



# FLORIDA DEPARTMENT OF EDUCATION



## Office of Inspector General

November 2009

Report No. 08/09-15CTA

# Preliminary Assessment of Departmental Readiness for Recovery Act Funding

## Overview

The majority of the targeted American Recovery and Reinvestment Act funds including state fiscal stabilization funds will be awarded in the form of subgrants to established recipients, primarily school districts, colleges and universities. At the Department level, the larger federal programs have established and audited internal controls. Prior audit findings have been relatively minor and have not resulted in loss of funding. Strong single audit act coverage by the Office of the Auditor General and independent CPAs exists for school districts and Florida colleges which will receive most of the Recovery Act funds.

The Office of Inspector General (OIG) has performed a preliminary assessment of the Department of Education's (Department) readiness to receive American Recovery and Reinvestment Act funding. As of September 2009, the Department was making appropriate progress toward establishing the necessary additional internal controls, but some challenges remain. The primary challenge facing the Department at this point is compliance with recipient reporting requirements established by the White House Office of Management and Budget (OMB). Other challenges include: continuing to strengthen

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grant monitoring practices, providing focused assistance and oversight to inexperienced grant recipients, and enhancing recipient risk profiles. Greater detail of these issues is included in this report which initially was presented to Department management on September 14, 2009, to help guide future efforts to meet Recovery Act requirements.

Future OIG consulting activities and reviews will update the status of progress made by the Department in establishing internal controls and will verify compliance with Recovery Act requirements. We also intend to audit Recovery Act expenditures for selected programs.

## Objective, Scope and Methodology

The objective of our review was to provide a preliminary assessment of the Department's internal controls which address accountability and transparency requirements and general provisions of the Recovery Act. The scope of the review included information through September 2009. We reviewed a number of federal documents to help in understanding Recovery Act requirements, including the Recovery Act itself, a United States Government Accountability Office guide on data reliability, and several Office of Management and Budget Memorandums specifically prepared to address Recovery Act activities.

OIG staff also participated in various audio conferences and Webinars presented by the OMB, U.S. Department of Education, KPMG, and others. These events addressed guidance for Recovery Act requirements and reporting on the use of Recovery Act funds (e.g., recipient reporting process, data quality requirements, and reporting on job creation).

To evaluate the existence and function of internal controls relevant to the Recovery Act,

we reviewed prior audits and reviews involving grant programs, the primary means of awarding Recovery Act funds. A Web based survey developed in cooperation with the Governor's Office was sent to designated contacts for Department programs receiving the majority of funds.

We met with key Department staff to assess internal controls in place and further define risks related to Recovery Act funds. Discussions addressed processes in place or planned to meet requirements of Recovery Act funding (e.g., distribution and use of funds, accountability and transparency, reporting, etc.). Additionally, documentation on the Department Web site was reviewed.

## Background

The American Recovery and Reinvestment Act (Recovery Act) is intended to stimulate the economy, invest in needed programs, and create and save jobs. The U.S. Department of Education will be receiving approximately \$100 billion (13% of total Recovery Act funds) in stimulus funding. These funds are intended to support states and school districts, preserve and create jobs, and advance reforms and improvements that will create long-lasting results for students. The Florida Department of Education will be receiving more than \$4 billion (4% of total Recovery Act education allocated funds) in stimulus funding. The three main program areas from which funds are awarded are: State Fiscal Stabilization Fund (\$2.2 billion or 54% of FL Department of Education funds), Title I, Part A of the Elementary and Secondary Education Act (Title I) (\$490 million or 12% of funds), and the Individuals with Disabilities

**Exhibit:** Florida Department of Education Recovery Act Allocations by Program Area.

Funding Areas	Funding Amount
State Fiscal Stabilization Fund - Education State Grants	\$2,208,839,244
State Fiscal Stabilization Fund - Government Services	491,453,230
Title I - Grants to Local Educational Agencies	490,575,352
School Improvement Grants	144,035,059
Educational Technology State Grants	30,195,950
Education for Homeless Children and Youth	3,124,358
IDEA - Special Education - Grants to States	627,262,665
IDEA - Special Education - Preschool Grants	19,700,808
Vocational Rehabilitation State Grants	32,158,840
Independent Living - State Grants	810,417
Independent Living - Services for Older Blind Individuals	2,549,536
School Lunch Equipment Grant	5,403,280
<b>TOTAL</b>	<b>\$4,056,108,739</b>

Source: Florida Department of Education Web site

Education Act (IDEA), Part B (\$627 million or 15% of funds). The disbursement and use of these funds are guided by four main principles:

- Spend funds quickly to save and create jobs;
- Improve student achievement through school improvement and reform;
- Ensure transparency, reporting and accountability; and
- Invest one-time funds thoughtfully to ensure lasting results without unsustainable recurring costs.

## Recovery Act Accountability and Transparency

The Recovery Act includes specific rules to ensure that funds are used for appropriate purposes and are transparent to the public. The Department must certify that expenditures made with Recovery Act funds are an appropriate use of taxpayer dollars and post the certification on a Web site linked to the federal Recovery Act Web site (Recovery.Gov). In addition, ten days after the end of each quarter, the Department (via the State) must submit reports to federal agencies on the use of Recovery Act funds; the impact of the funding, including number of jobs created or retained by Recovery Act projects or activities; and details about Recovery Act grants and contracts awarded by the Department to subrecipients (primarily school districts). The first report was due October 10, 2009.

The OMB April 3, 2009, memorandum, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* provided guidance for federal agencies to manage activities under the Recovery Act. The memorandum defined the Recovery Act's accountability objectives, which include the following:

- Funds are awarded and distributed in a prompt, fair and reasonable manner;
- The recipients and uses of all funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately and in a timely manner;

- Funds are used for authorized purposes and instances of fraud, waste, error and abuse are mitigated;
- Projects funded under the Recovery Act avoid unnecessary delays and cost overruns; and
- Program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

The OMB June 22, 2009, guidance memorandum, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* provides guidance for reporting on use of funds pursuant to the Recovery Act. The memorandum transmits government-wide guidance for carrying out the reporting requirements included in Section 1512 of the act. The reports required under this section contain detailed information on the projects and activities funded by the Recovery Act. When published on Recovery.Gov, these reports will provide the public with an unprecedented level of transparency into how federal dollars are being spent and will help drive accountability for the timely, prudent, and effective spending of recovery dollars. Recipient reports required by Section 1512 of the Recovery Act will answer important questions, such as:

- Who is receiving Recovery Act dollars and in what amounts?
- What projects or activities are being funded with Recovery Act dollars?
- What is the completion status of such projects or activities and what impact have they had on job creation and retention?

The June 22, 2009, OMB guidance also contained recommended data quality checks to help ensure reporting accuracy and completeness. The guidance indicated that a data quality procedure should be established before the reporting process begins and may include:

- Establishing internal controls to ensure accuracy, completeness and timely reporting.

- Establishing a data review protocol or automated process that identifies incongruous results (e.g., total amount spent on a project or activity is equal to or greater than the previous reporting).
- Establishing procedures and cross-validation of data to identify and/or eliminate potential "double counting" due to delegation of reporting responsibility to sub-recipient.
- Establishing control totals (e.g., total number of projects subject to reporting, total dollars allocated to projects) and verify that reported information matches the established control totals.
- Creating an estimated distribution of expected data along a "normal" distribution curve and identify outliers.

The Department is implementing or plans to implement each of the above controls with the exception of the third item which is not applicable since reporting is not being delegated to subrecipients.

## Department Internal Controls Related to the Recovery Act

The Department has internal controls and practices in place or planned to ensure the accountability of grants and contracts and adherence to state and federal laws and regulations. Additionally, a whistle-blower hotline is administered by the Florida Office of the Chief Inspector General, Executive Office of the Governor. In addition, the Department's OIG maintains a Web based complaint receiving mechanism. These resources provide state employees and the public with the opportunity to report suspected fraud, waste, and abuse.

Recovery Act funds are primarily directed to existing federal programs with established internal controls. These controls have been examined extensively by external agencies such as the Florida Office of the Auditor General, Florida Office of Program Policy Analysis and Government Accountability (OPPAGA), U.S. Department of Education, and others as well as internally by the Department's OIG. The internal control structure is primarily sound with

established lines of authority, operational and fiscal procedures, oversight, and separation of incompatible duties. The Department has established procedures for responding to audit findings and recommendations and this process has resulted in program and fiscal accountability improvements. Management throughout the Department has been informed through meetings, Webinars, Web sites, publications, and other means, of the increased reporting and accountability required of Recovery Act funding. We believe that management is working diligently to achieve the goals of the Recovery Act.

### Risk Assessment Survey

To evaluate the initial risk level associated with the administration of Recovery Act funds, and identify potentially vulnerable areas, the Florida Governor's Office directed recipient agencies in June 2009, to participate in a survey to assist in evaluating the "readiness" of programs receiving significant funding. Key staff associated with programs receiving the majority of Recovery Act funds were queried on issues that included magnitude of Recovery Act funding, sufficiency of program performance reporting and operating procedures, adequacy of staff resources, and resolution of prior audit findings at the program level.

The amount of Recovery Act funding scheduled to be received by program areas for fiscal year 2009-2010 ranged from under \$5 million (Independent Living - Services for Older Blind Individuals) to over \$600 million (IDEA - Special Education Grants). (See Exhibit on page 2) For most programs surveyed, the level of additional funding represents a significant percentage of their typical program budget – between 50 percent and 100 percent.

State fiscal stabilization funding of over \$2.2 billion will be awarded to various recipients including school districts, universities, state colleges, and not-for-profit organizations. According to survey responses, Department staff members in programs receiving the majority of funds have significant experience in managing federal funds as this is a normal part of their business process.

The majority of Recovery Act funding will be awarded to established federal programs within

the Department to supplement funding of established activities. These program areas have been subject to a considerable level of external oversight including audits, monitoring, and reviews at the state and federal level, most having been evaluated within the past three years.

### **Department Guidance**

Documents and information found on the Department's Web site demonstrate that management is providing guidance to recipients of Recovery Act funds to assist in fiscal and program management. Additional guidance, specific to each of the various Recovery Act-funded programs, is provided in the materials disseminated with the applications for those funds.

Grants recipients have been informed that all of the provisions of the General Terms, Assurances and Conditions for Participation in Federal and State Programs, remain in effect and are applicable to all Recovery Act subgrants awarded by the Department. Additionally, provisions of the Project Application and Amendment Procedures for Federal and State Programs Administered by the Department of Education (Green Book) also apply to Recovery Act subgrants. Required compliance with federal regulations such as the Education Department General Administration Regulations (EDGAR) and applicable OMB Circulars has been communicated.

Applicants for Recovery Act funds are required to use the project application documents specifically designated for each program. Such documents have been modified to incorporate Recovery Act requirements. Applicants are informed that they will be subject to additional and more rigorous reporting requirements than normal.

### **Department Accounting Controls**

Unique 13-digit grant numbers have been assigned to Recovery Act grants which will identify the recipient, the program, and the type/year of the award. This will help ensure that expenditures made from Recovery Act funds will be attributed to the appropriate grant award number for tracking and reporting purposes. Additionally, to ensure that the

economic stimulus funds are properly accounted for, unique special revenue fund codes have been designated. Project (grant) codes will be used within each fund to allow identification of the fund source for expenditures.

The procedures for drawing down funds, reporting disbursements, and reconciling advances to disbursements will be the same for Recovery Act funds as they are for normal federal programs. An automated system (Cash Advance and Reporting Disbursements System or CARDS) will facilitate monthly aggregate reporting and help ensure that recipients are able to draw down funds as needed to pay program costs while minimizing the time that elapses between the transfer of the funds and their disbursement by the grantee.

### **Recipient Reporting**

Recipients of Recovery Act funds will be subject to quarterly reporting of expenditures tied to the established assurances, principles, and strategies associated with the funded programs. To accomplish this reporting requirement, the Department is creating a Web based software system for reporting on expenditures to date for spending categories included in recipient program budgets. Department staff members are working closely with the Florida Office of Economic Recovery regarding reporting. All reporting elements will be reported in the Florida reporting system which will then be uploaded to the federal reporting system.

Grant recipients are being encouraged to be prepared to capture data about Recovery Act-funded expenditures down to the individual school site level as part of the planning for reporting by subrecipients. Many aspects of Recovery Act reporting continue to be developed as additional guidance is obtained from the federal government and Governor's Office.

### **Recipient Monitoring**

The Department, as the prime recipient of federal awards, is required to monitor the funds for compliance with federal requirements. The Department has flexibility in designing its monitoring systems, but must assure compliance with applicable federal requirements and achievement of performance goals. For

subrecipients receiving the majority of federal funds, the Department uses a monitoring system that is risk-based, formalized and based on a combination of desk reviews, on-site visits, and other mechanisms for reviewing subrecipient activities. Smaller federal grant programs rely primarily on less formal monitoring measures (e.g. review of quarterly performance reports, review and approval of invoices, and direct contact with grant recipients).

## Department Challenges

### Reporting Activities

Management action is needed to develop or strengthen controls involving Recovery Act reporting activities. The Department continues to interpret federal requirements and methodologies (as they continue to develop) and devise system procedures to ensure accurate and complete reporting. We believe the following actions will improve internal controls in areas with weaknesses:

- Create a Web based system to facilitate subrecipient reporting;
- Establish access controls over reporting systems;
- Prepare a protocol(s) for systematic review of submitted information;
- Develop a process to resolve or correct errors discovered in reported data; and
- Prepare written procedures for reporting system processes.

Management has been informed of these and other internal control issues that relate to recipient reporting of Recovery Act activities and is working toward solutions. We were informed that each of the actions noted above are in process.

### Grant Monitoring

While Department monitoring of larger federal grant programs has improved, additional efforts are underway to address recent OIG recommendations for strengthening grant monitoring practices. Our report, issued in June

2009, titled *Management Review of Grant Monitoring Practices*, addressed the need to increase fiscal review activities during monitoring visits, increase the frequency of on-site monitoring visits, formalize written procedures that address monitoring systems and processes, and continue efforts to deal with untimely submission of improvement plans by subrecipients.

Challenges encountered by the Department in building a comprehensive monitoring system for grants are heightened because the state's legislature has not authorized additional staff that could perform monitoring tasks. Even though funds may be authorized for this purpose by federal programs, staff cannot be hired without authorization for new positions. This has led to stretching current staff or, in the case of two federal programs, outsourcing monitoring tasks.

The Department has had to devote extensive resources to meeting challenges with no additional staff or administrative resources as none of the Recovery Act funds include administrative set-asides. Areas in which workloads for existing staff relating to Recovery Act grants have essentially doubled, include the Office of Grants Management, the Department's Comptroller function, the Title I Office and the Bureau of Exceptional Education and Student Services (special education office). Department information technology staff members have devoted significant time and effort to the application and reporting processes.

### Inexperienced Recipients

Department management has expressed concerns regarding state fiscal stabilization funding that will be awarded, consistent with line item appropriations in the General Appropriations Act, to recipients who lack experience in managing federal funded programs (e.g., private non-profits). Extra efforts are needed to ensure these entities are adequately prepared to administer the program funding and submit accurate and complete reporting in a timely manner. According to Department management, monitoring of recipients of fiscal stabilization funding will be performed based on a risk-assessment basis versus a cycle or global basis.

## Risk Profiles

The Office of Management and Budget Memorandum M-09-15 (April 3, 2009) recommends developing a risk profile for each program. While the risk assessment process was begun with the OIG risk survey completed in June 2009, more comprehensive answers to these and similar questions by program management will provide a useful evaluation of risk for program monitoring purposes. The risk profile should identify the initial risk level of each program based on responses to a series of questions which may include:

- Which programs are receiving the most funding?
- Are program outputs and outcomes clear and measureable?
- Are existing resources sufficient to achieve program objectives and administration?
- Who is (are) the final recipient(s) of funds (e.g., contractor, school district, educational institution, other)?
- Does the entity responsible for the program have a proven history of appropriately managing federal funds?
- Is this a new program for which the recipient may not have an existing administrative structure?
- Does the program typically stay within schedule and cost goals, when applicable?
- Are there current audit findings associated with this program?
- Are existing internal controls sufficient to adequately mitigate the risk of waste, fraud and abuse?

**Management response from Martha K. Asbury, Director of Administrative Services, dated November 9, 2009.**

SUBJECT: Response to Draft Report: Preliminary Assessment of Departmental Readiness for Recovery Act Funding.

Thank you for the opportunity to respond to this draft report. We do appreciate the way in which the Office of the Inspector General has worked with staff to support our efforts to properly manage the American Recovery and Reinvestment Act (ARRA) funds for which the Department of Education is the prime recipient. The report very accurately describes the background and the federal requirements associated with the administration of these funds.

The report also accurately depicts the major challenges facing the Department in this regard. The first of these enumerated in the report is the reporting function. The draft report lists the five action/system procedures needed to develop or strengthen reporting controls. The first of these is to create a Web-based system to facilitate sub-recipient reporting. This task is essentially complete. Sub-recipients used the Web-based system successfully to complete reports for the quarter ending September 30, 2009. Based on our experience with this first reporting effort, elements of the Web-based system are being refined in anticipation of the next reporting period which ends December 31, 2009. All five of the recommended actions are either complete or in process.

The second area addressed in the report is that of grants monitoring. Again, we agree with the description of the challenges; which is the lack of resources available for monitoring that make it difficult to monitor ARRA projects and programs at the desired level. In spite of the limited resources, the Department has developed and is implementing a plan for monitoring the additional funds entrusted to it.

With respect to inexperienced sub-recipients, it is important to note that for many of these, the amounts of funding are very small, e.g., \$2,569, \$4,282, \$8,564. Thus the necessary time and effort (at least as much if not more than for larger programs) required to administer these small amounts exceeds the benefit that will be realized. The amount of time for creating application documents, assisting applicants in preparing acceptable applications, reviewing and approving the applications, assisting the sub-recipients in preparing accurate quarterly reports, and in monitoring project implementation is roughly the same regardless of the size of the project.

Finally, the Office of the Inspector General recommends developing a risk profile for each program. We agree with this recommendation and are implementing it to the best of our ability.

We would also like to take this opportunity to again express appreciation to the Office of Inspector General staff. Their input in the development of processes, procedures, guidance, and controls has been an invaluable resource in these extremely challenging circumstances.