



**UNITED STATES DEPARTMENT OF EDUCATION**  
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES  
Philadelphia Audit Region

December 19, 2012

**Control Number**  
**ED-OIG/A03M0005**

Mr. Mark Murphy  
Secretary of Education  
Delaware Department of Education  
401 Federal Street, Suite 2  
Dover, Delaware 19901

Dear Secretary Murphy:

As part of a nationwide U.S. Department of Education (Department) Office of Inspector General review of final expenditures under the American Recovery and Reinvestment Act of 2009 (Recovery Act), we reviewed Recovery Act expenditures at Red Clay Consolidated School District (Red Clay) and Christina School District (Christina). The purpose of the nationwide audit was to determine whether selected local educational agencies (LEAs) obligated and spent final Recovery Act funding on reasonable, allocable, and allowable activities in accordance with applicable Federal requirements. The Office of Inspector General plans to issue an audit report to the Department to present the results of the nationwide audit. The purpose of this final report, "Delaware: Final Recovery Act Expenditures Supplemental Report," is to separately address internal control weaknesses at Christina so that the Department and your agency can take appropriate corrective actions.

Our review covered January 1 through December 31, 2011, and Recovery Act expenditures for the State Fiscal Stabilization Fund, Education Stabilization Fund (ESF); Title I Part A of the Elementary and Secondary Education Act (Title I); and Part B of the Individuals with Disabilities Education Act (IDEA) grant programs.

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## **BACKGROUND**

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The Department awarded \$110,320,067 in ESF funds to Delaware, which designated the Delaware Office of Management and Budget (Delaware OMB) as the entity responsible for administering the ESF grant. The Department also awarded \$32,433,643 in Recovery Act Title I funds and \$32,700,531 in Recovery Act IDEA funds to the Delaware Department of Education (Delaware Education).

Across the three grants, Red Clay was awarded a total of \$19,288,525 and Christina a total of \$23,742,520, as shown in Table 1. The grant period for Recovery Act ESF, Title I, and IDEA ended September 30, 2011.<sup>1</sup>

**Table 1: Recovery Act Grant Award Amounts at Red Clay and Christina**

<b>Recovery Act Grant</b>	<b>Red Clay</b>	<b>Christina</b>
ESF	\$10,801,128	\$13,026,628
Title I	\$4,298,174	\$5,761,375
IDEA	\$4,189,223	\$4,954,517
<b>Total</b>	<b>\$19,288,525</b>	<b>\$23,742,520</b>

Source: Grant information provided by Delaware Education

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## AUDIT RESULTS

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Red Clay and Christina generally obligated and spent the Recovery Act ESF, Title I, and IDEA funds in accordance with applicable laws, regulations, guidance, and program requirements. However, we identified an internal control weakness in Christina's payroll adjustment process that resulted in Christina obligating ESF funds for personnel services that occurred after the September 30, 2011, obligation deadline. We provided a draft of this report to Delaware Education which concurred with the audit results. Its response is attached to this report.

### **FINDING NO. 1 – Christina Obligated ESF Funds After the Obligation Deadline**

Christina improperly obligated \$41,184 of ESF funds for personnel expenditures after the grant period ended on September 30, 2011. On December 9, 2011, Christina processed a payroll adjustment to replace district funds with ESF funds; however, the district funds were obligated for personnel services that occurred between October 21, 2011, and December 3, 2011.

According to the ESF Closeout and Late Liquidation guidelines published by the Department in August 2011, ESF funds must be obligated by September 30, 2011, or the funds revert to the U.S. Department of the Treasury. Further, 34 C.F.R. § 76.707 states that the obligation for personal services by an employee of the State or subgrantee is made when employee performs the services.

Delaware Education's policies and procedures did not ensure that LEAs processed Payroll Fund Adjustment (PFA) obligations in accordance with Recovery Act regulations. The Christina official responsible for processing the ESF payroll obligation stated that the district had made a mistake when obligating payroll after the deadline. The mistake occurred when Christina

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<sup>1</sup> Under § 421(b) of the General Education Provisions Act (Tydings Amendment), the school districts had to obligate the Recovery Act grant funds by September 30, 2011. Department regulation required the districts to liquidate (or make final payment) on the obligations no later than 90 days after the end of the grant period (34 C.F.R. § 80.23). As described in the Scope and Methodology section, our review covered expenditures from January 1 through December 31, 2011.

processed a PFA transaction<sup>2</sup> in December 2011 to change the appropriation and funding code for personnel services performed after the obligation deadline. We found that although most personnel services obligations were subject to an approval process, PFA transactions used for ESF funds were processed by one person and did not have to be reviewed or approved by any other district personnel before obligation. We consider this to be an internal control weakness.

As a result of its insufficient policies and procedures, Christina expended \$41,184 in ESF funds that were not obligated prior to the September 30, 2011, deadline. These funds should have been returned to the Department. Christina's absence of internal controls increases the risk that other funding could be improperly obligated. Although we reviewed only selected Recovery Act transactions, the control weakness we identified could have also affected other Federal funds. In its response, Delaware Education indicated that the Delaware Department of Finance, Division of Accounting is responsible for setting certain internal control policies for the State and school districts.

## **RECOMMENDATIONS:**

We recommend that the Director of the Department's Implementation and Support Unit require the Delaware Department of Education to work with the Delaware Department of Finance, Division of Accounting to—

- 1.1 Ensure that Christina implement sufficient internal controls to ensure that PFA transactions are reviewed and approved, including for allowability and availability of funds, before the funds are obligated.
- 1.2 Direct Christina to return the ESF funds, with applicable interest, to the Department.

## **Auditee Response**

Delaware Education concurred with the finding and recommendations. In its response, Delaware Education suggested that we also direct the recommendations to Delaware's Department of Finance, Division of Accounting.

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## **SCOPE AND METHODOLOGY**

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The objective of the nationwide audit of final Recovery Act expenditures was to determine whether selected LEAs (including the two Delaware school districts covered by this report) obligated and spent final Recovery Act funding in accordance with applicable Federal requirements. The purpose of this supplemental report was to address our finding related to internal control weaknesses at Christina so that the Department and Delaware Education can take appropriate corrective actions.

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<sup>2</sup> PFA transactions are payroll adjustments to change or correct information in a prior payroll. They are often used to change the funding codes.

Our review in Delaware covered two school districts—Red Clay and Christina—as well as Delaware OMB and Delaware Education. Our review covered January 1 through December 31, 2011, and Recovery Act expenditures for three education-related grants:<sup>3</sup> (1) State Fiscal Stabilization Fund-Education Stabilization Fund, 84.394; (2) Title I, Part A of the Elementary and Secondary Education Act, 84.389; and (3) Part B of the Individuals with Disabilities Education Act, 84.391.

At each school district, we interviewed fiscal and program officials responsible for administering Recovery Act grants and the closeout processes. We also reviewed district policies and procedures to gain an understanding of their processes for financial management, procurement, and reimbursement of Recovery Act expenditures from Delaware Education, and grant closeout. At the State level, we met with officials from Delaware Education and Delaware OMB to understand the policies and procedures in place regarding Recovery Act monitoring and closeout. We also interviewed State Auditors to gain an understanding of past findings or issues pertaining to the LEAs selected for review. Before our interviews, we reviewed State of Delaware FY 2009 and FY 2010 Single Audit Final Reports to note whether they contained reportable issues relevant to the audit objective.

For the finding contained in this report, we performed a limited assessment of the two districts' policies and procedures by judgmentally selecting samples of personnel<sup>4</sup> and nonpersonnel expenditure transactions at each district to determine whether the expenditures charged to Recovery Act grants complied with applicable Federal requirements. Using a risk-based approach, we selected transactions for each grant that represented high dollar amounts; transaction dates during or after September 2011, the last month of the grant period; and a variety of expenditures such as technology, travel, furniture, and transportation. For Red Clay, we selected 59 transactions totaling \$3,943,899 from a universe of \$7,976,494 in Recovery Act ESF, Title I, and IDEA personnel and nonpersonnel expenditures during our audit period.<sup>5</sup> For Christina, we selected 59 transactions totaling \$1,941,784 from a universe of \$5,509,018 in Recovery Act ESF, Title I, and IDEA personnel and nonpersonnel expenditures during our audit period.<sup>6</sup> Because we judgmentally selected our samples of expenditure transactions, the results presented in this report cannot be projected to the universe of expenditures for the period covered by our review.

We relied on computer-processed data contained in Delaware Financial Management System, which housed Recovery Act data from before December 31, 2010, and Delaware's First State Financials Accounting System, which is a newer system that Delaware Education and all LEAs within the State used after December 31, 2010. We tested the accuracy and completeness of the data by comparing Delaware Education's records to expenditure reports the two LEAs generated. We also compared the respective Recovery Act award amount the State of Delaware received to information we obtained from the Department. Similarly, we compared Delaware Education's Recovery Act allocations to data that Red Clay and Christina provided. Further, we interviewed

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<sup>3</sup> We also provide the Catalog of Federal Domestic Assistance number assigned for grant-tracking purposes.

<sup>4</sup> The number of transactions for personnel expenditures represents the number of employees selected.

<sup>5</sup> From Red Clay, we selected 21 personnel transactions from January 1 through December 31, 2011, and 38 nonpersonnel transactions from July 1 through December 31, 2011.

<sup>6</sup> From Christina, we selected 27 personnel transactions from January 1 through December 31, 2011, and 32 nonpersonnel transactions from July 1 through December 31, 2011.

Red Clay, Christina, and Delaware Education officials to gain an understanding of the shared accounting system. Based on these tests and assessments, we concluded that the computer-processed data were sufficiently reliable for the purposes of this review.

We conducted fieldwork at Delaware Education's headquarters in Dover, Delaware, and at Red Clay and Christina school districts in Wilmington, Delaware. We visited all three sites in April 2012 with an additional visit to Christina in May 2012. We held exit conferences with Delaware Education officials on July 12, 2012; with Red Clay officials on June 22, 2012; and with Christina officials on July 9, 2012.

We conducted the audit work related to this supplemental report 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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## **ADMINISTRATIVE MATTERS**

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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, including the recovery of funds, will be made by the appropriate Department of Education officials in accordance with the General Education Provisions Act.

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

Sincerely,

/s/

Bernard Tadley  
Regional Inspector General for Audit

Attachment



**DEPARTMENT OF EDUCATION**

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Dover, Delaware 19901-3630  
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Secretary of Education  
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November 2, 2012

Bernard Tadley  
Regional Inspector General for Audit  
Office of the Inspector General  
United States Department of Education  
100 Penn Square East, Suite 502  
Philadelphia, PA 19107

Dear Mr. Tadley,

We have received your letter regarding the review of final expenditures under the American Recovery and Reinvestment Act of 2009 (control number ED-OIG/A03M0005) and offer the following comment on the Recommendation.

The Recommendation states:

We recommend that the Director of the Department's Implementation and Support Unit require Delaware Education to –

- 1.1 Ensure that Christina implement sufficient internal control to ensure that PFA transitions are reviewed and approved, including for allowability and availability of funds, before the funds are obligated.

In Delaware, the Department of Finance, Division of Accounting, has the responsibility for setting certain internal control policies for the State and school districts.

We suggest that the recommendation be changed to read:

We recommend that the Director of the Department's Implementation and Support Unit require the *Delaware Department of Education to work with the Department of Finance, Division of Accounting to –*

- 1.1 Ensure that Christina implement sufficient internal control to ensure that PFA transitions are reviewed and approved, including for allowability and availability of funds, before the funds are obligated.

If you have any questions regarding this comment, please contact Karen Field Rogers at (302) 735-4025 or [kfrogers@doe.k12.de.us](mailto:kfrogers@doe.k12.de.us).

Sincerely,

A black rectangular redaction box covering the signature of Mark T. Murphy.

Mark T. Murphy  
Secretary of Education

cc: Karen Field Rogers, Associate Secretary, Department of Education  
Thomas Cook, Secretary, Department of Finance  
Kristopher Knight, Director, Division of Accounting, Department of Finance