's Reported Jobs data

For the reporting period ending December 31, 2009, the jobs data that California Education reported were not complete, accurate, or consistently estimated in accordance with OMB Memorandum M-10-08, "Updated Guidance on the American Recovery and Reinvestment Act–Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates," December 18, 2009 (OMB guidance M-10-08). California Education already had compressed

reporting timelines so that LEAs could submit data as close to the end of the reporting period as possible in order to generate complete and timely data. California Education also needed time to compile and review LEA data before submitting recipient reports to the State's centralized data collection system ahead of State and Federal reporting deadlines. Unanticipated changes to Section 1512 reporting requirements and the deadline for the reporting period ending December 31, 2009, placed additional strain on California Education's timelines and review processes.

Change to OMB Jobs Estimation Guidance. OMB guidance M-10-08 substantially revised the method for estimating jobs specified in earlier OMB and Department guidance. OMB guidance M-10-08 advised recipients to estimate jobs on a quarter basis using the number of hours paid with Recovery Act funds divided by the number of hours applicable to a full-time employee schedule. About a week before OMB guidance M-10-08 was issued, California LEAs submitted jobs estimates following Department guidance[5] in effect at the time, which was based on OMB Memorandum M-09-21, "Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009," June 22, 2009 (OMB guidance M-09-21). OMB guidance M-09-21 advised recipients to assess the staffing implications caused by the infusion of Recovery Act funds and report jobs on a cumulative basis. To comply with the updated OMB guidance M-10-08, California Education needed all LEAs to revise their jobs estimates to only reflect the quarterly jobs impact.

OMB anticipated that some recipients would have difficulty responding to the updated reporting guidance and instructed recipients to follow the guidance to the greatest extent possible. OMB also encouraged Federal awarding agencies to work closely with recipients to address the potential challenges associated with the revised jobs estimation approach and to consider recipients' efforts and the complexities of the reporting changes when reviewing Section 1512 reports during the continuous correction period.[6]

In response to OMB guidance M-10-08, California Education called the Department's Office of Elementary and Secondary Education on January 25, 2010, to express concern that the State's already compressed reporting timelines would not accommodate collecting, compiling, and reporting revised jobs data from the State's more than 1,500 LEAs by the end of the continuous correction period. During the call, Department officials advised California Education to collect and report revised jobs data in accordance with the updated guidance. However, California Education waited almost another month to instruct LEAs to review and resubmit jobs estimates only if needed. California Education officials told us they combined the resubmission of LEA

[5] "Clarifying Guidance on American Recovery and Reinvestment Act of 2009 Section 1512 Quarterly Reporting," U.S. Department of Education, September 2009.

[6] No later than 10 days after the end of each reported quarter (calendar quarter), recipients must submit Section 1512 data to the FederalReporting.gov Web site, the nationwide Recovery Act data collection system. A continuous correction period takes place between this initial data submission and the end of the quarter in which the data were submitted. During the continuous correction period, Federal agencies are required to review the data reported by recipients and notify them of data errors that need to be corrected. Recipients and subrecipients should also review their submitted data and make necessary corrections. At the end of the continuous correction period, recipient data are considered final and made available on Recovery.gov, a Web site designed to provide the public with transparent and easily retrievable Recovery Act information.

jobs estimates with the next quarter's data collection to ease the reporting burden on LEAs. We also noted that, less than 2 weeks before the LEAs were to submit revised jobs estimates, California Education further clarified that all LEAs were to resubmit jobs estimates even if the estimates had not changed or an LEA considered the revision unnecessary.

Change in Federal Reporting Deadline. California Education's data collection process was further complicated when the continuous correction period was shortened by 2 weeks. On February 23, 2010, California Education instructed LEAs to submit revised jobs estimates by March 15. A few days after this instruction, the end of the continuous correction period specified in FederalReporting.gov was changed from the end of March to mid-March 2010. The earlier deadline was not compatible with the internal reporting deadline specified in LEA guidance that California Education distributed just days before. Consequently, California Education had to move up the LEA resubmission deadline to March 10 to meet the earlier than anticipated Federal reporting deadline.

Accuracy and Completeness of LEA Jobs Data

California Education's resubmission guidance appeared to confuse some LEAs. For the reporting period ending December 31, 2009, LEAs statewide did not submit revised jobs estimates for more than half of all subawards for the three Recovery Act grants we reviewed.[7] Some LEAs' jobs estimates were not included in California Education's reported jobs data because the LEAs did not resubmit jobs estimates. Other LEAs resubmitted jobs estimates that were unchanged from the initial estimates. Although California Education attempted to compile revised jobs estimates and report jobs data in accordance with OMB guidance M-10-08, the resubmission timelines precluded adequate data review and resulted in jobs data that were not complete, accurate, or consistent with the OMB guidance.

Some LEAs Did Not Resubmit Jobs Data. California Education's final jobs data did not include jobs estimates for LEAs that did not resubmit jobs estimates. For example, two of the three LEAs we reviewed did not resubmit jobs estimates for all three of the Recovery Act grants reviewed. Fresno initially submitted 316 jobs for IDEA and San Diego submitted 117 jobs for Title I, but neither LEA resubmitted a jobs estimate. As a result, California Education excluded the two LEAs' initial estimates from its final jobs data. According to internal statewide LEA data, California Education excluded more than 4,500 jobs related to about 450 subawards because LEAs did not resubmit jobs estimates.

Some LEAs Resubmitted Unchanged Jobs Data. California Education's final jobs data may have included inaccurate LEA jobs estimates because some LEAs resubmitted the same cumulative estimates as initially submitted instead of changing their estimates in accordance with OMB guidance M-10-08. Earlier OMB guidance M-09-21 advised recipients to estimate jobs using data from current and prior quarters and make subjective judgments on the jobs impacts of Recovery Act funds. Under this guidance, LEAs' initial estimates would be cumulative and could include jobs paid with non-Recovery Act funds. OMB guidance M-10-08 changed the jobs estimation methodology and definition of a job created or retained whereby recipients were

[7] Some LEAs submitted revised jobs estimates for some but not all of the three grants we reviewed. Hence, we counted the number of subawards to LEAs for each grant.

to estimate jobs on a quarter basis and report only those jobs paid with Recovery Act funds. According to internal statewide LEA data, LEAs resubmitted jobs estimates that were identical to their initial submission for 37 percent of all subawards for the three grants we reviewed.

LEA Procedures for Estimating Jobs

The three LEAs we reviewed used jobs estimation methods that generally conformed to OMB guidance M-10-08 for the Section 1512 reporting period ending December 31, 2009. However, the LEAs did not recognize all jobs resulting from Recovery Act subawards. Fresno and San Diego used data already available in their accounting systems to determine the number of jobs supported by Recovery Act funding. Although their jobs estimation methods were not aligned with the original method specified in Department guidance and OMB guidance M-09-21, the two LEAs' methods were inadvertently similar to an alternative methodology addressed in the updated OMB guidance M-10-08.[8] San Francisco initially followed the Department's September 2009 guidance to estimate jobs and, in response to OMB guidance M-10-08, revised its estimates using information available in its accounting systems. Even though their job estimation methodologies appeared reasonable, the three LEAs omitted jobs associated with summer school programs and/or other entities' jobs paid with Recovery Act funds.

OMB guidance M-10-08 addresses the extent that recipients should collect information about subrecipient and vendor jobs:

> [P]rime recipients are required to generate estimates of job impact by directly collecting specific data from sub-recipients and vendors on the total FTE [full-time equivalent] resulting from a sub-award.[9] To the maximum extent practicable, information should be collected from all sub-recipients and vendors in order to generate the most comprehensive and complete job impact numbers available.

Summer School Jobs. San Francisco omitted jobs paid with Recovery Act funds for a summer school program held in 2009. San Francisco used SFSF Education Stabilization and Title I funds to pay salaries for teaching positions during the school year and for extended calendar and

[8] All three LEAs generally estimated jobs on the basis of annual salaries using a variation of OMB's definite-term methodology by calculating jobs based on Recovery Act-funded salary expenses divided by an applicable annual salary. Thus, salary expenses charged to the Recovery Act grants were directly attributable to actual positions and jobs estimates appeared reasonable. Linking salary expenses to an hourly measurement of jobs was consistent with OMB guidance M-10-08.

[9] The requirement for reporting estimates of the "Number of Jobs" is based on a calculation used to avoid overstating the number of other than full-time permanent jobs. This calculation converts part-time or temporary jobs into fractional FTE jobs. FTE employment is a standard concept that is also used by the Office of Personnel Management.

overtime periods during the summer school program.[10] However, San Francisco only recognized the salaries of full-time teaching positions paid during the regular school year. San Francisco misinterpreted California Education's reporting guidance to mean that only salaries for regular full-time schedules equated to jobs paid with Recovery Act funds. On August 26, 2010, the Department issued guidance, "Clarifying Guidance on the American Recovery and Reinvestment Act of 2009," affirming that the summer school jobs should have been included:

> [I]f an employee is fully funded by ARRA [Recovery Act] and works additional hours beyond the full-time schedule that are also funded by ARRA, the employee would be reported as more than 1 FTE. For example, if a teacher worked in a summer school program in addition to a full-time schedule and the time worked in that summer school program is roughly equivalent to 50 percent of a full-time schedule in one quarter, the teacher would be reported as 1.5 FTE for that quarter.

Other Entities' Jobs. All three LEAs omitted vendor or non-public school and agency jobs paid with Recovery Act funds, contrary to California Education guidance. On November 17, 2009, California Education issued guidance requiring LEAs to include vendor jobs in their jobs estimates. On February 23, 2010, it issued additional guidance to clarify LEA reporting of other entities' jobs:

> [J]obs counted should include jobs created/retained by other entities such as sub-awardees and vendors. For example, Special Education Local Plan Areas (SELPAs) should count jobs created/retained in their constituent agencies.… A vendor does not include a sub-grantee that provides the services supported by the grant. For example, a SELPA payment to constituent school district or to a non-public school for special education services would not be considered a payment to a vendor.[11]

San Francisco correctly calculated and submitted vendor jobs to California Education. However, San Francisco did not submit data for jobs supported by special education service agreements with constituent non-public schools and agencies, which accounted for more than $6 million in IDEA funds under the Recovery Act.

Fresno and San Diego did not submit all vendor jobs resulting from Recovery Act funds. Fresno's Fiscal Services Administrator told us that most of Fresno's vendors were unresponsive to requests for jobs information. In response to our finding, Fresno enhanced its outreach efforts to ensure more accurate vendor jobs estimates. San Diego's Senior Financial Accountant told us that the LEA was aware of the reporting requirement but did not submit any vendor jobs because California Education's guidance did not identify a method for collecting and using jobs information from vendors. Our review of several San Diego service contracts with vendors found that some contracts contained information that could have been used to estimate vendor

[10] San Francisco spent $686,145 in SFSF Education Stabilization funds and $164,250 in Title I funds under the Recovery Act on salaries for summer school teachers. Based on California Education's expectation of $50,000 of salary expenses per job (used as a data reasonableness check), San Francisco's summer school salary expenses would have equated to 17 additional jobs.

[11] In California, the SELPA is the LEA for IDEA funding purposes. A SELPA may be a single school district, or it may be composed of multiple districts. In a multi-district SELPA, the SELPA may provide special education services for member districts or disburse funds to districts to provide services.

jobs. Although Fresno and San Diego did not appear to have many vendor jobs paid with Recovery Act funds, omitting even a small number of jobs at individual LEAs could have material implications when the jobs data are aggregated for the entire State. According to an internal California Education report, less than 4 percent of the more than 1,500 LEAs statewide submitted vendor jobs paid with SFSF Education Stabilization funds for the reporting period ending December 31, 2009.

Several U.S. Government Accountability Office (GAO) reports also identified data quality issues related to vendor jobs at California Education. In March 2010, GAO reported that California LEAs did not collect and submit consistent information on vendor jobs, in part due to unclear guidance. In May 2010, GAO again reported that some LEAs were underreporting vendor jobs.[12] In response to the GAO reports, California Education issued detailed reporting guidance on vendor jobs, including a vendor job tracking form, to provide a standard method for LEAs to request vendor and other entities' job information. Moreover, the California State Auditor reported that the State's central Recovery Act unit provided training to California Education and LEAs in June 2010 that addressed the reporting of vendor jobs. These efforts are positive steps to better ensure that LEAs submit complete and consistent jobs data, including vendor jobs, in future Section 1512 reports.

California Education's Review of LEA Jobs Estimates

For the reporting period ending December 31, 2009, California Education did not perform all necessary review procedures on LEA jobs data associated with the SFSF Education Stabilization, Title I, and IDEA grants funded under the Recovery Act. As a result, California Education did not detect significant errors in LEA jobs estimates and reported inaccurate jobs data to FederalReporting.gov. Furthermore, control weaknesses in its review procedures resulted in California Education reporting jobs data that did not achieve OMB's minimum standard for Recovery Act data quality. OMB guidance M-09-21 addressing data quality states:

> At a minimum, Federal agency, recipients, and sub-recipients should establish internal controls to ensure data quality, completeness, accuracy and timely reporting of all amounts funded by the Recovery Act.

California Education's Section 1512 reporting consultant told us that review procedures included reasonableness checks of LEA jobs estimates, including an assumption that each job equates to $50,000 of salary paid with Recovery Act funds. One such reasonableness check was to compare LEA jobs and expenditure data using the salary threshold. The consultant emphasized that California Education did not have LEA-specific information about the uses of Recovery Act funds, which would be needed to perform comprehensive assessments on all LEAs' jobs estimates. Therefore, reasonableness checks generally focused on the State's 10 largest LEAs. However, review procedures also included a check of the complete statewide jobs database to identify outliers in individual LEAs' jobs estimates.

[12] "Recovery Act: California's Use of Funds and Efforts to Ensure Accountability," GAO (Testimony, GAO-10-467T, March 5, 2010); "Recovery Act: States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability (California)," GAO (Report to the Congress, GAO-10-605SP, May 2010).

Based on our review of its statewide LEA jobs database, we identified reporting errors that California Education should have detected if it had performed established reasonableness checks. For example, one LEA estimated 5,800 jobs for Title I and 3,200 jobs for SFSF Education Stabilization, yet employed fewer than 10 teachers. This LEA had the highest jobs estimates for Title I and the second highest for SFSF Education Stabilization statewide even though it reported no expenditures for the two subawards. We identified similar discrepancies in the jobs estimates and expenditure data for other LEAs. However, the one LEA's errors alone resulted in California Education overreporting Title I jobs by 147 percent and SFSF Education Stabilization jobs by almost 10 percent statewide.

In January 2010 (ED-OIG/A09J0006), we reported that California Education's compressed timelines for developing, testing, and implementing its reporting system could increase the risk of inaccurate and incomplete data. At that time, California Education was developing subrecipient monitoring procedures for Recovery Act reporting to ensure the quality of LEA jobs estimates. In the report, we encouraged California Education to (1) take full advantage of the continuous correction period to correct and disclose data quality issues for each reporting period, (2) implement planned controls for its data collection system, and (3) assess and modify controls as needed.

For the reporting period ending December 31, 2009, California Education's compressed reporting timelines prevented it from taking full advantage of the continuous correction period to identify, disclose, and correct data quality issues. As previously noted, LEAs were to resubmit revised jobs estimates only 5 days before the end of the continuous correction period. Coupled with the lack of appropriate data quality reviews, the internal timelines adversely affected California Education's ability to meet OMB's standard of internal controls to ensure complete, accurate, and timely reporting of Recovery Act information. California Education must ensure that its processes and timelines for compiling and reviewing LEA jobs estimates are adequate to ensure the quality of reported Recovery Act data. For future Section 1512 reporting periods, California Education enhanced its review procedures to include additional reviews and reasonableness checks of jobs estimates for 17 large LEAs. Although focusing review efforts on large LEAs is an important component of a risk-based approach to ensuring data quality, California Education should ensure that it has adequate review procedures in place to ensure all LEAs statewide submit quality data.

We did not evaluate the effectiveness of California Education's enhanced review procedures during our review. However, recent GAO and California State Auditor reports provide updated information about California Education's review procedures and related issues. In its May 2010 report (GAO-10-605SP), GAO reported that California Education's data reliability strategies did not always identify questionable LEA jobs estimates for the reporting period ending March 31, 2010. In its report, GAO suggested additional reviews of the 10 largest LEAs' data and methodologies, which would account for a large portion of Recovery Act funding and could help identify systemic reporting problems. In its September 2010 report (GAO-10-1000SP), GAO noted that California Education did perform additional reasonableness checks for the 10 largest LEAs for the reporting period ending June 30, 2010. In December 2010, the California State Auditor reported that California Education did not adequately review subrecipients' jobs calculation methodologies and supporting documentation for Section 1512

reporting or ensure that all subrecipient data were submitted. Although California Education expanded its existing on-site monitoring reviews for the reporting period ending March 31, 2010, the State Auditor reported that on-site and online reviews were suspended for the reporting period ending June 30, 2010. Delays in enacting the State budget precluded travel to LEAs, and California Education wanted to keep online reviews on a consistent schedule with the on-site reviews.[13] California Education resumed on-site and online reviews beginning January 2011.

RECOMMENDATIONS

We recommend that the Director of the Implementation and Support Unit, in conjunction with the Assistant Secretary for Elementary and Secondary Education and the Assistant Secretary for Special Education and Rehabilitative Services, require Planning and Research and California Education to:

2.1 Implement appropriate data quality controls, including taking full advantage of the continuous correction period, to perform review procedures on LEA jobs estimates to ensure the reported jobs data are accurate, complete, and consistent with applicable guidance. When data quality issues are identified, correct the errors in a timely manner and notify the Department of any material omissions and significant reporting errors.

2.2 Assess internal data quality monitoring processes on an ongoing basis to ensure they continue to be appropriate and effective.

2.3 Ensure that the timing of LEA data collections in future reporting periods allows sufficient time to perform all necessary data quality reviews and to respond to unforeseen circumstances without reducing the effectiveness of established data review processes.

2.4 Ensure that all future Section 1512 reporting guidance issued to subrecipients is clear, timely, and consistent with changes to OMB and Department guidance to ensure LEAs can understand and adhere to Section 1512 reporting requirements.

2.5 Notify LEAs statewide of the types of deficiencies identified in Finding No. 2 to ensure that similar reporting errors do not occur in future Section 1512 reports.

California Education Comments

California Education did not state whether it concurred with Finding No. 2 or the recommendations in our report, nor did it identify specific corrective actions it has initiated in response to each recommendation. Instead, California Education identified the following steps it has taken to ensure reported jobs data are complete, accurate, and consistent with guidance: (1) provided guidance to LEAs with emphasis on correct job reporting methodologies and correcting deficiencies identified in previous quarterly reports; (2) reviewed jobs data for reasonableness prior to Federal submission and contacted LEAs to resolve questionable data; (3)

[13] "American Recovery and Reinvestment Act of 2009: The California Recovery Task Force and State Agencies Could Do More to Ensure the Accurate Reporting of Recovery Act Jobs," California State Auditor (High Risk Update, 2010-601, December 2010).

notified LEAs of the continuous correction period and encouraged LEAs to make corrections during that time; (4) placed greater data checks on the 10 largest LEAs; and (5) included selected Recovery Act programs in monitoring reviews to ensure reported jobs data are complete and in accordance with Federal guidance.

OIG Response

The steps described in California Education's comments appear to partially address Recommendation 2.1 but not our remaining four recommendations. As a result, California Education's stated actions are not sufficient to correct the deficiencies identified in our finding or to prevent or detect future data quality issues. As stated in Recommendation 2.1, California Education needs to ensure procedures are in place to correct data errors in a timely manner and notify the Department of any material omissions and/or significant reporting errors. To ensure accurate, reliable, and complete Section 1512 data are reported in accordance with Recovery Act reporting requirements, California Education should also develop policies and procedures and take other steps to fully implement Recommendations 2.2 through 2.5. We did not modify our finding or recommendations based on California Education's comments.

OTHER MATTERS

LEA Interest Calculation Methodologies

For the three LEAs we reviewed, methodologies for calculating interest earned on Federal cash advances did not fully adhere to California Education's guidance and instructions for calculating interest earnings. We previously reported cash management issues in California related to the (1) lack of LEA compliance with the Federal requirement to remit interest earned on advances of Federal program funds and (2) LEAs' inability to accurately calculate and timely remit interest earned on Federal funds provided under the Recovery Act and other Federal education grants.[14] In response to this work, California Education issued guidance to LEAs on Federal interest requirements in December 2008 and more detailed interest calculation instructions in January 2010. These guidance documents were generally consistent with Federal requirements.

During our current audit, we reviewed LEA compliance with Federal cash management requirements and found that the three LEAs had calculated interest earned on Federal cash balances and remitted or planned to remit the interest to California Education as required. However, the three LEAs' calculation methodologies did not use the average daily cash balance across all Federal programs for each day of the quarterly reporting period. Moreover, the three LEAs calculated interest earnings over fiscal periods that varied for each LEA, and one LEA had not remitted any of its interest earnings. Two LEAs incorrectly offset negative cash balances against positive cash balances and used the resulting negative balance to determine interest liabilities (netting) even though California Education's guidance expressly prohibited the netting of interest. One of the two LEAs also incorrectly calculated interest for its Recovery Act funds

[14] "California Department of Education Advances of Federal Funding to Local Educational Agencies" (Audit Report, ED-OIG/A09H0020, March 9, 2009); ED-OIG/A09J0006.

separate from other Federal education funds instead of combining cash balances from all Federal sources. The calculation errors described above resulted in Fresno and San Diego overstating their interest liabilities by about $320,000 and $87,000, respectively. In contrast, San Francisco understated its interest liability by almost $5,400.

In response to our audit, the three LEAs sought technical assistance from and worked with California Education to revise their interest calculation methodologies and resolve discrepancies in the amount of interest earned and remitted. California Education's Audits and Investigations Division subsequently confirmed that the three LEAs' methodologies and interest calculations were in compliance with its guidance. In August 2010, California Education issued a letter to all LEA and charter school officials reminding them of the Federal requirements for remitting interest earned on advances of Federal program funds.

California Education's Reported Amount of Recovery Act Funds Spent

California Education's reported amount of funds spent may not reflect the actual cumulative amount of Recovery Act funds spent by LEAs or provide optimal transparency for users of the Recovery.gov Web site. OMB's Section 1512 reporting guidance specifies that recipients are to report their disbursements to subrecipients as Recovery Act funds spent. California Education appropriately reported the amount of Recovery Act funds disbursed to LEAs as funds spent for the three grants we reviewed. Even though California Education reported the data as specified in Federal guidance, the reported amount may not present an accurate or complete picture of what had actually been spent because California Education advanced Federal funds to LEAs. We previously reported (ED-OIG/A09J0006) cash management issues related to California Education's practice of disbursing Federal funds to LEAs without information about whether the LEAs needed the funds at the time of disbursement, which resulted in some LEAs receiving Recovery Act funds too early.

For Section 1512 reporting purposes, California Education required LEAs to track and report their actual spending related to the Recovery Act subawards and used these data to determine project status. Based on a comparison of disbursement amounts that were posted to Recovery.gov and LEA expenditure data from an internal California Education report, we determined that the reported amount of Recovery Act funds spent exceeded LEAs' actual expenditures by about $1.3 billion, or 48 percent, for SFSF Education Stabilization and more than $280 million, or over 160 percent, for Title I. For example, San Diego received most of its $52 million SFSF Education Stabilization allocation in June 2009 but had not spent any of the funds as of December 31, 2009. Instead of being invested in the economy, the almost $1.6 billion in unspent Recovery Act funds were held in LEAs' bank accounts when the reporting period ended on December 31, 2009. California Education did post LEA expenditure data on its Web site, which provided the public with information on LEAs' actual spending.

In a September 2010 report to the Recovery Accountability and Transparency Board, we identified grant recipients reporting disbursements to subrecipients as Recovery Act funds spent as a transparency issue that could distort the true amount of Recovery Act funds invested in the economy. In the report, we recommended that the Recovery Accountability and Transparency Board explore opportunities to increase the transparency of information available on

Recovery.gov, including evaluating the feasibility of requiring recipients to report subrecipients' actual funds spent.[15]

SCOPE AND METHODOLOGY

The purpose of our audit was to determine whether (1) selected LEAs used Recovery Act funds in accordance with applicable laws, regulations, and guidance; and (2) California Education and selected LEAs reported data that were accurate, reliable, complete, and in compliance with Recovery Act reporting requirements. Our review covered three LEAs—Fresno, San Diego, and San Francisco—which received Recovery Act funds through allocations from California Education. Our review also included California Education, the State agency responsible for administering the selected grants including required Recovery Act reporting.

Our review covered three education-related grants under the Recovery Act. The three grants comprised most of the nearly $9 billion in education-related Recovery Act funding that the Department had allocated to California. For each grant, the original authorizing statute, abbreviated program name, and Catalog of Federal Domestic Assistance number assigned for grant-tracking purposes are identified below:

- Recovery Act, Title XIV
  - SFSF Education Stabilization (84.394)
- Elementary and Secondary Education Act of 1965, as amended
  - Title I Part A Basic Grants to LEAs (84.389)
- IDEA, as amended
  - Part B Section 611 Special Education Grants to States (84.391)

To gain an understanding of the requirements applicable to our audit objectives, we reviewed Federal laws, regulations, OMB Circulars, and OMB and Departmental guidance specific to the grants we reviewed.

To address the audit objectives, we performed work at California Education and three selected LEAs. At the State level, we interviewed California Education Fiscal Policy Division and Audits and Investigations Division officials responsible for subrecipient monitoring and Section 1512 reporting. We also reviewed California Education's policies, procedures, and LEA guidance to gain an understanding of their processes and controls for monitoring LEAs' use of funds and for compiling, processing, and reviewing LEA jobs estimates. We also reviewed and considered the results and findings of prior California Education Single Audits, other State reviews, GAO reports, and Department program monitoring visits to identify areas of potential control weaknesses related to our audit objectives. In addition, we met with representatives from the California Technology Agency, the agency responsible for administering the State's centralized reporting system for submitting Section 1512 data to FederalReporting.gov, to gain an understanding of (1) how the California Education data collection system interfaced with the

[15] "Recovery Act Data Quality: Recipient Efforts to Report Reliable and Transparent Information" (Final Report, ED-OIG/S20K0002, September 13, 2010).

State's centralized reporting system, (2) roles and responsibilities of key personnel, and (3) reporting system controls already in place.

At the local level, we judgmentally selected three LEAs—Fresno, San Diego, and San Francisco—that were among the 10 largest LEAs in the State in terms of the amount of Recovery Act funds allocated and spent under the SFSF Education Stabilization, Title I, and IDEA grants. When selecting the LEAs, we also considered such factors as: (1) geographical diversity; (2) whether California Education considered the LEA to be high risk; (3) findings from prior single audits, ED-OIG audits, other State reviews, and Departmental program monitoring visits; and (4) whether GAO was conducting, or planned to conduct, work at the LEA.

At each LEA, we interviewed fiscal and program officials responsible for administering Recovery Act grants and reporting Section 1512 data to California Education. We also reviewed LEA policies and procedures to gain an understanding of their processes for approving Recovery Act expenditures, and compiling and submitting Section 1512 data to California Education. We also reviewed and considered the results and findings of prior Single Audits as well as State and Departmental program monitoring visits in order to identify areas of potential risk or control weaknesses at each LEA.

Use of Funds: We performed limited assessments of the three selected LEAs' policies and procedures by selecting a judgmental sample of personnel and nonpersonnel expenditure transactions at each LEA to determine whether costs charged to Recovery Act grants complied with applicable laws, regulations, and guidance. Using a risk-based approach, we selected a total of 110 transactions totaling more than $7.4 million for the period July 1, 2009, through April 30, 2010. For personnel expenditures, we selected transactions that represented a higher than expected amount for a particular position, such as higher than average teacher salaries. For nonpersonnel expenditures, we reviewed LEA accounting records to identify large dollar purchases of goods and services and considered whether the expenditures were specifically prohibited under the Recovery Act. We summarize the personnel and nonpersonnel costs and number of transactions selected for testing in Table 2 at the end of this report section.

To test personnel costs, we reviewed computer-generated records and documents from LEA payroll and human resource systems to confirm that persons paid with Recovery Act funds were actually employed by the LEA. We verified that employees paid with Title I or IDEA funds worked respectively at a Title I school or in a special education capacity. For employees paid with SFSF Education Stabilization funds, we reviewed job descriptions to determine whether the employee performed activities specifically prohibited under the Recovery Act. For all three grants, we confirmed that the selected employees were paid correctly by comparing recorded payment amounts to salary schedules and then tracing the payments to bank verification documents, such as electronic funds transfer reports or copies of cancelled checks. To test nonpersonnel costs, we reviewed applicable contracts, invoices, and purchase orders. We traced each transaction to supporting documents, confirmed that authorized LEA officials approved the supporting contracts and purchase orders, and verified that payments were correctly made by reviewing electronic funds transfer reports or copies of cancelled checks. Because we judgmentally selected the personnel and nonpersonnel expenditure transactions included in our

review, the results presented in this report cannot be projected to the universe of more than $100 million in costs that the three LEAs incurred for the period covered by our review.

To assess compliance with Federal cash management requirements, we determined whether the three LEAs had policies and procedures in place to correctly calculate and timely remit interest earned on Federal cash balances. We reviewed the reasonableness of LEA interest calculations to determine whether they were calculated in accordance with California Education's January 2010 guidance. We also reviewed LEA interest calculation methodologies and worksheets, accrued interest amounts, interest remittance schedules, and interest checks/warrants submitted to California Education, as well as applicable guidance issued by California Education and County Offices of Education.

We relied on computer-processed data contained in the accounting systems of the three selected LEAs for purposes of testing expenditures and reviewing interest calculations. Based on our testing as described above, we determined that the computer-processed data were sufficiently reliable for the purposes of this audit.

Data Quality: To evaluate data quality, our review focused on Section 1512 reporting for seven data elements—estimated number of jobs created or retained, vendor information, project status, and the amount of funds awarded, subawarded, received, and spent—reported by California Education and/or submitted by LEAs to California Education for the period ending December 31, 2009. We evaluated California Education's data collection and review procedures and reviewed actions taken to enhance data quality for subsequent reporting periods. We performed limited analytical checks on statewide LEA data to determine whether California Education's control processes were adequate to detect and correct significant errors or omissions in LEA submitted data. We also reviewed California Education's processes for pre-populating LEA information in its data collection system and reviewing the quality of LEA data submissions. We also evaluated California Education's process for compiling statewide LEA data to determine the reported Section 1512 amounts. Lastly, we performed reasonableness and logic checks on the data that California Education reported to FederalReporting.gov. At the three LEAs, we reviewed supporting documentation for Section 1512 data that each LEA had submitted to California Education and traced selected data elements through State and Federal reporting systems. We also relied on our testing of LEA personnel costs to confirm that reported jobs were attributable to actual salaries paid with Recovery Act funds.

For Recovery Act Title I school-level expenditure reporting, we verified the reasonableness of each of the three LEAs' data by tracing selected expenditures from the reports to the expenditure detail recorded in the LEAs' accounting systems. We also reconciled minor differences between the total number of reported schools with Title I expenditures and the total number of schools with Title I expenditures recorded in the LEAs' accounting systems.

We relied on computer-processed data provided by California Education and the three selected LEAs for our evaluation of data quality. We verified that LEA data submitted to California Education were supported by source documentation and traced the LEA data to the corresponding recipient data in California Education's reporting system. Lastly, we used California Education's data as control totals to verify the accuracy and completeness of the

statewide LEA data and the aggregate recipient data. We determined that the computer-processed data were sufficiently reliable for the purposes of this audit.

We performed fieldwork at California Education's headquarters in Sacramento, California, during the period December 2009 through May 2010. We performed fieldwork at Fresno in February 2010, San Francisco in March 2010, and San Diego in April 2010.

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.

Table 2: Total Recovery Act Personnel and Nonpersonnel Costs for Reviewed Grants and LEAs and the Expenditure Amounts and Number of Transactions Selected for Testing (a)

LEA	Personnel Costs			Nonpersonnel Costs			Total
	SFSF (b)	Title I	IDEA	SFSF (b)	Title I	IDEA	
Fresno							
Total Costs	$8,744,502	$1,922,233	$8,401,204	$3,457,048	$0	$0	**$22,524,987**
Expenditure Amounts Selected	$3,053,900	$115,820	$20,750	$502,578	$0	$0	**$3,693,048**
Number of Transactions Selected	10	20	10	12	0	0	**52**
San Diego							
Total Costs	$29,752,791	$10,177,365	$12,297,026	$0	$2,247,311	$1,493,346	**$55,967,839**
Expenditure Amounts Selected	$27,011	$73,351	$11,791	$0	$116,740	$703,104	**$931,997**
Number of Transactions Selected	4	6	8	0	4	4	**26**
San Francisco							
Total Costs	$8,068,223	$1,914,846	$0	$5,334,901	$831,654	$6,152,557	**$22,302,181**
Expenditure Amounts Selected	$48,633	$40,076	$0	$2,026,423	$424,975	$243,949	**$2,784,056**
Number of Transactions Selected	10	10	0	3	3	6	**32**
Total							
Total Costs	**$46,565,516**	**$14,014,444**	**$20,698,230**	**$8,791,949**	**$3,078,965**	**$7,645,904**	**$100,795,008**
Expenditure Amounts Selected	**$3,129,544**	**$229,247**	**$32,541**	**$2,529,001**	**$541,715**	**$947,053**	**$7,409,101**
Number of Transactions Selected	**24**			**15**	**7**	**10**	**110**

(a) The number of transactions tested at each LEA varied depending on the amount of personnel and nonpersonnel costs charged to each grant. In some cases, the LEA did not spend grant funds during the period covered by our review.
(b) SFSF Education Stabilization grant.

36 **18**

Enclosure

Planning and Research and California Education Comments on the Preliminary Audit Report

STATE OF CALIFORNIA

GOVERNOR'S OFFICE *of* PLANNING AND RESEARCH

EDMOND G. BROWN JR.
GOVERNOR

March 11, 2011

Ray Hendren, Regional Inspector for Audit
Office of Inspector General
U.S. Department of Education
501 I Street, Suite 9-200
Sacramento, California 94814-2559

Dear Mr. Hendren:

Subject: Preliminary Report- California: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs ED-OIG/A09K0002

Thank you for your comments and recommendations for the audit criteria for: 1) selected LEAs in California use of Recovery Act funds in accordance with applicable laws, regulations, and guidance and 2) accurate, reliable, complete, reported data in accordance with Recovery Act reporting requirements. We appreciate the chance to address and respond to the preliminary report.

Since the audit process began, California has been working constructively with the federal government, state agencies, the State Recovery Task Force, as well as its ARRA recipients resulting in improved reporting. In addition, the Governor's Office of Planning and Research is collaborating with the California Department of Education to monitor and address issues raised in the audit report specific to the State Fiscal Stabilization Fund program. We will, of course, continue our efforts to ensure quality and accurate data.

We look forward to further working with you on additional improvements to the program.

Sincerely,

/s/

Ken Alex
Director, Governor's Office of Planning and Research

KA:kk

cc: Jennifer Grutzius, Chief of Staff
California Recovery Task Force

Carol Bingham, Senior Fiscal Policy Advisor
California Department of Education

Kevin Chan, Director of Audits and Investigation Division
California Department of Education

CALIFORNIA
DEPARTMENT OF
EDUCATION

TOM TORLAKSON
STATE SUPERINTENDENT OF PUBLIC INSTRUCTION

March 9, 2011

Ray Hendren, Regional Inspector for Audit
Office of Inspector General
U. S. Department of Education
501 I Street, Suite 9-200
Sacramento, CA 95814-2559

Dear Mr. Hendren:

Subject: Draft Report—California: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs ED-OIG/A09K0002

In response to the U.S. Department of Education (ED), Office of Inspector General's (OIG) draft report entitled *California: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs,* the California Department of Education (CDE) respectfully requests that CDE's written comments on the reported findings and recommendations are noted and considered in regard to the final report and subsequent program determinations.

Finding No. 1 – California Education Needs to Ensure That Local Educational Agencies (LEAs) Use Recovery Act Funds According to Federal Requirements.

Recommendation 1.1:
"Ensure the deficiencies we identified for the Title I grant funded under the Recovery Act are corrected by (1) confirming that Fresno reimbursed its subgrant for the $20,457 ($15,097 + $5,360) in personnel costs that were improperly charged for four employees and (2) requiring San Diego to reimburse its subgrant for the $2,950 in nonpersonnel costs that were improperly charged for two field trips."

CDE Comments and Corrective Action:
To ensure the identified reimbursements of personnel and non-personnel costs to the American Recovery and Reinvestment Act (ARRA) subgrant have been made, CDE will request that the two districts submit documentation of the reimbursements to the appropriate subgrants by May 1, 2011.

Recommendation 1.2:
"Require Fresno to strengthen its estimation and reconciliation procedures to ensure that only personnel costs allocable to Title I are charged to the Title I grant funded under the Recovery Act. Procedures could include (1) selecting only eligible employees whose costs are allocable to the grant when estimating personnel costs, and (2) performing reconciliations of actual personnel activity each quarter to correspond with Section 1512 reporting dates, rather than only at year-end."

CDE Comments and Corrective Action:
CDE will request that the Fresno Unified School District (USD) submit documentation by May 1, 2011, of the following items: (1) procedures to ensure that only personnel costs allocable to Title I are charged to the Title I grant funded under the ARRA; and (2) documentation of Fresno USD performing reconciliations of actual personnel activities each quarter to correspond with Section 1512 reporting dates.

Recommendation 1.3:
"Ensure that San Diego personnel responsible for charging or approving expenditures to Federal grants understand and follow Federal cost principles so that entertainment costs are not charged to Recovery Act grants in the future."

CDE Comments and Corrective Action:
The CDE has scheduled a Categorical Program Monitoring (CPM) visit during May 2 to 5, 2011, to evaluate San Diego USD's compliance with applicable federal requirements and to provide technical assistance to ensure that San Diego USD is appropriately expending and utilizing ARRA funding.

Recommendation 1.4:
Notify LEAs statewide of the types of deficiencies identified in Finding No. 1 and instruct LEAs to identify and correct such deficiencies, if found, to ensure that similar unallowable costs are not charged to the Title I grant under the Recovery Act.

CDE Comments and Corrective Action:
The CDE has increased its efforts to ensure that the LEAs utilize ARRA funds according to the federal requirements by: (1) providing links to guidance posted on the CDE's Web page; (2) conducting webinars; (3) sending out guidance through e-mails; and (4) providing technical assistance via CPM field visits and telephone. By April 15, 2011, CDE will

provide additional guidance specific to the types of deficiencies identified by the ED OIG.

Finding No. 2 – California Education Needs to Ensure Reported Jobs Data Are Complete, Accurate, and Consistent with Reporting Guidance.

CDE Comments and Corrective Action:
The CDE has taken the following steps to ensure reported jobs data are complete, accurate, and consistent with reporting guidance:

1. Provided guidance to LEAs with emphasis on correct job reporting methodologies and to correct any deficiencies identified during previous quarter's reporting to the LEAs via correspondence from the State Superintendent of Public Instruction; the guidance is posted on the CDE ARRA Reporting & Data Collection System Web page at http://www.cde.ca.gov/ar/rr/rptingdatcol.asp.

2. Reviewed jobs data for reasonableness prior to Federal submission and contacted LEAs to resolve questionable data.

3. Notified LEAs of the continuous correction period and encouraged LEAs to make corrections during that time.

4. Placed greater data checks on CDE's 10 largest districts.

5. Included selected ARRA programs as part of the CPM review to ensure ARRA jobs data reported is complete and in accordance with Federal guidance.

If you have any questions regarding the CDE's response to the draft report, please contact Kevin W. Chan, Director, Audits and Investigations Division, at 916-323-1547, or by e-mail at kchan@cde.ca.gov.

Sincerely,

/s/

Richard Zeiger
Chief Deputy Superintendent of Public Instruction

RZ:amb

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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