



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



American Recovery and Reinvestment Act of 2009

Commonwealth of Pennsylvania's Local Educational Agencies' Systems of Internal Controls over American Recovery and Reinvestment Act Funds

Audit Report



Pennsylvania State Capitol

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
Philadelphia Audit Region

December 21, 2010

Thomas E. Gluck, Acting Secretary of Education
Commonwealth of Pennsylvania
Department of Education
333 Market Street
Harrisburg, PA 17126-0333

Dear Mr. Gluck:

This **final audit report** presents the results of our review entitled, *Commonwealth of Pennsylvania's Local Educational Agencies' Systems of Internal Controls over American Recovery and Reinvestment Act Funds*, Control Number ED-OIG/A03K0003. We reviewed the designed systems of local educational agency (LEA) level internal control over American Recovery and Reinvestment Act of 2009 (ARRA) funds in the Commonwealth of Pennsylvania (Commonwealth). A signed hardcopy of the report will be provided upon request.

This report incorporates the comments you and officials at three Commonwealth LEAs provided us in response to our preliminary final audit report. If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department officials, who will consider them before taking final Departmental action on this audit.

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

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/

Bernard E. Tadley
Regional Inspector General for Audit

Enclosure

cc: Mark Roosevelt, Board Secretary, Pittsburgh Public Schools
Larry Sperling, Chief Executive Office, Philadelphia Academy Charter School
Joyce A. Wells, Acting Superintendent, Chester-Upland School District
Beth Olanoff, Director, Office of Policy, Pennsylvania Department of Education
Michael Walsh, Deputy Secretary, Office of Administration, Pennsylvania
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Abbreviations/Acronyms Used in this Report

ARRA	American Recovery and Reinvestment Act of 2009
BBFM	Bureau of Budget and Fiscal Management
BSE	Bureau of Special Education
CBO	Chief Business Officer
CEO	Chief Executive Officer
Certifications	Semiannual Time and Effort Certifications
CFO	Chief Financial Officer
C.F.R.	Code of Federal Regulations
Commonwealth	Commonwealth of Pennsylvania
Comptroller's Office	Office of the Comptroller
CUSD	Chester-Upland School District
Department	U.S. Department of Education
DSA	Deputy Secretary for Administration
EDGAR	Education Department General Administrative Regulations
ED-OIG	U.S. Department of Education, Office of Inspector General
ESF	Education Stabilization Fund
FTE	Full-time Equivalents
FY	Fiscal Year
GSF	Government Services Fund
IDEA	Individuals with Disabilities Education Act, Part B
IU	Intermediate Unit
IPA	Independent Public Accountant
JV	Journal Voucher
LEA	Local Educational Agency
OESE	Office of Elementary and Secondary Education
OMB	Office of Management and Budget
OMB Circular A-87	OMB Cost Principles for State, Local, and Indian Tribal Governments
OSERS	Office of Special Education and Rehabilitative Services
PACS	Philadelphia Academy Charter School
PDE	Pennsylvania Department of Education
PPS	Pittsburgh Public Schools
PSD	Philadelphia School District
SFSF	State Fiscal Stabilization Fund
Title I	Title I, Part A of the Elementary and Secondary Education Act

PURPOSE

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

The purpose of our audit was to determine whether agencies charged with responsibility for administering ARRA funds have designed systems of internal control that are sufficient to provide reasonable assurance of compliance with applicable laws, regulations, and guidance. Proper internal controls are essential for ensuring that ARRA funds are administered properly and used in ways that are consistent with the intent of ARRA.

This report provides the results of the limited review we conducted at three Commonwealth of Pennsylvania (Commonwealth) local educational agencies (LEAs): Pittsburgh Public Schools (PPS), Chester-Upland School District (CUSD), and Philadelphia Academy Charter School (PACS). Our audit focused on the design of controls over data quality, cash management, and use of funds at each selected LEA. These controls are key to the proper administration of ARRA funds for Title I, Part A of the Elementary and Secondary Education Act (Title I); the Individuals with Disabilities Education Act, Part B (IDEA);¹ and the State Fiscal Stabilization Fund (SFSF).

RESULTS

The Pennsylvania Department of Education (PDE), the Office of the Comptroller (Comptroller's Office),² and the LEAs we reviewed had systems of internal control in place to provide for the administration and use of education-related ARRA funds. These systems consisted of controls established prior to the passage of ARRA and modifications to existing controls in response to ARRA. Based on our assessment of the designed systems of internal control for ARRA funds, we identified several areas in which controls need to be strengthened or established, at the Commonwealth and LEA level, to provide reasonable assurance of subrecipient compliance with applicable laws, regulations, and guidance.

¹ IDEA includes only grants to States.

² We reported on the Commonwealth's internal controls over ARRA funds in our report entitled "Commonwealth of Pennsylvania Recovery Act Audit of Internal Controls over Selected ARRA Funds," Control Number A03J0010, issued March 15, 2010.

We concluded that:

- PDE and the Comptroller's Office³ need to provide clearer guidance to LEAs regarding excess cash and excess interest earned on Federal funds. One LEA maintained excess cash and two of the LEAs earned excess interest on ARRA funds.
- PDE needs to provide LEAs additional guidance to ensure that ARRA job creation and retention data are accurate and complete. Two LEAs had job reporting data quality issues.
- PDE needs to conduct additional monitoring and provide LEAs additional guidance to ensure that semiannual time and effort certifications are completed. Two LEAs were not properly completing the semiannual time and effort certifications.
- PDE needs to conduct additional monitoring and provide LEAs guidance to ensure fiscal controls are adequate. Two LEAs' fiscal controls need improvement.
- PDE needs to conduct additional monitoring and provide LEAs guidance to ensure their policies and procedures are adequate. Two LEAs did not have written policies and procedures for several fiscal areas.

We provided a preliminary version of this final audit report to PDE and the three LEAs we reviewed on September 23, 2010. PDE, PACS, and CUSD provided comments on October 8, 2010. PPS provided comments on October 7, 2010. PDE did not concur with our findings and recommendations, because PDE believes it has provided ongoing training and guidance to its subrecipients and that its existing monitoring efforts, along with its updated guidance and supplemental monitoring efforts, address our findings and recommendations.

PPS concurred with Finding No. 1. CUSD did not specifically concur or nonconcur with the findings and recommendations relevant to it. PACS did not fully concur with the findings and recommendations relevant to it because it believed that its policies and procedures are adequate.

PDE's and each LEA's comments are summarized at the end of each finding. A summary of PDE's supplemental monitoring process is included in the Background section of this report. The entire narrative of PDE's and each LEA's comments are included as an Enclosure to this report.

BACKGROUND

ARRA was signed into law on February 17, 2009, in an unprecedented effort to jumpstart the American economy. ARRA has three immediate goals: (1) create new jobs and save existing ones, (2) spur economic activity and invest in long-term growth, and (3) foster

³ The Comptroller's Office is the Commonwealth agency responsible for disbursing Federal funds to the LEAs.

unprecedented levels of accountability and transparency in government spending. ARRA places a heavy emphasis on accountability and transparency, including reporting requirements related to the award and use of funds. Section 1512 of ARRA requires recipients of ARRA funding to submit a report to the FederalReporting.gov Web site no later than 10 days after the end of the calendar quarter. This report is to include (1) the total amount of ARRA funds received from the Department; (2) the amount of ARRA funds received that were expended or obligated to projects or activities; and (3) a detailed list of all projects or activities for which ARRA funds were expended or obligated, including an estimate of the number of jobs created and the number of jobs retained by the project or activity. According to the Office of Management and Budget (OMB), these reports will provide the public with an unprecedented level of transparency into how Federal dollars are being spent. They will also help drive accountability for the timely, prudent, and effective spending of ARRA funds.

PDE collected LEA ARRA Title I, IDEA, and SFSF § 1512 data for the Commonwealth. The Commonwealth’s Office of Administration reported these data to the Department.

On April 1, 2009, the Department awarded 50 percent of the Commonwealth’s ARRA Title I and IDEA funds. According to its Grant Award Notifications, PDE was the prime recipient of the Commonwealth’s ARRA Title I and IDEA funds. PDE administered all Title I and IDEA grant funds for the Commonwealth. PDE was allocated a total of \$858.4 million in funding for both programs (see Table 1).

On August 5, 2009, the Governor authorized the use and distribution of the Title I and IDEA funds that the Department made available on April 1, 2009.⁴ The Commonwealth appropriated its ARRA funding over the 2009-2010 and 2010-2011 school years.

Table 1 – PDE ARRA Allocations

Federal ARRA Program	Catalog of Federal Domestic Assistance No.	Total Amount Allocated (in millions)⁵
Title I	84.389	\$400.6
IDEA	84.391	\$457.8
Total		\$858.4

The Department approved the Commonwealth’s Application for Initial Funding of SFSF funds on October 27, 2009.⁶ The Governor’s Office was awarded approximately \$1.9 billion. Of that amount, 81.8 percent of its allocation was awarded under the Education Stabilization Fund (ESF) and the remaining 18.2 percent was awarded under

⁴ The Commonwealth’s budget was approved on October 9, 2009. Prior to the budget being approved, however, the Governor signed a “bridge budget” that authorized the expenditure of the April 2009 Title I and IDEA funds.

⁵ These data were obtained from the Department’s Web site <http://www.ed.gov/policy/gen/leg/recovery/state-fact-sheets/pennsylvania.doc>. The total allocated funds for the IDEA grant include Parts B and C. We could not break out the amount allocated per Part.

⁶ The Commonwealth initially submitted its SFSF application on April 24, 2009, submitted a revised application on June 26, 2009, and submitted the final approved application on October 20, 2009.

the Government Services Fund (GSF) (see Table 2). PDE also administered the ESF funds. The ESF funds were to be used to restore the level of State support for elementary and secondary education in fiscal year (FY) 2010 to the greater of the FY 2008 or FY 2009 levels of such support.

Table 2 - Governor's Office ARRA Allocations

SFSF Fund	Catalog of Federal Domestic Assistance No.	Total Amount Allocated (in millions)
ESF	84.394	\$1,559.0
GSF	84.397	\$346.8
Total		\$1,905.8

PPS, CUSD, and PACS were subrecipients of the ARRA Title I and IDEA funds. PPS and CUSD were also subrecipients of the ESF portion of the SFSF funds. In order to receive the Title I, IDEA, and ESF funds, the LEAs were required to submit grant applications to PDE. Upon approval of the LEA applications, PDE made Title I, IDEA, and ESF funds available for disbursement to the LEAs for the 2009-2010 school year. Table 3 identifies the ARRA award and expenditure amounts for each LEA, as of April 30, 2010.

Table 3 – LEA ARRA Awards and Expenditures

LEA	Title I			IDEA			ESF		
	Amount Awarded (in millions)	Amount Expended (in millions)	Percent Expended	Amount Awarded (in millions)	Amount Expended (in millions)	Percent Expended	Amount Awarded (in millions)	Amount Expended (in millions)	Percent Expended
PPS	\$16.2	\$1.6	10%	\$7.6	\$3.6	47%	\$18.7	\$14.9	80%
CUSD	\$2.6	Unknown ⁷	Unknown ⁷	\$1.2	Unknown ⁷	Unknown ⁷	\$5.1	Unknown ⁷	Unknown ⁷
PACS	\$0.8	\$0.2	22%	\$0.7	\$0.04	6%			
Total	\$19.7	\$1.8		\$9.5	\$3.64		\$23.8	\$14.9	

PPS is the second largest school district in the Commonwealth (based on student enrollment). It serves approximately 26,000 students in kindergarten through grade 12 in 64 schools.

CUSD serves approximately 4,195 students in pre-kindergarten through grade 12 in 7 schools. It was designated an empowerment district under the Education Empowerment Act of Pennsylvania in 2000.⁸ CUSD hired a private management company to oversee curriculum and school administration in 2001. A State-appointed board of control that had been overseeing the LEA's finances since 1994 resumed total control of the LEA in 2005 following the management company's departure. PDE sued the State-appointed board that same year for mismanagement, resulting in the LEA being placed under the

⁷ As discussed in Finding No. 2, CUSD's Chief Business Officer (CBO) charged all ARRA expenditures to its general operating fund during the year and backed them out at year-end.

⁸ The Education Empowerment Act put the Commonwealth in charge of managing school-level reforms at LEAs struggling both educationally and financially.

temporary financial receivership of the Commonwealth's Secretary of Education.⁹ In 2007, the Commonwealth's Secretary of Education announced that CUSD was on sound financial footing and installed CUSD's current empowerment board.¹⁰ As a condition of its receivership, the Commonwealth required the Agent for the Receiver¹¹ to review all of CUSD's non-payroll expenditures greater than \$5,000 prior to payment.

PACS, a charter school,¹² serves approximately 1,186 students in kindergarten through grade 12. PACS' financial processes are performed by Santilli and Thomson, an independent management company that was hired in June 2009 under a 3-year contract. The management company provided comprehensive financial business services. Its contract was approved by the school's Board of Trustees, which is responsible for approving all contracts and employee salaries.

Commonwealth intermediate units (IU) are PDE's statutory LEAs under IDEA and are the direct recipients of IDEA, Part B § 611 funds from PDE. According to PDE, IUs exercise due diligence on behalf of PDE for the proper administration, oversight, and management of the local regional IDEA funding allocations. IUs also perform the day-to-day management of IDEA, Part B § 611 fiscal program requirements, including disbursement of pass-through funding to eligible LEAs. Table 4 identifies each LEA's IU.

Table 4 – Identification of IUs

Name of LEA	Name of LEA's IU	IU Number
PPS	Mt. Oliver	2
CUSD	Delaware County Intermediate Unit	25
PACS	Philadelphia School District	26

General Summary of PDE's Supplemental Monitoring Process

In PDE's response and additional information provided,¹³ PDE stated that it has enhanced its monitoring efforts and guidance provided to subrecipients over the use and reporting of ARRA funds. To enhance its monitoring efforts, PDE developed and currently uses

⁹ Under a receivership, a person (Receiver) is appointed to receive and hold in trust, money or other property which is the subject of litigation, pending the suit. CUSD was placed in receivership on November 28, 2006.

¹⁰ The information about CUSD's fiscal status was obtained from a Daily Times news article published on June 14, 2010. The Web site was <http://www.delcotimes.com/articles/2010/06/14/news/doc4c158f5dd7221592640241.txt>.

¹¹ An Agent for the Receiver is an individual that is authorized to act on the behalf of the Receiver.

¹² A charter school is an independent public school established and operated under a charter from the local board of school directors. The Philadelphia School District (PSD) issued PACS its charter.

¹³ In response to questions we asked PDE about its response, it provided us with additional clarifying information. This information is not included with PDE's formal response in the Enclosure.

three monitoring tools--a Funding Verification Survey (Funding Survey); a Desk Monitoring Instrument; and an On-site Monitoring Instrument (On-site Instrument). The Funding Survey is a self-evaluation document that high-risk subrecipients must complete and submit to PDE. The Funding Survey is reviewed during a desk review using the Desk Monitoring Instrument. According to PDE's response, PDE is first monitoring subrecipients it designates as high-risk. All high-risk subrecipients are scheduled to receive on-site monitoring visits. As PDE moves toward monitoring lower-risk subrecipients, it will generally only perform a desk review.

Desk reviews include a review of subrecipient quarterly ARRA § 1512 data reports and Funding Surveys. The Desk Monitoring Instrument is a checklist that primarily includes a multitude of questions relevant to a subrecipient's reporting of its ARRA § 1512 data. A contractor performs most of the desk reviews and on-site visits.

The On-site Instrument is used during on-site monitoring visits. According to PDE's response, on-site visits began in June 2010, are occurring weekly, and are planned to continue at least through the end of September 2011 (the end of ARRA funding). In addition to these visits, two-thirds of the LEAs will receive an on-site programmatic review from PDE's Division of Federal Programs before the end of September 2011. These reviews are to include both programmatic and fiscal matters using the new supplemental monitoring tools.

The Funding Survey and On-site Instrument both include fiscal and programmatic elements, including elements specific to ARRA, such as compliance with ARRA § 1512 data reporting requirements. The Desk Monitoring and On-site Instruments include questions on a subrecipient's controls over areas such as time and effort certifications; and policies and procedures for credit and debit card usage, travel, and supplement not supplant¹⁴ requirements. The instruments also address cash management controls, including earning interest, ensuring that the time between the transfer of funds and the disbursement of those funds is minimized, segregation of duties, preparing bank reconciliations, authorizing expenditures, maintaining cash receipts, safeguarding checks, and using and reconciling petty cash.

FINDING NO. 1: PDE and the Comptroller's Office Need to Ensure that LEAs Minimize Excess Cash and Properly Remit Interest Earned on Federal Funds

In our previous report on the Commonwealth's internal controls over selected funds, we reported several cash management internal control issues related to ARRA and non-ARRA funds at PDE and the Comptroller's Office. In particular, we were concerned about the adequacy of the controls at PDE and the Comptroller's Office to prevent and detect whether

¹⁴ Supplanting occurs when a State or LEA uses Federal funds to provide services they provided with State or local funds in the prior year.

LEAs were: (1) expending all the Federal cash advanced to them on a monthly basis (prior to receiving their next month's advance);¹⁵ (2) maintaining excess Federal cash balances; (3) earning interest on Federal funds; and (4) returning interest earned (in excess of \$100) to the Department. Our ARRA work at three LEAs found that PDE and the Comptroller's Office made some progress in addressing some of these issues but confirmed that the issues still existed with respect to both offices' controls over LEAs maintaining excess cash and earning and remitting interest earned on Federal funds. PDE and the Comptroller's Office need to ensure that LEAs minimize excess cash and properly remit interest earned on Federal funds.

The applicable cash management requirements are addressed in the "Education Department General Administrative Regulations (EDGAR), Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (34 Code of Federal Regulations (C.F.R.) Part 80). These regulations provide that:

- "[M]ethods and procedures for payments shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee ..." and "Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee." 34 C.F.R. § 80.21(b) and (c)
- "[G]rantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses." 34 C.F.R. § 80.21(i)

The Department reinforced the above cash management requirements in the ARRA-specific guidance it issued in April 2009.¹⁶ In particular, the guidance addresses funds made available under ARRA for three programs: (1) Title I; (2) IDEA; and (3) Title XIV of Division A of the ARRA (SFSF).

Excess Cash

PACS maintained excess ARRA IDEA funds. On February 17, 2010, PSD, the IU tasked with disbursing PAC's ARRA IDEA funds, disbursed to PACS its total 2009-2010 ARRA IDEA allotment of \$710,355 in one lump sum. PACS did not start expending these funds until March 25, 2010, and consequently maintained excess cash for at least a month. PACS' Business Manager notified PSD officials that the disbursement was a significant amount to expend at one time. PSD's method for disbursing the ARRA IDEA

¹⁵ PDE advanced Title I funds to LEAs on a monthly basis.

¹⁶ Department guidance for the three programs are titled: (1) "Funds Under Title I, Part A of the Elementary and Secondary Education Act of 1965 Made Available under The American Recovery and Reinvestment Act of 2009"; (2) "Funds for Part B of the Individuals with Disabilities Education Act Made Available under The American Recovery and Reinvestment Act of 2009"; and (3) "Guidance on the State Fiscal Stabilization Fund Program".

funds did not minimize the time elapsing between the transfer of the funds advanced and the disbursement of funds by its subgrantee PACS. Not minimizing the time elapsing between the transfer of funds advanced to and then disbursed by the LEAs, caused PSD, and consequently PDE,¹⁷ to not be in compliance with Federal requirements. Although our audit did not involve a review of IUs' controls over cash management, it is possible that IUs may be disbursing funds too far in advance to other LEAs.¹⁸ PDE needs to ensure that IUs are not transferring funds too far in advance to its subgrantees.

PACS also maintained excess ARRA Title I funds. As of April 30, 2010, PDE advanced a total of \$348,150 to PACS. PDE continued to disburse funds to PACS without PACS having expended all the funds it had received. According to PACS' records, it had expended approximately 53 percent (\$184,428) of the ARRA Title I funds it received from August 2009 through April 30, 2010. As a result, PACS had \$163,722 cash-on-hand that it had not expended. The Comptroller's Office method for disbursing the ARRA Title I funds did not minimize the time elapsing between the transfer of the funds and the disbursement of these funds by PACS.

The U.S. Treasury incurs additional borrowing costs when Federal funds are drawn and disbursed to LEAs in advance of their immediate cash needs. Because of the Federal deficit, the U.S. Treasury must borrow the cash needed to fund Federal programs and, as a result, incurs interest costs. In addition, by disbursing funds to LEAs too far in advance of an LEA's immediate cash needs, there is an increased risk that ARRA funds might be misused. Funds provided too early may be more susceptible to misuse when held in local accounts for extended periods of time.

Calculating and Remitting Excess Interest

In our previously issued Commonwealth ARRA related report, we reported that the Comptroller's Office relied on LEAs to self-report and remit interest earned on their Federal cash balances. The Comptroller's Office did not have adequate procedures in place to ensure that LEAs properly calculated and remitted the interest earned on Federal funds in excess of \$100, at least quarterly, to the Department. Our LEA ARRA work further substantiated our conclusions. We found earned interest issues at two of the three LEAs we reviewed (PPS and PACS).

In its response to our report, PDE stated that it had given guidance to LEAs to refrain from accumulating excess cash and earning interest. PDE also provided to LEAs procedures for returning interest earned. PDE further stated that it, along with the Comptroller's Office, planned to establish a policy that strongly encouraged LEAs to use non-interest bearing accounts for Federal funds.¹⁹ Based on the results of the work we conducted at the LEAs, PDE needs to conduct additional monitoring and provide additional guidance to its LEAs.

¹⁷ PDE disbursed the funds to PSD to disburse to its LEA subgrantees.

¹⁸ PSD is the IU for about 62 LEAs.

¹⁹ As stated in our previous Commonwealth report, this policy may not be the best policy for managing Federal funds.

Both PPS and PACS earned interest on the Federal funds (ARRA and non-ARRA) they received but did not return the interest to the Department as required. PPS earned \$3,274 in interest on its ARRA Title I (\$2,167) and IDEA (\$1,108) funds between October 1, 2009, and February 28, 2010. PACS earned \$9,264 in interest on all its funds between July 1, 2009, and April 14, 2010. It could not readily identify how much of that interest was earned on Federal funds because it combined its Federal and non-Federal funds into one interest bearing account.

None of the three LEAs we reviewed had developed its own interest policies and procedures to instruct employees on calculating and remitting excess interest. At least one LEA (PPS) did not know where to return the excess interest prior to our initial site visit in July 2009. PPS' Financial Reporting Supervisor mistakenly believed such funds should have been returned to PDE.

Although PDE's Bureau of Special Education (BSE), the office responsible for monitoring subgrantees' use and administration of IDEA funds, held an ARRA-related training session for LEAs in July 2009, the training material only cited where in EDGAR [34 C.F.R. § 80.21(i)] the Department's regulation on interest earned could be found. Therefore, the training material did not instruct LEAs specifically on how to calculate and remit interest to the Department. Furthermore, the training was not mandatory. The BSE provided additional training to LEAs on April 16, 2010, that included information on earning interest and an address where it should be sent. According to PPS' Executive Director for Budget Development and Operations, attendance at the April 2010 training session was only strongly recommended.

PDE's Deputy Secretary for Administration (DSA) informed us that PDE's Bureau of Budget and Fiscal Management (BBFM) also issued administrative and fiscal guidance to IDEA grant applicants in April 2009 and June 2010.²⁰ The April 2009 guidance identified the administrative rules for Federal grants to State and local governments found in EDGAR (34 C.F.R. Part 80). However, merely citing a regulation and offering no explanation or clarification of the requirements does not provide adequate guidance. The June 2010 guidance also identified the interest earned quarterly remittance requirement. The guidance also included an address for remitting interest payments.

Although the June 2010 guidance included additional interest remittance information, all LEAs still may not be aware of it since it was directed only to IDEA grant subrecipients and not to all subrecipients of ARRA funds. Also, none of the guidance issued by PDE included information on how to properly calculate interest.

²⁰ The documents were entitled "The American Recovery and Reinvestment Act of 2009 (ARRA) Individuals with Disabilities Education Act (IDEA) Part B Recovery Funds Section 611, Administrative and Fiscal Guidelines, Rider H – Program Application of LEA" and "Individuals with Disabilities Education Improvement Act Part B (IDEA-B), Administrative and Fiscal Guidelines, Rider H – Program Application of LEA, Rider I – Support Services, Rider J – Direct Services," respectively.

PDE's DSA also informed us that PDE would be issuing a special reminder and clarifying guidance to all grant recipients of Federal funds on the excess interest procedures to ensure grantee compliance.

Recommendations

We recommend that the Chief Financial Officer (CFO) require PDE to:

- 1.1 Conduct monitoring and provide additional guidance to ensure that IUs have adequate policies and procedures to minimize the time lapsing between the transfer of funds advanced to its LEAs and the disbursement of those funds by the LEAs;
- 1.2 Expedite the dissemination of the special reminder and clarifying guidance to all LEAs, including those that receive SFSF funds, on the excess cash and interest remittance requirements. The guidance should instruct LEAs how to accurately calculate and timely remit interest earned on Federal funds;
- 1.3 Develop a process to monitor IU and LEA compliance with the excess cash and interest requirements; and
- 1.4 Work with PPS and PACS to ensure that the LEAs return to the Department excess interest earned on ARRA and non-ARRA Federal funds (excluding the \$100 per year for administrative expenses that is permitted to be kept).

PDE and LEA Responses

PDE did not specifically concur or nonconcur with the finding and recommendations. PDE reiterated that it provided ongoing monitoring and guidance that address the requirements stated in the finding through program office desk reviews and tri-annual site visits. Guidance is also provided through the grant contract agreements with the LEAs, training sessions and presentations, and the posting of information on PDE's Web site. PDE updated its IDEA program monitoring instrument to include ARRA specific areas, and updated its Title I program monitoring instrument to include additional ARRA related review areas. In addition to its existing monitoring efforts, PDE informed us that it has increased its monitoring efforts. As previously stated, PDE developed three new monitoring tools. These tools specifically address the issue of LEAs minimizing excess cash and the earning of interest.

In the additional information PDE provided to us, it reiterated that the Comptroller's Office requires all ARRA subrecipients to complete quarterly Reconciliation of Cash on Hand reports. The online Reconciliation of Cash on Hand report screen includes information about interest remittance requirements. The report screen also includes a link to PDE's updated Federal interest remittance policy. According to PDE, every recipient on a quarterly basis must click through this screen to complete the Reconciliation of Cash on Hand report. Guidance covered in the policy includes how and

when to remit interest; the amount and uses of what can be retained; exceptions to the requirement; coordination of effort between LEAs and IUs in developing internal controls and interest calculation methodologies; and interest calculation. An email address is also provided for additional assistance.

PDE stated that it received confirmation from PPS that the excess interest was remitted to the Department (\$4,568 total; \$3,515 in Title I and \$1,053 in IDEA funds). PPS confirmed this in its response. PDE stated that it will work with PACS to ensure the same result. PACS' response to the report did not include comments on this finding.

OIG Comments

We commend PDE for enhancing its monitoring efforts and providing additional guidance to its subrecipients. During the time of our review, these procedures were not in place and none of the three LEAs we reviewed appeared to know about them. Based on our review of PDE's response, its supplemental monitoring instruments, and its Federal interest policy, we concluded that the additional steps PDE has taken should adequately address our recommendations. However, PDE should expedite working with PACS to ensure that it correctly calculates and timely remits the excess interest it earned to the Department. We suggest PDE update its current Title I and IDEA program monitoring instruments to include a step to address subrecipients' compliance with excess cash and interest regulations, especially if PDE does not continue its supplemental monitoring process after September 2011.

FINDING NO. 2: PDE Needs to Ensure LEAs Have Adequate Guidance for ARRA § 1512 Data Reporting

A principle of ARRA is to ensure transparency in government spending. To ensure transparency, ARRA § 1512 requires recipients to report data to the FederalReporting.gov Web site on a quarterly basis. PDE did not adequately ensure that LEA data reported to it were accurate and complete (reliable). We identified data quality issues related to two of the three LEAs we reviewed (CUSD and PACS). In its response to our report on the Commonwealth's ARRA internal controls over selected funds, PDE informed us that it had awarded a contract to assist in ensuring accurate and complete ARRA data collection and reporting by its LEAs.²¹ However, we are concerned that PDE did not have adequate processes and controls in place to ensure that the required data submitted by an LEA are accurate and complete. Improved guidance and oversight by PDE should reduce the risk of the issues noted below from occurring in the future.

The applicable ARRA § 1512 data reporting requirements are addressed within OMB's guidance, "Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009," issued on June 22, 2009. Prime recipients are to (1) initiate appropriate data collection and reporting procedures to ensure that § 1512 reporting requirements are met in a timely and effective manner;

²¹ We did not perform any work related to the ARRA contract.

(2) implement internal control measures as appropriate to ensure accurate and complete information; and (3) review subrecipient information for material omissions and/or significant reporting errors, and make appropriate and timely corrections to prime recipient data and work with the designated subrecipient to address any data quality issues.

The implementing guidance also states that “Prime recipients are required to report an estimate of jobs directly created or retained by project and activity or contract. Recipients will be required to report an aggregate number for the cumulative jobs created or retained for the quarter” It further states that “a job created is a new position created and filled” and that “the estimate of the number of jobs required by the Recovery Act should be expressed as ‘full-time equivalents (FTE)’ The FTE estimates must be reported cumulatively each calendar quarter.”

The OMB issued an update to the implementing guidance on December 18, 2009, entitled “Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates” (OMB M-10-8). It states “under the revised guidance, recipients should not cumulate hours worked across several quarters” and “once a job is reported by a recipient as created or retained by the Recovery Act, the recipient shall continue to report this job as created or retained in subsequent quarters as long as the job continues to be funded by the Recovery Act.”

As the prime recipient within the Commonwealth, PDE is responsible for establishing controls to ensure that LEAs within the Commonwealth are submitting accurate and complete ARRA data that meet the reporting requirements. To obtain data from its LEAs, PDE required each LEA to complete a quarterly survey using PDE’s e-Grants system. The survey asked several questions designed to gather information about LEA quarterly ARRA activities.

Inaccurate Reporting of Job Creation Data

In its first quarterly data report to PDE (September 30, 2009), CUSD reported that it created six new Title I Leader Coach jobs with ARRA Title I funds. However, according to CUSD’s Chief Business Officer (CBO), CUSD did not create any of its Title I Leader Coach jobs until December 2009. CUSD’s Title I Coordinator told us that the six Title I Leader Coach jobs reported in September 2009 were not newly created. Rather, the jobs were for six current employees who worked in other full-time positions but performed the work of the two Leader Coach positions until two employees were hired as full-time Leader Coaches. In its second quarterly data report (December 31, 2009), CUSD did not report the two new Leader Coach jobs or even the six temporary Leader Coach jobs. CUSD should have reported the two new ARRA Title I Leader Coach jobs, hired in December 2009, in the December 2009 data report.

CUSD also did not report the correct number of Classroom Support Teachers it hired with ARRA Title I funds in its December 31, 2009, data report. CUSD reported that it

created 34 new Classroom Support Teacher jobs, when in fact only 10 jobs were created. The remaining 24 positions were created using non-ARRA funds.

In addition, CUSD did not report the five Behavioral Health Specialist jobs it created with its ARRA IDEA funds in either of the two quarterly reporting periods. According to the CBO, he did not believe it was his responsibility to report CUSD's ARRA IDEA job reporting data to PDE. He believed CUSD's IU would report the five Behavioral Health Specialist positions when he reported CUSD's annual IDEA fund expenditure information to the IU in June 2010. He also stated that he did not have access to PDE's e-Grants IDEA data reporting system. According to PDE's Education Administration Supervisor, CUSD was responsible for reporting its own ARRA IDEA job activity. PDE did not make the system available to CUSD because CUSD reported to its IU that it did not expend any ARRA IDEA grant funds as of December 31, 2009.

CUSD did not expend any of its ARRA IDEA funds because it was not charging any of its ARRA IDEA (or Title I) payroll costs to its ARRA accounts. CUSD charged payroll to its general operating fund. According to the CBO, this was the practice for all the programs CUSD administered. He stated that later in the year, he would back out the ARRA payroll expenses with correcting journal voucher (JV) entries²² and assign the expenses to CUSD's ARRA funds as applicable. Using its own funds for the entire year could result in CUSD experiencing economic shortfalls and financial difficulties, especially during difficult economic times. Also, not accurately tracking its ARRA costs may have contributed to CUSD misreporting its job data to PDE.

Clear Guidance Needed

Title I Guidance

The Title I Coordinator's confusion relating to PDE's revised job reporting instructions contributed to some of CUSD's ARRA Title I data reporting errors. PDE issued job reporting instructions to its LEAs via email on December 28, 2009, and January 6, 2010. Both emails referenced OMB M-10-8, which states that jobs reported as created or retained in a previous quarter, should continue to be reported in subsequent quarters as long as the job continues to be funded by ARRA. However, PDE's instructions stated that effective with the December 31, 2009, data report, LEAs were no longer required to report cumulative job numbers. Although the instructions stated that "... the new guidance changes the way LEAs and IUs must calculate the number of jobs," the Title I Coordinator interpreted PDE's instructions to mean that LEAs did not have to re-report in subsequent reporting periods the jobs created with ARRA funds that it reported in the previous reporting period. As explained above, this interpretation is inaccurate.

CUSD provided PDE with inaccurate and incomplete data, and PDE relied on these data. It ultimately led to unreliable data being reported to the FederalReporting.gov Web site. The American public relies on the accuracy of data in FederalReporting.gov to provide

²² A JV is a written authorization usually prepared for every financial transaction. A correcting entry is used to reverse previously performed financial transactions.

transparency and accountability. In PDE's written response to our exceptions, PDE's DSA stated that PDE "... did not identify material omission or significant reporting errors in its [sic] (PDE's) reports or that of CUSD. CUSD did not notify PDE of the incorrect information, therefore PDE could not report corrected information to FederalReporting.gov. Further, OIG does not state these discrepancies are material, as explicitly cited." We do not dispute that PDE was unaware of CUSD's inaccurate data. CUSD's data errors may not have been material in the scope of PDE's overall data report to the FederalReporting.gov Web site; however, if other LEAs experienced similar circumstances, the combination of errors could be significant to PDE's overall reporting. Some of the errors may have been avoided if PDE's data reporting guidance to the LEAs was clearer.

IDEA Guidance

PSD provided LEAs under its responsibility (one of which was PACS) with unclear ARRA IDEA job reporting guidance which the LEAs followed. Consequently, relying on the data that the LEAs submitted based on this guidance PDE could have reported inaccurate data to the FederalReporting.gov Web site. PSD's guidance was distributed to its LEAs on February 5, 2010. The guidance (under the Vendor Job Reporting section) stated that jobs created and/or retained is not cumulative and that the LEA must report jobs created only during the quarter. The guidance did not make it clear that once a job is reported as created or retained using ARRA funds, the job shall continue to be reported as created or retained in subsequent quarters as long as the job continues to be funded by ARRA funds. In each quarter, all jobs funded by ARRA funds should be reported in that quarter and be included in the FTE calculation for the quarter. This was not apparent in PSD's reporting guidance. By stating that the LEA must report only jobs created and/or retained by ARRA during the quarter, PSD's guidance could potentially lead an LEA to omit a previously reported job from its subsequent quarterly report, even if it continued to be funded by ARRA funds.

Since the reporting guidance was unclear, the ARRA IDEA data submitted to PDE by LEAs under PSD's responsibility could potentially be inaccurate. The IUs may not be aware of or keeping up to date with the most recently issued guidance on ARRA § 1512 data reporting. However, as the prime recipient of the ARRA funds, PDE is ultimately responsible for the data it reports. Potential errors like this could be mitigated if PDE ensures that the ARRA IDEA job reporting guidance the IUs provide to its LEAs clearly explains the job reporting requirements.

Recommendations

We recommend that the Assistant Secretary for OESE, in coordination with OSERS, require PDE to:

- 2.1 Provide additional guidance to ensure that its LEAs receive and understand ARRA Title I and IDEA job creation and retention requirements; and

- 2.2 Work with LEAs to ensure they develop and implement an effective process that will properly track and report all ARRA § 1512 data.

PDE and LEA Responses

PDE did not concur with the finding and recommendations. PDE asserted that it has been providing LEAs with ARRA § 1512 reporting guidance on an ongoing basis. PDE recently implemented a new electronic reporting system (PAEdTrak) to track and report all ARRA § 1512 data. This data system includes validation rules which, according to PDE officials, prohibit the most common types of mistakes and redirect subrecipients to additional guidance when mistakes are made.

PDE provides guidance through its ARRA Reporting Web page, which is continuously updated and includes recent communications about data reporting. Older communications can be found on PDE's ARRA Resources Web page. PDE's supplemental monitoring tools--the Funding Survey, Desk Monitoring Instrument, and Onsite Instrument enable it to monitor and review the ARRA § 1512 data submitted by its subrecipients.

CUSD provided comments but PACS did not. Regarding the inaccurate reporting of data, CUSD stated that it expended ARRA Title I and IDEA funds but did not charge the ARRA accounts when the expenditures were made. CUSD's year-end process captured all expenditures applicable to ARRA Title I and IDEA funds. Regarding the ARRA § 1512 guidance provided, CUSD stated that it followed the instructions and guidelines for reporting information to PDE. If reporting changes were necessary, CUSD stated that it submitted revised reports.

OIG Comments

Based on our review of PDE's response, its supplemental monitoring tools, its updated Title I and IDEA program monitoring instruments, and the guidance contained on its Reporting Web page, we concluded that PDE's newly implemented processes should help to ensure that LEAs receive and understand ARRA job creation and retention requirements.

We do not dispute that CUSD officials attempted to follow instructions and guidelines for reporting information to PDE or that its year-end process could capture all expenditures applicable to ARRA Title I and IDEA funds. However, it did not properly report its ARRA Title I and ARRA IDEA data or track its ARRA payroll expenditures as they were incurred.²³ In its planned monitoring of CUSD,²⁴ PDE needs to ensure that CUSD has a process in place to properly and accurately report its ARRA jobs data. PDE also needs to ensure that CUSD is properly tracking and reporting all its Federal (ARRA and non-ARRA) expenditures as they are incurred.

²³ The tracking of expenditures also is discussed in Finding No. 4.

²⁴ In the additional information PDE provided to us, it informed us that a supplemental monitoring visit at CUSD was scheduled for November 30, 2010.

FINDING NO. 3: PDE Needs to Improve Its Monitoring and Guidance Over LEA Completion of Semiannual Time and Effort Certifications

PDE needs to improve its monitoring and guidance over LEA completion of semiannual time and effort certifications (certifications). We found that certifications were not adequately completed at two of the three LEAs we reviewed (CUSD and PACS). Certifications are part of the supporting documentation that should be maintained for personnel costs charged to Federal grants.

The applicable regulation is contained in the “OMB Cost Principles for State, Local, and Indian Tribal Governments” (OMB Circular A-87), Appendix B, 8.h.(3), which states—

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

CUSD did not have policies and procedures to require employees to complete certifications and did not complete them for employees working on ARRA and non-ARRA funded Federal programs until April 2010. CUSD officials were unaware of the certification requirement until its Title I Coordinator attended a PDE Title I Coordinator’s meeting in March 2010. After this meeting, the Title I Coordinator requested that employee certifications be completed for the semiannual period that just ended. During our April 2010 site visit, we found that the certifications were never completed. We brought this to the attention of the CBO and the Title I Coordinator; consequently, they had the certifications completed. However, the certifications did not adequately fulfill the requirements because they did not include a time period or a specific Federal program or Federal cost objective that was worked on.

We could not determine whether CUSD completed certifications for its IDEA employees. The IDEA Coordinator stated that she had activity reports for all IDEA personnel, but when we requested them, they were not provided to us. We could not determine the amount of salary costs expended for Title I or IDEA ARRA and non-ARRA employees because the CBO reconciles all accounts at the end of the school year and allocates program funds at year end.

PACS completed certifications for its Title I employees²⁵ (both ARRA and non-ARRA) for two semiannual periods.²⁶ However, the certifications were not adequate because they were not being certified at the end of the semiannual period. The principal was certifying the forms at the beginning of the period. Employees could change positions or

²⁵ PACS did not have any IDEA ARRA employees at the time of our review.

²⁶ The first semiannual period was July 1, 2009, through December 31, 2009. The second semiannual period was January 1, 2010, to June 30, 2010.

duties during the period causing the certification to be inaccurate. Certifying time and effort at the end of the period would eliminate the risk of such errors. As a result of the inadequate certifications, PACS' Title I (both ARRA and non-ARRA) personnel expenditures, totaling \$438,835, were not properly supported.²⁷

As discussed in Finding No. 1, PDE's DSA informed us that PDE's BBFM issued administrative and fiscal guidelines to IDEA grant applicants in April 2009 and June 2010. In both documents, PDE identified the applicable OMB Circular A-87 cost principle requirement for personnel compensation. However, PDE needs to improve its monitoring and guidance to ensure that certifications are properly completed for the following reasons:

- LEAs are not completing certifications for all grants (ARRA and non-ARRA) or are not completing them properly;
- All LEAs may not be aware of the OMB Circular A-87 requirement because PDE's BBFM's guidelines were provided to IDEA grant subrecipients and not to Title I grant subrecipients; and
- Although PDE's Title I monitoring instrument included a step to determine whether LEAs prepared certifications, an LEA would only be monitored every 3 years.

Recommendations

We recommend that the Assistant Secretary for OESE, in coordination with OSERS, require PDE to:

- 3.1 Ensure that all LEAs within the Commonwealth are aware of the certification requirement and appropriately complete certifications for employees that work 100 percent on ARRA and non-ARRA Federal programs or cost objectives; and
- 3.2 Require PACS to provide adequate documentation to support the \$438,835 in inadequately supported Title I ARRA personnel expenditures or return any portion of that amount that the Department determines is not adequately supported.

PDE and LEA Responses

PDE did not concur with the finding and recommendations. PDE stated that it has provided ongoing guidance and assistance to LEAs as part of the monitoring that is conducted by program office staff. PDE has increased its monitoring efforts to address fiscal and ARRA requirements. In addition, its supplemental monitoring tools include a review of subrecipients' time and effort certification procedures.

²⁷ The amount represents the Title I ARRA and non-ARRA salaries from April 1, 2009, through April 30, 2010.

PACS stated that it has revised its time and effort certification process for the Title I program and will review the guidance issued by PDE's BSE to ensure it is in compliance with the policy for its IDEA program.

Neither PDE nor PACS provided comments relating to Recommendation 3.2. CUSD did not provide any comments to this finding.

OIG Comments

Although PDE has provided guidance and assistance to LEAs, the monitoring and guidance provided could be improved. The On-site Instrument addresses the time and effort certification requirements for employees working on a single Federal award or cost objective, but it does not address the time and effort certification requirement for split funded employees. PDE's two other monitoring instruments do not address time and effort requirements. PDE should address the time and effort certification requirements in one or both of these instruments in case on-site reviews are not conducted.

We are aware that PDE's Title I and updated IDEA program monitoring instruments address employee time and effort certification requirements; however, these monitoring reviews are conducted only tri-annually (every 3 years). LEAs that are not visited during the current supplemental monitoring cycle and do not receive a program monitoring visit for 3 years may not be aware of the time and effort certification requirements or how to properly complete or verify employee time and effort certifications. As a result, payroll costs will be inadequately supported. PDE needs to provide additional guidance to LEAs on when and how to prepare time and effort certifications. PDE should consider providing time and effort certification guidance on its Web site. We also suggest that PDE continue to use its supplemental monitoring process after September 2011 to ensure that subrecipients have an adequate time and effort certification process.

PDE needs to ensure that PACS has adequate documentation to support the \$438,835 in Title I (ARRA and non-ARRA) personnel expenditures or require PACS to return any funds that cannot be adequately supported. PDE also should ensure that PACS' time and effort certification process for its IDEA program employees is adequate. Based on our review of PACS' response, we concluded that its revised Title I program time and effort certification process is adequate.

FINDING NO. 4: PDE Needs to Ensure that LEAs Have Adequate Fiscal Controls Over the Use of Federal Funds

A principle of ARRA is to ensure accountability over the use of funds provided under the Act. During our limited review of LEA internal controls, we found fiscal control issues at two of the three LEAs we reviewed (CUSD and PACs). CUSD did not record ARRA and non-ARRA expenditures as they were incurred. CUSD also did not have adequate controls relating to payroll data, the safeguarding of monetary instruments, and journal voucher preparation. PACS did not have a strong accounting system; it did not have

many internal controls built into it. Adequate fiscal controls are a means to ensure accountability. If not corrected, the issues noted may put Federal funds (ARRA and non-ARRA) at risk of misuse and in noncompliance with applicable ARRA guidance and other Federal laws, regulations, and guidance. Similar issues could exist at other LEAs within the Commonwealth. PDE needs to conduct monitoring and provide guidance to ensure that all LEAs have adequate fiscal controls.

The applicable internal control requirements are addressed in EDGAR.

- 34 C.F.R. § 80.20(b)(3) requires that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- 34 C.F.R § 76.702 requires that a State and a subgrantee shall use fiscal control and fund accounting procedures that ensure proper disbursement of and accounting for Federal funds.

It is a basic accounting control procedure to have segregation of duties in place, which prevents any one individual from having control over two or more aspects of a transaction without review by another party.

Tracking of Expenditures

CUSD did not track its Title I (ARRA and non-ARRA) or SFSF program expenditures as they were incurred. The Comptroller's Office advanced funds to LEAs monthly, based on the length of the grant or the yearly allocation amount. As of June 30, 2010, the Comptroller's Office advanced CUSD \$1.8 million (73 percent) of the \$2.6 million in ARRA Title I funds it was awarded, and \$4.7 million (92 percent) of the \$5.1 million in SFSF funds it was awarded. We requested supporting documentation to show how the Title I and SFSF funds were expended from the CBO; however, he could not readily provide it to us. As stated in Finding No. 2, the CBO charged program costs to CUSD's general operating fund and at year-end would back out program expenses with correcting JV entries in order to determine the actual costs.

As a result of not tracking its program costs, CUSD did not report actual Title I (ARRA and non-ARRA) or SFSF expenditures to the Comptroller's Office in its quarterly Reconciliation of Cash on Hand report. The reconciliation report was required to be certified by a responsible LEA official to attest that the information provided was true and accurate. The Comptroller's Office relied on the data in this report as an internal control to determine whether an LEA was in need of additional funds or was maintaining excess cash balances. If the Comptroller's Office determined that an LEA expended funds in excess of its expected quarterly expenditure amount, it could accelerate an LEA's future monthly payments. If an LEA did not expend all of the funds advanced to it that quarter, the LEA's future monthly payments could be reduced or stopped. According to the CBO, he estimated the quarterly SFSF expenditures included in the

reconciliation report based on CUSD's total yearly SFSF budget. He would report a quarter of the budgeted amount for each object code as expended on the reconciliation report. For the Title I program (ARRA and non-ARRA), he based the quarterly expenditures on the previous fiscal year's expenditure data. He would report a quarter of the total amount expended for each object code in the previous year. For example, if CUSD expended a total of \$6 million for salaries in the previous FY, he would report a quarter of that amount (\$1.5 million) in the reconciliation report for the quarter.

By estimating its cash position and thus circumventing the quarterly reconciliation control established by the Comptroller's Office, CUSD may have been in possession of excess Federal cash. The U.S. Treasury incurs additional borrowing costs when Federal funds are drawn and disbursed to LEAs in advance of their immediate cash needs. Because of the Federal deficit, the U.S. Treasury must borrow the cash needed to fund Federal programs and, as a result, incurs interest costs.

Improvement of Payroll Data Controls

CUSD's Deputy Director of Finance, a Foundations, Inc. employee, entered employee salary data (initial and changes) into the payroll module of CUSD's accounting system and, therefore, had the ability to change salary amounts. The Deputy Director of Finance was also responsible for processing the payroll. The salary information was what initiated the processing of the bi-weekly payroll in the payroll system. The HR department also entered employees' initial salaries into the HR system module; however, this was done only for informational purposes. HR department officials should be the only persons permitted to change a salary amount. CUSD's accounting system can be set up so that the salary amounts entered into the HR module would be transferred to the payroll module and used to process the payroll. The Director of Finance would not have the ability to make salary changes and also process the payroll. There would be a more effective level of internal control over CUSD's payroll data, because the HR department would not process the payroll, and because no one individual or department would have control over the entire payroll process.

Safeguarding of Monetary Instruments

CUSD did not have procedures to adequately safeguard its manual checks and rubber signature stamp. The manual checks were used to prepare payroll checks in case of payroll processing errors or lost payroll checks. The rubber stamp consisted of the signatures of the CUSD Board members who were the authorized signers for payroll expenditures. The manual checks and the rubber signature stamp were maintained at CUSD's administration office in a safe that was unlocked during the day and locked every evening. Additionally, the CBO informed us that several employees had the safe combination, but CUSD did not document which employees. Inadequately safeguarded monetary instruments present the opportunity for theft, misappropriation, or unauthorized use of funds. We discussed the issue with the CBO and he agreed that the safe should be locked during the day and the checks and the rubber stamp should be kept in separate locations.

Review of Journal Voucher Controls

CUSD's JV entries were not being reviewed and approved by someone other than the preparer. The CBO prepared and input JV entries; however, no one was reviewing and approving the entries he prepared before they were being input into the accounting system.²⁸ A JV entry should be reviewed and approved by an employee independent of the employee preparing or inputting the entry into the accounting system. Because there was no review of the JVs prepared by the CBO,²⁹ there was a greater risk of errors being made and of misuse of funds. This issue was also identified in CUSD's FY 2008 OMB Circular A-133 Single Audit report. In response to the finding, CUSD stated that JVs were prepared and approved by the CBO.

In addition, the CBO was not required to sign the JV as preparer. Furthermore, the JV did not include a place for the preparer's or an approver's signature. After informing CUSD of the issue, the CBO agreed that the JV entry procedures should be improved. The CBO stated that the procedures would be revised to include review and approval of JVs prepared by the CBO by the Director of Finance. The JV form would also be revised to include preparer and reviewer signatures.

Adequacy of Accounting System Internal Controls

PACS used the QuickBooks accounting system package to collect, process, and report data (including ARRA data). According to PACS' Business Manager, the QuickBooks system is not a strong accounting system and it does not have many internal controls built into it. The Business Manager also stated that transactions within QuickBooks can be changed. The ability to change data allows for data to be manipulated or for theft or misuse of funds.³⁰

PACS' Business Manager informed us that PACS was in the process of obtaining a new accounting system, which should be in place by December 2010. He stated the new system would have stronger internal controls.

Collectively, the issues identified above at CUSD and PACS put LEA's Federal funds (ARRA and non-ARRA) at risk of being misspent.

Recommendations

We recommend that the Assistant Secretary for OESE, in coordination with OSERS, and the CFO, require PDE to:

- 4.1 Conduct additional monitoring, provide guidance, and work with all LEAs in the Commonwealth to ensure that LEAs have adequate fiscal controls to provide assurance that ARRA and other Federal funds will be safeguarded, and that LEAs

²⁸ CUSD also did not have written JV preparation policies and procedures. See Finding No. 5 for details.

²⁹ CUSD's Director of Finance also prepared JVs; however, the CBO reviewed and input them.

³⁰ PACS also did not have written policies and procedures. See Finding No. 5 for details.

are accurately reporting the amount of ARRA funds expended or obligated to projects or activities; and

- 4.2 Work with CUSD and PACS to ensure that the cash management control issues noted in the Finding are adequately addressed.

PDE and LEA Responses

PDE did not specifically concur or non-concur with our finding; however, PDE believes that its supplemental monitoring process addresses the issues noted in the finding because fiscal controls are specifically reviewed in its supplemental monitoring instruments. Additionally, PDE stated that subrecipient on-site visits include the review of documented policies and procedures, permit discussion, and provide an opportunity to give guidance and direction to the subrecipient.

PDE's BSE conducted a monitoring visit at CUSD in March 2010. The BSE will continue with the on-site visits, at a minimum of twice a month, to ensure progress is made on the corrective actions required by the BSE.

PDE's response did not include any comments about PACS accounting system internal controls.

CUSD stated that although expenditures are recorded when incurred, the appropriate ARRA account is not used during the year. CUSD also stated that it is CUSD's practice, as a part of its year-end process, for the CBO to review and prepare all JV entries necessary to close-out a Federal project. CUSD maintains detailed payroll and other expenditure documents as part of the project file. All payroll records were updated at year-end to reflect the correct ARRA account. CUSD reaffirmed that it estimates current year payroll expenditures based on the previous year for its quarterly cash-on-hand reporting to PDE. CUSD explained that this is done because staffing levels are similar from year to year. CUSD further expressed that the district rarely experiences excess cash.

PACS stated that the internal controls it has in place are strong and complement its current accounting system through segregation of duties. To enhance PACS' fiscal policy, it plans to implement a new enhanced accounting system that has automated internal controls and fund accounting capability. PACS also will issue a comprehensive accounting manual.

OIG Comments

Based on our review of PDE's response and its supplemental monitoring instruments, we concluded that PDE's newly implemented processes should help to ensure that LEAs have adequate fiscal processes in place. However, PDE's updated Title I and IDEA program monitoring instruments include steps to review only whether subrecipients are tracking ARRA funds and expenditures separately from non-ARRA funds and

expenditures. PDE should revise its monitoring instruments to include a step to ensure that LEAs track Federal (ARRA and non-ARRA) expenditures by program at the time the expense is incurred.

Based upon our review of the additional information PDE provided to us about its March 2010 monitoring visit, we concluded that the monitoring visit did not relate to the issues noted in the finding. If PDE did not ensure that appropriate corrective actions were made regarding the fiscal control issues noted in this finding during its planned site visit on November 30, 2010, PDE should conduct additional monitoring of CUSD to ensure the issues noted are corrected.

We suggest that PDE continue to use its supplemental monitoring process after September 2011 to ensure that LEAs implement or maintain adequate fiscal controls, even after ARRA funding ceases.

Additionally, PDE should ensure that PACS expeditiously implements its new accounting system.

FINDING NO. 5: PDE Needs to Ensure that LEAs Develop, Implement, and Disseminate Adequate Policies and Procedures Over the Use of Federal Funds

As previously stated, a principle of ARRA is to ensure accountability over the use of funds provided under the Act. As stated in our report on the Commonwealth's internal controls over selected ARRA funds, PDE could improve its monitoring and guidance of subrecipient's fiscal systems and controls. PDE needs to ensure that LEAs develop, implement, and disseminate policies and procedures for all fiscal processes. During our limited review of LEA internal controls, we found that two of the three LEAs reviewed (PACS and CUSD) did not have adequate policies and procedures in place and one LEA had not disseminated all of its policies and procedures of various fiscal processes to all employees.

As stated in Finding No. 4, the applicable Federal requirements relating to internal controls are addressed in EDGAR (34 C.F.R. § 80.20(b)(3) and 34 C.F.R § 76.702).

Documented policies and procedures are part of a good internal control system. Documentation facilitates the training of new employees, ensures the continuity of operation during prolonged employee absences or turnover, and identifies the internal controls an entity maintains. The policies and procedures should include adequate segregation of duties, which is a basic accounting control procedure that strengthens internal control by not allowing an individual to initiate, process, and record transactions without the review and approval of other individuals. Improper segregation of duties may allow internal controls to be circumvented for operational convenience or conceal unintentional errors and irregularities. Proper segregation of duties should reduce the potential risk resulting from the intentional or inadvertent actions of any one individual.

Lack of Written Policies and Procedures and Adequate Review of Some Processes

PACS did not have written policies and procedures for its debit card usage; consequently, debit card expenditures were not adequately reviewed to determine their allowability. Federal funds could be used to pay for debit card expenditures. The purchase threshold for the card was \$10,000.

When the Chief Executive Officer (CEO) submitted debit card reimbursement requests, he identified the funding source (the account code) to be charged. Although a purchase justification and receipts were provided as supporting documentation for purchases,³¹ the business analyst who reconciled the account had no knowledge of whether a purchase that was charged to a particular grant was an allowable grant expense. No other employee reviewed the expenditures. Lack of an adequate review process creates a greater opportunity for the occurrence of improper grant expenditures.

PACS also did not have written accounting system policies and procedures for the input, processing, and reporting of data. PACS used the QuickBooks accounting system package to collect, process, and report data (including ARRA data); however, it did not document its internal accounting system processes related to these areas. The lack of its own written policies and procedures can negatively affect an LEA's level of management control by allowing improper manipulation and loss of data resulting in the reporting of inaccurate or incomplete data.

CUSD did not have written JV processing policies and procedures. CUSD also did not have written policies and procedures for its accounts payable and purchasing processes. The business services assistant stated that he had been working on developing an accounts payable policy and procedure manual for the last 5 months. The purchasing clerk used a notebook, developed by her predecessor, which contained purchasing procedure notes for guidance. However, using the notebook as the guide for purchasing procedures was inadequate because the notes in the notebook may not actually reflect CUSD's official purchasing policies and procedures.

Furthermore, as a part of the purchasing process, CUSD did not require schools to complete the funding code information on purchase requisitions. The purchasing clerk stated that the schools normally did not know and did not put the correct funding codes on the purchase requisition when purchasing items. She also stated that the CBO would add the funding code to the requisition when approving it. Individuals ordering goods or services should know the proper funding code to use and should be the ones to indicate the funding code to be charged, because they should know the proper grant and activity to charge. The CBO should not be determining the funding codes and then approving the purchase requisitions. This is not an adequate segregation of duties and does not provide for an adequate review process. No one was reviewing the purchase to determine whether the correct accounting code was being used.

³¹ PACS' principal and CEO were the only authorized users of the school's debit card. PACS' CEO stated that the debit card was used for emergencies only.

By operating without adequate internal controls in these areas, PACS and CUSD were putting Federal funds (ARRA and non-ARRA) at risk.

Needed Improvement of PACS Travel Policies and Procedures

PACS did not have travel policies that fully described the types of expenditures that were unallowable. Although its policies and procedures contained guidance relating to travel, these policies could be improved to include guidance on unallowable travel expenditures (for example, alcoholic beverages, entertainment expenses and expenses incurred for other persons) and on obtaining the most economical rates for airfare and lodging.

OMB Circular A-87, Appendix B delineates costs that are unallowable for reimbursement, including alcoholic beverages, entertainment costs, and excessive airfare.³² Employees need to be aware of travel related restrictions so that Federal funds (ARRA and non-ARRA) are not used for unallowable or unreasonable purposes. Furthermore, the policies could be improved to define and differentiate between local and non-local travel policies. Employees were allowed to be reimbursed per diem for meals for travel of 4 hours or more, which could potentially be local travel. An employee could be in travel status for 4 or more hours but still be in the local metro area. Travel costs during the period April 2009 through April 2010 totaled \$38,824. Federal funds were used to pay travel costs for staff professional development activities (Title I non-ARRA funds represented \$12,527 of this amount). Although no ARRA funds were expended for travel during the period, it does not mean that they will not be in the future. Having effective travel policies and procedures in place would help ensure that reimbursements for unallowable or unreasonable travel do not occur.

Dissemination of CUSD Manual of Business Operating Procedures to all Employees

The business services assistant and CUSD's purchasing clerk were unaware of and had never been provided with a copy of CUSD's Manual of Business Operating Procedures. Not making employees aware of the proper steps and procedures regarding the LEA's processes could create the opportunity for misuse of funds, as well as unreasonable, unsupported, and unallowable grant expenditures.

The issues identified at PACS and CUSD are putting ARRA funds at risk for noncompliance with applicable OMB cost principles, the C.F.R., ARRA guidance, and State requirements. Similar issues may be occurring at other LEAs in the Commonwealth because the lack of documented and adequate fiscal policies and procedures has been noted in a recently issued report on PSD.³³ Having adequate policies and procedures is a means to ensure accountability over the use of these funds. PDE needs to ensure that all LEAs have adequate policies and procedures to ensure effective oversight of Federal (ARRA and non-ARRA) funds.

³² OMB Circular A-87, Appendix B, 3., 14., and 43.c.(1), respectively.

³³ See the Department's Office of Inspector General (ED-OIG) report entitled, "Philadelphia School District's Controls Over Federal Expenditures," Control Number A03H0010, issued on January 15, 2010.

Recommendation

We recommend that the Assistant Secretary for OESE, in coordination with OSERS, and the CFO, require PDE to:

- 5.1 Conduct additional monitoring and provide guidance to ensure that all LEAs operating within the Commonwealth develop, implement, and disseminate adequate fiscal policies and procedures to provide assurance that Federal funds (ARRA and non-ARRA) are used to pay only reasonable and allowable program costs.

PDE and LEA Responses

PDE did not concur with the finding and recommendation. In its response, PDE reiterated that it conducts yearly fiscal and programmatic monitoring, as well as tri-annual site visits to LEAs. The monitoring instruments used address fiscal policies and procedures. PDE asserted that fiscal policies and procedures are reviewed as a part of its supplemental monitoring process and are verified during on-site reviews. PDE also provides guidance and direction to subrecipients during on-site visits.

CUSD did not concur with our finding on segregation of duties. CUSD did not address its lack of documented accounts payable, purchasing and JV processing policies and procedures. In its response, CUSD stated that the CBO only assigns the account number on requisitions when one cannot be determined by district staff. CUSD also stated that it will disseminate its Manual of Business Operating Procedures.

PACS did not concur with our finding. Although PACS stated that its policies and procedures are sufficient, it did develop policies and procedures for debit card usage. The debit card policy requires the business manager to review and verify all purchases. PACS also will update its travel policy to specify that school funds cannot be used to buy alcoholic beverages.

OIG Comments

Based on our review of PDE's response, and its supplemental monitoring process and tools, we concluded that PDE's supplemental monitoring process should address our recommendation. However, we suggest that PDE continue to use this supplemental monitoring process after September 2011 to ensure that subrecipients have adequate policies and procedures over the use of Federal funds. Additionally, should the self-evaluation surveys and desk reviews be used in lieu of site visits, PDE should require subrecipients to periodically submit their policies and procedures for review.

We also suggest that PDE's planned monitoring of CUSD include a review to ensure that it has developed adequate accounts payable, purchasing and JV processing policies and procedures. PDE should also ensure that CUSD's purchasing process includes proper

segregation of duties so the CBO is not both determining the funding code entered on the purchase requisition and also approving it.

We reviewed PACS' debit card policies and procedures and concluded they are adequate. We suggest that PACS address differentiating between local and non-local travel and the allowability of entertainment expenses and expenses incurred for other persons in its travel policy.

SCOPE AND METHODOLOGY

Our audit consisted of an assessment of the designed system of internal controls that CUSD, PACS, and PPS used in administering ARRA funds for the Title I, IDEA, and SFSF programs. We reviewed the LEA-level controls over data quality, cash management, and use of funds.

To achieve our audit objective, we judgmentally selected the three LEAs identified above to include in our review of the Commonwealth's LEA-level system of internal controls over ARRA funds. Using the Commonwealth's Recovery Web site,³⁴ we identified the total ARRA funding for the 627 Commonwealth LEAs. We stratified the LEA data into three strata—large, medium, and small—based on funding amounts. The large stratum consisted of five LEAs that received funding greater than or equal to \$20 million. The medium stratum consisted of 113 LEAs that received funding between \$2.1 million and \$19.99 million. The small stratum consisted of 509 LEAs that received funding between \$0 and \$2.099 million. We selected PPS from the large stratum, CUSD from the medium stratum, and PACS from the small stratum. In our selections we considered information obtained from ED-OIG's Investigation Services and OMB Circular A-133 Single Audit reports.

To gain an understanding of and assess the designed system of internal controls over the data quality, cash management, and use of funds that CUSD, PACS, and PPS had in place we:

- Reviewed OMB Circular A-133 Single Audit reports³⁵ and other applicable reports issued by ED-OIG;
- Reviewed applicable ARRA legislation, regulations, and guidance; and applicable Federal laws, regulations, and OMB Circulars;
- Identified ARRA funds allocated to and received and expended by each LEA for the Title I, IDEA and SFSF (if applicable) programs;
- Obtained and reviewed ARRA Title I, IDEA and SFSF (if applicable) approved applications and award letters for each LEA;
- Interviewed CUSD officials, including the Superintendent, Chief of Staff, Assistant Superintendent, CBO, Executive Director of Human Resources, Title I Coordinator, IDEA Coordinator, Finance Manager, and Purchasing Clerk. Also

³⁴ The Web site was <http://www.recovery.pa.gov/portal/server.pt/community/impact/5996/education>.

³⁵ Reviewed the OMB Circular A-133 Single Audit reports as follows: PPS FYs 2006 and 2007; CUSD FYs 2007 and 2008; and PACS FY 2007.

- interviewed the Agent for the Receiver and two Foundations, Inc., employees, the Deputy Director of Finance and the Business Services Assistant;
- Interviewed PACS officials, including the CEO, Purchasing Coordinator, and Administrative Assistant. Also interviewed the President of PACS' Board of Trustees and officials from Santilli & Thomson, including the Business Manager, Fiscal Officer, Business Analyst, Director of Operations, and a consultant to Santilli & Thomson;
 - Interviewed PPS officials, including the Director of Finance; Associate Director of Budget; Financial Reporting Supervisor; Chief Financial Officer/Chief Operating Officer; Associate Director of Payroll; Purchasing Support Manager; and Executive Director for Budget Development and Operations;
 - Held discussions with PDE's DSA and Education Administration Supervisor;
 - Obtained and reviewed each LEAs available written policies and procedures for the use of funds, data quality, and cash management; and
 - Obtained and reviewed other documents used by the LEAs in administering Federal funds (ARRA and non-ARRA).

We conducted our fieldwork at the three LEAs during site visits in July 2009, March 2010, and April 2010. We discussed the results of our audit and our recommendations with PPS on June 2, 2010; with PACS on June 17, 2010; and with CUSD on June 22, 2010. We also provided the results of our audit to PDE on June 1, 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.

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Washington, DC 20202

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ENCLOSURE
PDE COMMENTS

Draft Response to the USDE-OIG Audit Report dated September, 2010

FINDING NO. 1: PDE and the Comptroller's Office Need to Ensure that LEAs Minimize Excess Cash and Properly Remit Interest Earned on Federal Funds

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education (OESE), in coordination with the Office of Special Education and Rehabilitative Services (OSERS), and the Chief Financial Officer (CFO), require PDE to:

- 1.1 Conduct monitoring and provide guidance to ensure that IUs have adequate policies and procedures to minimize the time lapsing between the transfer of funds advanced to its LEAs and the disbursement of those funds by the LEAs;*
- 1.2 Expedite the dissemination of the special reminder and clarifying guidance to all LEAs, including those that receive SFSF funds, on the excess cash and interest remittance requirements. The guidance should instruct LEAs how to accurately calculate and timely remit interest earned on Federal funds;*
- 1.3 Develop a process to monitor IU and LEA compliance with the excess cash and interest requirements; and*
- 1.4.1 Work with PPS and PACS to ensure that the LEAs return to the Department excess interest earned on ARRA and non-ARRA Federal funds (excluding the \$100 per year for administrative expenses that is permitted to be kept).*

Response from Pennsylvania Department of Education

The Pennsylvania Department of Education (PDE) provides ongoing monitoring and guidance to LEAs regarding the requirements stated in this finding. This guidance includes the specific requirements detailed in contract agreements with LEAs and additionally includes information routinely posted on the PDE website.

The agency program staff conduct annual desk monitoring via the application process and through customary program activities. Further, program areas also conduct tri-annual visits with sub recipients, using monitoring templates which include, in addition to thorough programmatic elements, both fiscal and ARRA specific elements. Below are links to existing monitoring documents.

http://www.education.state.pa.us/portal/server.pt/community/consolidated_program_review/7378

<http://www.portal.state.pa.us/portal/server.pt?open=514&objID=508863&mode=2>

In addition, please reference Attachment #1 and 2

**ENCLOSURE
PDE COMMENTS**

In addition to the ongoing monitoring work of program staff, PDE has increased its monitoring efforts to address fiscal and ARRA specific requirements. In addition to the program area scheduled reviews and updated tools, the supplemental monitoring includes a Self Evaluation Survey, Desk Review Instrument and an On-Site Instrument. These tools specifically address the issue of minimizing the amount of excess cash on hand. Below is a link to a sample Survey – which is aligned with the other tools.

http://www.portal.state.pa.us/portal/http://www.portal.state.pa.us;80/portal/server.pt/gateway/PTARGS_0_123531_855991_0_0_18/ARRA%20Survey%20FAQ.pdf

This is in addition to our existing guidance which specifically discusses remittance of interest:

<http://www.portal.state.pa.us/portal/server.pt?open=514&objID=508863&mode=2>
(Section 611-Rider H, Rider I, and Rider J Administration and Fiscal Guidelines bottom of page 10)

As part of the sub-recipient on-site visits, the information reported on the self evaluation is verified through the review of appropriate written policies and procedures on hand at for the sub-recipient. During on-site visits, issues are discussed with the sub-recipient along with guidance and direction to program area resources.

In addition to the guidance and monitoring, PDE is actively engaged in training. The Bureau of Special Education (BSE) conducts annual trainings regarding Fiscal verification and will continue to include in these annual trainings information and guidance provided to BSE from OSEP on this topic. In addition to the collaborative PDE ARRA webinars conducted on March 17th and 19th of 2009, BSE staff have conducted trainings across the state for local school districts and Intermediate Units (IUs) on October 14,15 and 21, 2009. Additional sessions were held with IU Business Administrators on November 12, 2009, and for PA School Board Associations (PASBO) on March 10, 2010. Regional Fiscal Trainings for school districts and IUs were conducted on April 14, 16 and 22, 2010 and Fiscal Verification Training for IU Special Education directors on September 16, 2010. ARRA-specific training was held on over 12 occasions from February to August 2010 to school business officials, federal funds coordinators, intermediate units, executive directors, charter schools and to general ARRA recipients.

PDE has specifically issued guidance on the remittance of interest via presentations conducted with sub recipients, in addition to the information available on the website. When monitors are on-site, they provide instruction on where and when to remit the excess interest. Lastly, to consolidate this information and remind subrecipients of their responsibilities, specifically related to issues discovered during monitoring visits, PDE created a dedicated page to address monitoring issues and consolidate resources.

**ENCLOSURE
PDE COMMENTS**

http://www.portal.state.pa.us/portal/server.pt/community/american_recovery_and_reinvestment_act/17696/arra_resources/728057

Regarding the excess interest for PPS and PACS, PDE has received confirmation that PPS has remitted interest and will work with PACS to ensure the same.

FINDING NO. 2: PDE Needs to Improve Its Monitoring and Guidance of LEA ARRA § 1512 Data Reporting

Recommendations:

We recommend that the Assistant Secretary for OESE, in coordination with OSERS, require PDE to:

- 2.1 Conduct monitoring and provide additional guidance to ensure that its LEAs receive and understand ARRA Title I and IDEA job creation and retention requirements; and*
- 2.2.1 Work with LEAs to ensure they develop and implement an effective process that will properly track and report all ARRA § 1512 data.*

Response from the Pennsylvania Department of Education

PDE has consistently provided LEAs with guidance on 1512 reporting requirements, and continues to update its ARRA Reporting site, which is accessible at the following address:

http://www.portal.state.pa.us/portal/server.pt/community/american_recovery_and_reinvestment_act/17696/arra_reporting/613064

PDE regularly communicates to all ARRA recipients before and during the reporting period, and throughout the quarter, notifying recipients directly of any changes or updates in information. Communication is also documented so that new recipients or contacts can see prior communications. Recent communications can be found on the ARRA Reporting site above. Older communications can be found on our ARRA Resources site below.

http://www.portal.state.pa.us/portal/server.pt/community/american_recovery_and_reinvestment_act/17696/arra_resources/728057

In addition, PDE offers dedicated e-mail support to subrecipients during the reporting period each quarter to answer any ARRA reporting questions.

**ENCLOSURE
PDE COMMENTS**

PDE also created and implemented a proprietary electronic reporting system currently being utilized to properly track and report all ARRA 1512 data. This system has greatly improved the data collection process and contains intrinsic data validation rules which simply prohibit the most common types of mistakes, and re-direct subrecipients to additional guidance when mistakes are made.

As noted in the previous response, supplemental monitoring resources provide specific review of 1512 data through the Self Evaluation Survey, Desk Review Instrument and On-Site Instrument.

FINDING NO. 3: PDE Needs to Improve Its Monitoring and Guidance Over sub-recipient Completion of Semiannual Time and Effort Certifications

Recommendations:

We recommend that the Assistant Secretary for OESE, in coordination with OSERS, require PDE to:

- 3.1 Ensure that all LEAs within the Commonwealth are aware of the certification requirement and appropriately complete certifications for employees that work 100 percent on ARRA and non-ARRA Federal programs or cost objectives; and*
- 3.2.1 Require PACS to provide adequate documentation to support the \$438,835 in inadequately supported Title I ARRA personnel expenditures or return any portion of that amount that the Department determines is not adequately supported.*

Response from the Pennsylvania Department of Education

The Department provides ongoing guidance and assistance to LEAs as part of monitoring conducted by agency program staff. As part of this, desk monitoring and review is conducted annually, and site visits are conducted tri-annually. In addition to this work, PDE has increased its monitoring efforts to address fiscal and ARRA specific requirements. In addition to the program area scheduled reviews and updated tools, the supplemental monitoring includes a Self Evaluation Survey, Desk Review Instrument and an On-Site Instrument. These tools specifically address the issue of minimizing the amount of excess cash on hands, and are shared with LEAs in an ongoing manner.

**ENCLOSURE
PDE COMMENTS**

FINDING NO. 4: PDE Needs to Ensure that sub-recipients Have Adequate Fiscal Controls Over the Use of Federal Funds

Recommendations:

We recommend that the Assistant Secretary for OESE, in coordination with OSERS, and the CFO, require PDE to:

- 4.1 *Conduct monitoring and provide guidance, and work with all LEAs in the Commonwealth to ensure that LEAs have adequate fiscal controls to provide assurance that ARRA and other Federal funds will be safeguarded, and that LEAs are accurately reporting the amount of ARRA funds expended or obligated to projects or activities; and*

Response from the Pennsylvania Department of Education

The supplemental monitoring resources described in response to Finding #1 specifically review fiscal controls in the Self Evaluation Survey, Desk Review Instrument and On-Site Instrument. To reiterate, as part of the sub-recipient on-site visits, the information reported on the self evaluation is verified through the review of appropriate written policies and procedures on hand for the sub-recipient. During on-site visits, issues are discussed with the sub-recipient along with guidance and direction to Program Staff resources noted above. Further, guidance is provided as follows:

<http://www.pafpc.org/content/info.htm>

http://www.education.state.pa.us/portal/server.pt/community/federal_programs/7374/additional_resources/507180

- 4.2.1 *Work with CUSD and PACS to ensure that the cash management control issues noted in the Finding are adequately addressed.*

Response from the Department of Education

The PDE Bureau of Special Education (BSE) conducted a monitoring visit of Chester Upland School District (CUSD) and issued a monitoring report on July 27, 2010. CUSD is currently working on completing the required corrective actions directed by BSE. BSE has assigned an advisor to conduct on-site visits, which will be held, at minimum, twice a month at the CUSD, to insure continued progress on implementing the required corrective action. At this time, CUSD has completed the corrective action items due to date. Should CUSD fail to implement the required corrective action, BSE will initiate the sanctions required, which are outlined in the Compliance BEC—attached as Attachment # 3.

**ENCLOSURE
PDE COMMENTS**

FINDING NO. 5: PDE Needs to Ensure that LEAs Develop, Implement, and Disseminate Adequate Policies and Procedures Over the Use of Federal Funds

Recommendation:

We recommend that the Assistant Secretary for OESE, in coordination with OSERS, and the CFO, require PDE to:

- 5.1 *Conduct monitoring and provide guidance to ensure that all LEAs operating within the Commonwealth develop, implement, and disseminate adequate fiscal policies and procedures to provide assurance that Federal funds (ARRA and non-ARRA) are used to pay only reasonable and allowable program costs.*

Response from Pennsylvania Department of Education

Fiscal and programmatic monitoring is conducted annually, and site visits are conducted tri-annually. The monitoring templates referenced in our response to Finding #1 specifically addresses fiscal policies and procedures.

In addition, the supplemental monitoring resources described in response to Finding #1 specifically review fiscal policies and procedures in the Self Evaluation Survey, Desk Review Instrument and On-Site Instrument. To reiterate, as part of the sub-recipient on-site visits, the information reported on the self evaluation is verified through the review of appropriate written policies and procedures on hand for the sub-recipient. During on-site visits, issues are discussed with the sub-recipient along with guidance and direction to Program Staff resources noted above.

**ENCLOSURE
PDE COMMENTS**

**INDIVIDUALS WITH DISABILITIES EDUCATION ACT,
PART B §611, School-age Programs and Services: Fiscal Requirements**
Attachment #1

Description	Requirements	Met	Not Met	N/A	Suggested Evidence of Implementation	Additional Evidence	Comments
<p>A. Audits</p> <p>The SEA ensures that the State and the LEAs are audited annually, if required, and that all corrective actions required through this process are fully implemented.</p>	<p>1. Copies of single audit reports (two most recent), corrective action plans and approval documents for the LEA.</p>				<ul style="list-style-type: none"> • LEA response to findings • PDE follow-up reviews of findings • Independent auditors report shows that the LEA has corrected all action required 	<p>PDE staff reviews single audit from previous year (IDEA-B §611 school-age programs only) and reviews LEA comments, responses, etc. (management letter).</p>	
<p>OMB Circular A-87</p> <p>B. Carryover for Equitable Participation</p> <p>The LEA complies with the carryover provisions of IDEA-B §612(a)(10)</p> <p>34 CFR §300.133(a)(3)</p>	<p>If an IU-LEA has not expended for equitable services those funds allocated pursuant to the formula at 34 CFR §300.133(a)(1) by the end of the fiscal year for which Congress appropriated the funds, the IU must obligate the remaining funds for special education and related services (including direct services) to parentally placed private school children with disabilities for a carry-over period of one additional year.</p>				<ul style="list-style-type: none"> • IDEA-B §611 Funding Application Narrative on eGrants • IDEA-B §611 Budget section on eGrants • IDEA-B §611 Final Expenditure Reports section on eGrants 		

**ENCLOSURE
PDE COMMENTS**

Description	Requirements	Met	Not Met	Suggested Evidence of Implementation	Additional Evidence	Comments
<p>C. Supplement/Supplant The LEA ensures that IDEA-B §611 funds are used only to supplement non-Federal funding sources used for the education of eligible school-age students with disabilities and not to supplant them.</p> <p>34 CFR §300.202(3)</p>	<p>1. LEA approved current year budgeted IDEA-B §611 amounts are at least equal to prior year reported amounts.</p>		N/A	<ul style="list-style-type: none"> • IDEA-B §611 Funding Application Narrative on eGrants • IDEA-B §611 Budget section on eGrants • IDEA-B §611 Final Expenditure Reports section on eGrants 	Pertains to School Age IDEA-B §611 Programs	
<p>D. Equipment and Related Property OMB Circular A-87 34 CFR §80.32 (EDGAR)</p>	<p>1. LEA maintains inventory records, purchase orders and receipts for equipment purchased with IDEA-B §611 funds.</p> <p>2. The LEA conducts a physical inventory of all equipment at least once every two years.</p>			<ul style="list-style-type: none"> • Inventory is on file, up to date and maintained for all equipment costing the lesser of \$1,500.00 or the LEA's capitalization threshold; if less than \$1,500.00 • Equipment inventory list is current and complete. 	Pertains to School Age IDEA-B §611 Programs	

**ENCLOSURE
PDE COMMENTS**

Description	Requirements	Met	Not Met	N/A	Suggested Evidence of Implementation	Additional Evidence	Comments
E. Obligating Funds 34 CFR §76.708 (EDGAR)	1. The LEA began obligating funds on or after the program approval date.			N/A	<ul style="list-style-type: none"> Rider or Grant Approval Letter Expenditure records begin on or after approval date 	Pertains to School Age IDEA-B §611 Programs	
F. Non-public School Services for Equitable Participation 34 CFR §300.133(a)(1)	For children aged 6 through 21, an amount that is the same proportion of the IU-LEA's total subgrant under section 611(f) of IDEA-B as the number of private school children with disabilities aged 6 through 21 residing in the IU's Region is to the total number of eligible children with disabilities aged 6 through 21 in its region.				<ul style="list-style-type: none"> IDEA-B §611 Funding Application Narrative on eGrants IDEA-B §611 Funding Application Funding Distribution Chart on eGrants 	Pertains to School Age IDEA-B §611 Programs	
G. Time Documentation OMB Circular A-87	1. The LEA maintains semi-annual certifications for all employees funded from a single cost objective. 2. The LEA maintains time documentation logs/schedules for prorated staff including the amount of time spent on each funding source activity; the logs are signed by a supervisor and reconciled to payroll documentation on a monthly basis				<ul style="list-style-type: none"> Semi-annual time certifications Logs Staff calendars Staff schedules 	Pertains to School Age IDEA-B §611 Programs	
H. Record Retention	1. Records are maintained for a period of six years.					Pertains to School Age IDEA-B §611-B	

**ENCLOSURE
PDE COMMENTS**

Description	Requirements	Met	Not Met	N/A	Suggested Evidence of Implementation	Additional Evidence	Comments
I. America Recovery and Reinvestment Act of 2009	1. IDEA-B §611, Supplemental (ARRA) funds and expenditures are tracked separately from IDEA-B §611, A Basic funds.				<ul style="list-style-type: none"> • Invoices • Purchase orders • Equipment tracking logs 	Information on the approved IDEA-B ARRA §611 School-age application should match actual expenditures	
	2. Data Collection/Submission – LEAs have source data to reflect reported information on IDEA-B §611, Supplemental (ARRA) funds to PDE.				<ul style="list-style-type: none"> • ARRA 1512 survey • Payroll • Invoices • SWP • Purchase orders 	Information submitted on the ARRA 1512 survey should be verified on-site by reviewing information in "suggested evidence".	
	3. IU-LEA has submitted its School Level Expenditure Data 2008-09 from state and local funds in eGrants				<ul style="list-style-type: none"> • eGrant report 	You will find this report on the main menu screen in eGrants. It's the 2nd link, middle of the page which reads: School Level Expenditure Data 2008-09 (Top of the screen should say Program Year is currently 2010-11). *Deadline for this report is	

**ENCLOSURE
PDE COMMENTS**

Attachment #2

**PART 225—COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL
GOVERNMENTS (OMB CIRCULAR A-87)**

Appendix B to Part 225—Selected Items of Cost

§8. Compensation for personal services

h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
 - (b) A Federal award and a non-Federal award,
 - (c) An indirect cost activity and a direct cost activity,
 - (d) Two or more indirect activities which are allocated using different allocation bases, or
 - (e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
 - (b) They must account for the total activity for which each employee is compensated,
 - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
 - (d) They must be signed by the employee.

**ENCLOSURE
PDE COMMENTS**

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

(6) Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

(a) Substitute systems which use sampling methods (primarily for Temporary Assistance to Needy Families (TANF), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards including:

(i) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in subsection 8.h.(6)(c) of this appendix;

(ii) The entire time period involved must be covered by the sample; and

(iii) The results must be statistically valid and applied to the period being sampled.

(b) Allocating charges for the sampled employees' supervisors, clerical and support staffs, based on the results of the sampled employees, will be acceptable.

(c) Less than full compliance with the statistical sampling standards noted in subsection 8.h.(6)(a) of this appendix may be accepted by the cognizant agency if it concludes that the amounts to be allocated to Federal awards will be minimal, or if it concludes that the system proposed by the governmental unit will result in lower costs to Federal awards than a system which complies with the standards.

(7) Salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal awards.

**ENCLOSURE
PDE COMMENTS**

Attachment #3

Individuals with Disabilities Education Improvement Act

Part B

(IDEA-B)

Administrative and Fiscal Guidelines

Rider H – Program Application of LEA

Rider I – Support Services

Rider J – Direct Services

Pennsylvania Department of Education

Bureau of Budget and Fiscal Management

2010-2011

**ENCLOSURE
PDE COMMENTS**

**INDIVIDUALS WITH DISABILITIES EDUCATION IMPROVEMENT ACT
PART B**

OVERVIEW OF THE GRANT APPLICATION DOCUMENTS

Master Agreement System

The Master Agreement System was developed in an effort to reduce the paperwork burden on schools; increase accountability for use of public resources; simplify and implement consistent grant award and contracting procedures throughout PDE; and to lay the groundwork for expanded use of advanced technology in the grant contracting system. Phase One of this system was implemented for selective programs and grants in state fiscal year 1998-1999. Phase Two, beginning in fiscal year 2003-2004, included expansion to include most grants and use of the Master Agreement with other entities such as colleges and universities, approved private schools and non-profit agencies. The Master Agreement System includes the following elements:

- Master Agreement valid for a term of up to five years
- Individual Rider Agreements for each grant program
- Summary Budget for Federal/State Program Funds
- Reconciliation of Cash on Hand Quarterly Report
- Final Expenditure Report for Federal/State Program Funds
- Agreement Numbering format/Agreement tracking system
- Standard payment system

Rider Agreement

A Rider Agreement is the vehicle by which specific project funds are provided to grantees. One Rider is entered into for each separate project. The rider format is comprised of the following:

1. Rider signature page, Terms and Conditions, Right to Know Law Clause, and Summary Budget
2. Narrative
3. Miscellaneous Supplementary budget and program information, if required in program guidelines or funding application

Other Rider information:

- A Rider is part of the yearly application process.
- A Rider cannot be released as approved until the Master Agreement is fully executed.
- A Rider's start date cannot precede the Master Agreement start date. (This is only a concern for the first year of the Master Agreement Cycle if the Master Agreement is received late).
- A Rider Amendment is required whenever substantial changes to a Rider are proposed, including increases in funding.

For the Federal IDEA-§611 program, the elements of this system include the Master Agreement plus one of the following riders:

- Rider H – used for the Program Application of an LEA for
 - the IDEA-§611 Grants to States two component Program, or
- Rider I - used for Support Services (for IDEA-B §611); or
- Rider J - used for Direct Services (for IDEA-B §611).

**ENCLOSURE
PDE COMMENTS**

ADMINISTRATIVE GUIDELINES

All grant/project applications include master agreement riders. Master agreement riders cannot be dated earlier than their receipt by this office. The date that the rider is received determines the actual starting date for the grant/project. Federal regulations prohibit obligation or expenditure of funds prior to the beginning date of the grant/project.

I. IDEA-B Rider H Grant Applications include the following items:

- A. "Rider H – Grant Application for Individuals with Disabilities Education Improvement Act of 2004 - Part B, P.L. 108-446, 118 Stat. 2647, Program Application of an LEA, 20 U.S.C. §§1411 – 1419" appropriately completed and signed by the Chief School Administrator or authorized representative of the local education agency (LEA). The Rider includes the two page Summary Budget form, shown as pages 6 and 7 of the Rider.¹
- B. Program Narrative
 - 1. IDEA-§611
An "IDEA-B P.L. 108-446 Rider Program Narrative 2010-2011" format with appropriate attachments completed in accordance with the 2010-2011 program guidelines. The Rider Narrative Format is incorporated into the rider as Appendix 1. It must be signed by the Chief School Administrator or authorized representative of the LEA.²
- C. Other Required Information:
 - Cover Sheet
 - Miscellaneous Supplementary Budget Information
 - 1. Supplementary Expenditure Detail-Expenditures by Minor Object³
 - 2. Supplementary Expenditure Detail (PDE-2584)⁴

II. IDEA-B Rider I and Rider J Grant Applications include the following items:

- A. 1. **Rider I Grant Applications**
"Rider I – Grant Application for Individuals with Disabilities Education Improvement Act of 2004 - Part B, P.L. 108-446, 118 Stat. 2647, for Support Services, 20 U.S.C. §§1411 (e)(2)(C)(i)" appropriately completed and signed by the Chief School Administrator or authorized representative of the grantee. The rider includes the two page Summary Budget form, shown as pages 6 and 7 of the Rider.¹
- 2. **Rider J Grant Applications**
"Rider J – Grant Application for Individuals with Disabilities Education Improvement Act of 2004 - Part B, P.L. 108-446, 118 Stat. 2647, for Direct Services 20 U.S.C. §§1411 (e)(2)(C)(i)" appropriately completed and signed by the Chief School Administrator or authorized representative of the grantee. The rider includes the two page Summary Budget form, shown as pages 6 and 7 of the Rider.¹
- B. Program Narrative completed in accordance with the 2010-2011 program guidelines.
- C. Other Required Information:
Miscellaneous Supplementary Budget Information
 - 1. Supplementary Expenditure Detail-Expenditures by Minor Object.³
 - 2. Supplementary Expenditure Detail (PDE-2584).⁴

**ENCLOSURE
PDE COMMENTS**

Copies and Mailing

Grantees completing Rider H applications must complete the application on-line at the PDE eGrant website at: <http://eGrants.ed.state.pa.us>. A hard copy of the Rider signature page (page 1 of 7) with an original signature of the Chief School Administrator or authorized representative of the grantee must also be submitted on or before June 30, 2010 to:

Pennsylvania Department of Education
Bureau of Budget and Fiscal Management
Division of Fiscal Management
333 Market Street, Fourth Floor
Harrisburg, PA 17126-0333

Attention: Patricia Ventrone

Grantees completing Rider I and Rider J applications must submit an original and four (4) copies of each application package on or before June 30, 2010. Please note, all copies require original signatures.

Send completed applications to:

Pennsylvania Department of Education
Bureau of Budget and Fiscal Management
Division of Fiscal Management
333 Market Street – Fourth Floor
Harrisburg, PA 17126-0333

Attention: Patricia Ventrone

Questions about the Guidelines may be directed to:

Patricia Ventrone
Division of Fiscal Management
717-783-6535

Questions about the Instructions for completing the Summary Budget and the Supplementary Expenditure Detail may be directed to:

Patricia Ventrone
Division of Fiscal Management
717-783-6535

- 1 Complete in accordance with instructions for the completion of Riders H, I, and J, and the Summary Budget.
- 2 Complete in accordance with the instructions contained in the Guidelines for the Completion of the Rider H Program Narrative.
- 3 Complete in accordance with instructions for the completion of Supplementary Expenditure Detail – Expenditures by Minor Object.
- 4 Complete in accordance with instructions for the completion of Supplementary Expenditure Detail (PDE-2584).

**ENCLOSURE
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FISCAL GUIDELINES

A. Original Budget Application (Program Application)

The Original Budget Application reflects estimated project expenditures. The forms that are used are the Summary Budget, Supplementary Expenditure Detail-Expenditures by Minor Object, and Supplementary Expenditure Detail (PDE-2584).

<u>Form Title</u>	<u>No. of Copies (Riders I and J only)</u>
Summary Budget	Three (3), no signatures are required
Supplementary Expenditure Detail:	
• Expenditures by Minor Object	Three (3) copies
• Supplementary Expenditure Detail (PDE-2584)	Three (3) copies

The two page Summary Budget form is included in the appropriate Rider and shown as pages 6 and 7 of the Rider (Riders H, I, and J). The miscellaneous supplementary budget information, includes the "Supplementary Expenditure Detail - Expenditures by Minor Object", and "Supplementary Expenditure Detail (PDE-2584)." **The supplementary budget information is not attached to the Summary Budget or to the Rider.** It is submitted as a separate component of the Rider Grant Application packet. The forms are to be completed in accordance with the instructions for each of the forms, as well as any directions contained on the forms. These instructions are provided with the initial set of forms sent to grantees for their original Rider Grant Application. Please note that failure to include any of the information requested in the forms' instructions might delay the project review process which, in turn, may result in payment delays on the project. Finally, be sure to use the correct indirect cost rate for the 2010-2011 grant application or it will be returned.

B. Payments

After the Office of Comptroller Operations receives notification that a rider is approved, payments are initiated. The approved funding allocation is divided into equal amounts based on the duration of the project. This payment amount is issued to the grantee each month for the duration of the project. A monthly payment detail report is available in the Financial Accounting Information (FAI) Web system. The FAI Web system operates within the PDE Web site, <http://www.education.state.pa.us>. Grantees must establish security clearance through the PDE Web site before accessing the FAI Web system. If you need assistance accessing the PDE Web site and/or the FAI Web system, contact the helpdesk at (717) 783-6686.

Note:

The project payment system does not process an automatic monthly payment once the project end date has passed. Projects with payments remaining in their schedule will not automatically receive a monthly payment in the next cycle if the end date has passed. For example, a project ending June 30th with one monthly payment remaining in the schedule will not receive an automated monthly payment in July. Outstanding project balances will be processed for payment based on an approved final expenditure report. Project grantees are advised to submit their Final Expenditure Report in a timely manner.

C. Reconciliation of Cash On Hand Quarterly Report

The purpose of this report is to ascertain that the scheduled payments are adequate to cover the monthly cash needs of the grantee without allowing substantial cash reserves to accumulate at the local level. Grantees can also use the report to alert the Office of Comptroller Operations about any extraordinary cash needs it may have in any month of the quarter for which the report is being filed.

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Filing Requirements

All grant recipients are required to submit their quarterly reports electronically using the FAI Web system. A Reconciliation of Cash On Hand Quarterly Report is to be electronically submitted to the Office of Comptroller Operations, Federal Accounting Division, on or before the 10th working day of the month after the quarter ends (October, January, April and July). Electronic reports are considered delinquent if submitted after the 10th working day. The Office of Comptroller Operations' work calendar is used to determine the 10th working day of the month. Paper copies of the Reconciliation of Cash On Hand Quarterly Report are not accepted, processed or returned.

Generally all Rider programs use the FAI Web system and require Reconciliation of Cash on Hand Quarterly Reports. The individual riders will specify if other payment methods and reporting requirements are applicable.

If the quarterly cash report is not received by the 10th working day, the Rider payment(s) will be suspended until such time as the report is received and processed for payments. Quarterly reports are required only after funds have been received. For example, funds received in January require a quarterly report submission on or before the 10th working day in April. Also, a quarterly report is not required for Riders having received all of their scheduled monthly payments and/or for the final fiscal quarter of the Rider Agreement.

Excess Cash

A cash surplus exists when a quarterly cash report shows cash on hand that exceeds one monthly payment by one dollar. If the surplus cannot be satisfactorily explained or justified, future payment(s) will be suspended until the excess cash is used. The Office of Comptroller Operations will make the final determination as to whether or not the *extraordinary cash needs* are properly explained and justified. *Extraordinary Cash Needs* are defined as cash requirements that are materially more than the regularly scheduled monthly payment(s).

Cash Deficit

A cash deficit exists when a quarterly cash report shows cash on hand that is less than zero. A cash deficit greater than 50% of the scheduled monthly payment will initiate accelerated payment(s) to compensate for the cash deficit. A Rider experiencing a cash deficit may also have *extraordinary cash needs*. In this situation, *extraordinary cash* needs that are properly explained and justified may result in additional accelerated payments. The Office of Comptroller Operations will make the final determination as to whether or not the *extraordinary cash needs* are properly explained and justified.

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D. Budget Revisions and Funding Increases/Decreases

Budget Revision

A budget revision is a change to the program budget that does not increase or decrease the grant (budget) amount within the terms of the rider. The purpose of a budget revision is to transfer funds from one or more budget function or object categories to other function or object categories.

A project budget revision is required when:

1. there is a variance in any major category of expenditure that exceeds 10% of the category amount in the approved budget, and that variance exceeds \$10,000,
2. a transfer of funds is to be made to a previously unbudgeted category, or
3. there is a change in the total amount of the contract (project).

A major category of expenditure, for purposes of these project grants, is considered to be a Function Total or a Major Object Total. To determine if a budget revision is needed, check the Summary Budget. If a row or column total will exceed 10% of the approved Summary Budget row or column totals, and the amount of variance will exceed \$10,000, then a budget revision is necessary.

No changes in the total amount of the Rider will be accepted unless such action resulted from compliance with specific instructions from the Department.

Funding Increase

In accordance with the consolidated Master Agreement System, a funding increase requires a Rider Amendment, which includes a Summary Budget.

Funding Decrease

Upon written notification of a funding decrease, grantees are to submit a budget revision. A Rider Amendment is not required.

Due Dates

- A Summary Budget involving a funding increase, and which is part of a Rider Amendment, shall be due on the date specified at the time of the PDE written notification of a funding increase.
- A Summary Budget for a funding decrease shall be due on the date specified at the time of the PDE written notification of a funding decrease.
- Budget revisions for budget transfers are due on or before April 30, 2011.

Send an original and four (4) copies of the following:

1. Justification cover letter detailing the rationale and changes made to the budget
2. Cover Sheet
3. Summary Budget
4. Supplementary Expenditure Detail – Expenditures by Minor Object
5. Supplementary Expenditure Detail (PDE-2584)
6. Rider Amendment - necessary only if there is an increase in the total dollar amount of the Rider. If a Rider Amendment is needed, all copies must be appropriately signed and dated. Rider Amendments require original signatures.

Please note that all copies require original signatures.

Send Rider Amendments/Budget Revisions to:

Pennsylvania Department of Education
Bureau of Budget and Fiscal Management
Division of Fiscal Management
333 Market Street, Fourth Floor
Harrisburg, PA 17126-0333

Attention: Patricia Ventrone

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E. Final Expenditure Report (Fiscal)

The Final Expenditure Report is a report of the actual project expenditures. Grantees must use the standard Final Expenditure Report form. Additionally, the Supplementary Expenditure Detail forms are to be submitted, which are the same Supplementary Expenditure Detail forms required at the time of the Rider Agreement.

<u>Form Title</u>	<u>No. of Copies</u>
Final Expenditure Report	Three (3) with original signatures
Supplementary Expenditure Detail:	
• Expenditures by Minor Object	Three (3) copies
• Supplementary Expenditure Detail (PDE-2584)	Three (3) copies

The Final Expenditure Report must be signed by the Chief School Administrator or authorized representative of the grantee, and must be submitted within sixty (60) calendar days of the ending date of the rider/project period. For most projects, those with project periods ending June 30th, the reports are due by the following August 30th.

If circumstances will prevent completing the report within 60 calendar days, a written request for an extension may be made. The written request must include the reason the extension is needed and must be received prior to the 60 day due date.

The Final Expenditure Report is to be completed in accordance with the instructions for the forms, as well any directions on the form itself. Instructions for the forms are provided with the contract grant application package.

The Final Expenditure Report provides a section for computing the reconciliation of project funding received from the Commonwealth with project expenditures. If a refund is due to the Commonwealth, a refund check should be attached to the Final Expenditure Report. If a final payment is due to the grantee, the payment is processed by the Office of Comptroller Operations after they receive the approved Final Expenditure Report from PDE.

Note:

Revised Federal Regulations adopted on August 8th, 2006 require that for any IDEIA-B §611 project where the intermediate unit grantee has not expended for equitable services all of the funds described in 34 CFR 300.133(a)(1) by June 30, 2010, the intermediate unit grantee must carry-over those unexpended funds into the 2010-2011 school year and obligate them for special education and related services (including direct services) to parentally-placed private school children with disabilities. Only the unexpended Equitable Participation Funds are carried-over, all other unexpended 2009-2010 program funds must be refunded to the Commonwealth as stated above. In all cases where intermediate unit grantees must carry-over unexpended Equitable Participation Funds, the Department will not be in a position to grant an extension for submitting the intermediate unit grantee's 2010-2011 Final Expenditure Report due to Federal Tydings Amendment considerations and requirements.

Grantees are advised that failure to include any of the information requested in the form instructions, or failure to submit a refund check, when applicable, may delay the review and processing of the report which, in turn, may result in payment delays on the project and/or on other federal projects the grantee may have with PDE.

Actual expenditures that were not approved in the project application budget or budget revision may be disallowed. Additionally, actual expenditures in any major category of expenditure that exceed 10% of the category amount in the approved budget and the amount of variance exceeds \$10,000, without prior approval, may also be disallowed. Variances of this nature should be fully explained in a letter attached to the Final Expenditure Report.

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Send Final Expenditure Report to:

Pennsylvania Department of Education
Bureau of Budget and Fiscal Management
Division of Fiscal Management
333 Market Street, Fourth Floor
Harrisburg, PA 17126-0333

Attention: Patricia Ventrone

F. Audit Requirements

The following language is contained in Management Directive 325.9 (amended 8/20/2009), which is incorporated into the contract by section 16 of the Master Agreement. Grant recipients will be sent all revisions to this section when issued by the Commonwealth.

Audit Requirements

The Contractor/Eligible Recipient must comply with all federal and state audit requirements including: the Single Audit Act, as amended, 31 U.S.C. 7501 et. seq.; Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, as amended; and any other applicable law or regulation and any amendment to such other applicable law or regulation which may be enacted or promulgated by the federal government. If the Contractor/Eligible Recipient is a local government or non-profit organization and expends total federal awards of \$500,000 or more during its fiscal year, received either directly from the federal government or indirectly from a recipient of federal funds, the Contractor/Eligible Recipient is required to have an audit made in accordance with the provisions of OMB Circular A-133.

If the Contractor/Eligible Recipient expends total federal awards of less than \$500,000 during its fiscal year, it is exempt from these audit requirements, but is required to maintain auditable records of federal awards and any state funds which supplement such awards, and to provide access to such records by federal and state agencies or their designees.

Submission Of Audit Information To The Commonwealth

The Grant Recipient shall submit copies of the audit report package to the Commonwealth, which shall include:

1. Data Collection Form.
2. Financial statements and schedule of expenditures of federal awards.
3. Auditor's reports on the financial statements and schedule of expenditures of federal awards, internal control and compliance as well as a schedule of findings and questioned costs.
4. Summary schedule of prior audit findings.
5. Corrective action plan.
6. Management letter comments.

In instances where a federal program-specific audit is available, the audit report package for a program-specific audit may be different and should be prepared in accordance with the audit guide and OMB Circular A-133

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The number of copies to be submitted shall equal one for the Bureau of Audits (archival copy) plus one for each Grantor agency that provided federal pass-through awards to the entity, as reflected in the entity's Schedule of Expenditures of Federal Awards. The audit report package should be submitted to the:

Office of the Budget
Office of Comptroller Operations
Bureau of Audits
8th Floor Forum Place
555 Walnut Street
Harrisburg, PA 17101
Phone: (717) 783-9120
Fax: (717) 703-3943

General Audit Provisions

The Contractor/Eligible Recipient is responsible for obtaining the necessary audit and securing the services of a certified public accountant or other independent governmental auditor. Federal regulations preclude public accountants licensed in the Commonwealth of Pennsylvania from performing audits of federal awards.

The Commonwealth reserves the right for federal and state agencies or their authorized representatives to perform additional audits of a financial or performance nature, if deemed necessary by Commonwealth or federal agencies. Any such additional audit work will rely on work already performed by the Contractor/Eligible Recipient's auditor, and the costs for any additional work performed by the federal or state agencies will be borne by those agencies at no additional expense to the Contractor/Eligible Recipient.

Audit working papers and audit reports must be retained by the Contractor/Eligible Recipient's auditor for a minimum of three years from the date of issuance of the audit report, unless the Contractor/Eligible Recipient's auditor is notified in writing by the Commonwealth or the cognizant or oversight federal agency to extend the retention period. Audit working papers will be made available upon request to authorized representatives of the Commonwealth, the cognizant or oversight agency, the federal funding agency, or the General Accounting Office.

G. Federal General Administrative Regulations and Cost Principles

Education Department General Administrative Regulations (EDGAR)

The Code of Federal Regulations (CFR) is a codification of the general and permanent rules published in the Federal Register by the executive departments and agencies of the federal government. Title 34 of the CFR contains the regulations issued by the U.S. Department of Education. 34 CFR Part 80 contains the Education Department General Administrative Regulations (EDGAR) that apply to state and local governments (Part 80 - Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments).

Cost Principles

The cost principles that State and Local governments are to adhere, as established by 34 CFR Part 80.22, are the cost principles stated in Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribal Governments.

Contractors must maintain time and effort documentation for all personnel charged to a federal grant that are paid from more than one funding source. Additionally, contractors that have any other

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shared costs must have a cost allocation plan indicating each funding source's share of the total amount to be spent.

Support of Salaries and Wages

The OMB A-87 Cost Principles provide that charges to Federal awards for salaries and wages, whether treated as direct or indirect cost will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. Additionally, support of salaries and wages must meet the time distribution standards of the OMB A-87 Cost Principles (Attachment B, 11(h)). These standards, in part, provide that:

- Where employees are expected to work solely on a single federal grant or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.
- Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which: reflects an after-the-fact distribution of the actual activity of each employee; accounts for the total activity for which the employee is compensated; is prepared at least monthly and coincides with one or more pay periods; and is signed by the employee.

This documentary support is required when employees work on more than one federal project; a federal project and a non-federal project, or an indirect cost activity and a direct cost activity.

Interest

The Cash Management Act of 1990 governs interest earned on federal funds. The specific policies for federal programs administered and funded by the U.S. Department of Education are promulgated in Education Department General Administrative Regulations (EDGAR). Section 80.21 (i) of EDGAR requires that, subject to the exceptions in 80.4, subgrantees promptly, but at least quarterly, remit to the federal agency the interest earned on advances. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses.

Interest earned on federal funds received in advance and greater than \$100 should be sent to the following address:

Financial Improvement and Receivable Group
U.S. Department of Education
600 Independence Avenue, SW
FOB 10 – Room 3400
Washington, DC 20202-4330

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Attachment #4

**BASIC EDUCATION CIRCULAR
Special Education Compliance**

22 Pa. Code §14.102.(a)(4)

DATE OF ISSUE: June 5, 2002

DATE OF EXPIRATION: June 30, 2007

REPLACES: Special Education Compliance, BEC 22 Pa. Code §14.8,
issued September 1, 1997

The Pennsylvania Department of Education is responsible for developing and maintaining a system that ensures that each student with a disability receives a free appropriate public education and that each family has access to a system of procedural safeguards. While school districts have the primary and direct responsibility for carrying this out, federal law places upon the Department a "general supervision" responsibility. Similarly, state and federal laws call upon the Secretary to oversee the system and enforce the special education requirements. To accomplish this oversight, the Department has created a comprehensive system that coordinates various planning, funding, and compliance elements.

We recognize that the creation of quality programming and successful outcomes for students with disabilities requires more than technical compliance with procedural rules. The Department believes, however, that legal compliance is the base on which high quality programs are built. Conflict between parents and districts over unresolved compliance issues diverts energy from other educational tasks that deserve our attention. Similarly, the need to provide compensatory education, to reimburse parent expenses, and to pay attorneys fees at the end of a long conflict divert resources from direct educational services. In an attempt to avoid these diversions of resources, the Department promotes and ensures compliance with special education statutes and regulations through its coordinated program of plan review, complaint management, monitoring, technical assistance, and funding decisions.

When compliance issues arise, they are almost always resolved amicably and without undue delay. Thus, the main task for the Department is to address compliance issues clearly and promptly, and to take action to ensure compliance when necessary.

In particular, the following will be treated as compliance problems that warrant a PDE response:

- failure to submit an acceptable local plan;
- failure to comply with the order of a hearing officer, review panel, or court (unless an appeal is pending);
- failure to implement the corrective action required through the complaint process of the Bureau of Special Education (BSE);
- failure to implement the corrective action required through BSE monitoring;
- failure to submit required reports, including the reports regarding a district's need for intensive interagency coordination.

In an effort to expedite compliance with the required regulations on those occasions where complaint, cyclical monitoring or court ordered corrective action has not been implemented in a timely manner, the Bureau of Special Education in collaboration with the Office of Chief Counsel has implemented the following procedures:

- Within ten days after the due date of uncompleted corrective

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action, the Special Education Adviser will contact the LEA/IU to determine the status of the corrective action and forward a summary to the Division Chief.

- The Division Chief will contact the Superintendent, Chief Administrative Officer or Executive Director to determine the actions needed to implement the required corrective action.
- Continued noncompliance will result in a recommendation to the Bureau Director to schedule a meeting in Harrisburg which the Superintendent, Chief Administrative Officer or Executive Director will be required to attend to address the noncompliance and, if necessary, the enforcement mechanisms that will be utilized to obtain compliance.
- Bureau personnel in attendance at this meeting will include the Bureau Director (or designee), Special Education Adviser, Division Chief, and, if requested, an attorney from the Office of Chief Counsel. At the discretion of the Bureau Director, other individuals may be required to attend.
- Within ten days of this meeting, the Department will issue a letter summarizing the results of the meeting (i.e. either confirming the LEA/IU's agreement to expeditiously complete the corrective action and explaining the penalty for failing to adhere to the agreement or, in the absence of an agreement, setting forth the enforcement remedy the Department has decided is appropriate for the non-compliance).

The response of the Department will vary from case to case. This process is intended to ensure compliance rather than to be punitive. The main features of our efforts will be to explain the problem, call upon the school district to implement a remedy, and assist the school district with ideas as to what a remedy might involve.

If, however, the Department does not succeed in obtaining prompt compliance, the Department can take more rigorous steps to make sure that the compliance issue is resolved, including the following:

- a local special education plan may be disapproved.
- the disbursement of state and federal funds may be deferred pending resolution of the issue.
- the amount of funds may be reduced -- for example, by the amount of money it takes to provide an appropriate education to a particular child or children -- if a district is unwilling to provide appropriate services.
- the Department may take the district to court to obtain an order requiring the district to take specific actions.
- the Department may join with parents in legal action initiated by them.

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- the Department may take action affecting the commission of the superintendent or other commissioned officer responsible for administering the district.

None of these steps is desirable, and none should be necessary if each school district is familiar with and attentive to the rules governing special education. We anticipate that consultation between the Department and districts will preclude the need to take any of the compliance and enforcement actions described above. It is the obligation and the policy of the Department, however, to use these compliance and enforcement measures whenever they are necessary to ensure that the rights of Pennsylvania children are met.

REFERENCES:

Purdon's Statutes

24 P.S. Section §13-1357
24 P.S. Section §13-1372
24 P.S. Section §25-2552

State Board of Education Regulations

22 Pa. Code Chapter 14

Federal Statute

20 U.S.C. Section 1412(6)
20 U.S.C. Section 1414(d)
20 U.S.C. Section 1232d

Federal Regulation

34 CFR Part 300 (including Section 300.660 - Section 300.662)

CONTACT BUREAU/OFFICE:

Bureau of Special Education
Pennsylvania Department of Education
333 Market Street
Harrisburg, PA 17126-0333
Voice 717.783.6913
TTY 717.787.7367

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The Pathway to the Promise.

341 South Bellefield Avenue | Pittsburgh, PA 15213-3516
Parent Hotline: 412-622-7920 | superintendent@pphsd.net | www.pps.k12.pa.us

Mark Roosevelt, Superintendent of Schools

October 4, 2010

Mr. Bernard Tadley, CPA
Regional Inspector General for Audit
Region III, Philadelphia
U.S. Department of Education
Office of Inspector General
The Wanamaker Building
100 Penn Square East, Suite 502
Philadelphia, PA 19107

Dear Mr. Tadley,

Pittsburgh Public Schools (PPS) appreciates the opportunity to respond regarding Recommendation 1.4 of OIG's audit report *Commonwealth of Pennsylvania's Local Educational Agencies' Systems of Internal Controls over ARRA funds*, ED-OIG/A03K00C3.

Interest in excess of \$100 for ARRA Title I and ARRA IDEA was returned to the U.S. Department of Education on August 25, 2010. PPS now has a procedure in place to return interest in excess of \$100 on all Federal funds to the U.S. Department of Education on a quarterly basis.

Sincerely,

/s/

Mark Roosevelt
Superintendent of Schools

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COMMENTS**

Philadelphia Academy Charter School
1700 Tomlinson Road
Philadelphia, PA 19

**Response to the U.S. Department of Education Office of Inspector General's
American Recovery and Reinvestment Act of 2009:**

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

The purpose of our audit was to determine whether agencies charged with responsibility for administering ARRA funds have designed systems of internal control that are sufficient to provide reasonable assurance of compliance with applicable laws, regulations, and guidance. Proper internal controls are essential for ensuring that ARRA funds are administered properly and used in ways that are consistent with the intent of ARRA

FINDING NO. 3:

**PDE Needs to Improve Its Monitoring and Guidance Over LEA Completion of
Semiannual Time and Effort Certifications**

We have analyzed the regulation and will implement the proper procedure based on our analysis of the regulation. Certifications will be required at the beginning and end of the semiannual period (**See Exhibit A**). Regarding IDEA funds, we will review the guidance issued by BFE and BBFM to ensure we are in compliance with the recommended fiscal policy.

FINDING NO. 4:

**PDE Needs to Ensure that LEAs Have Adequate Fiscal Controls Over the Use of
Federal Funds**

The internal controls currently in place are strong and compliment the current accounting system (**See Exhibit B**). Institution of strong and comprehensive internal controls were

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part one of a multi step approach to enhancing the school finances and fiscal policies. Rebuilding of the accounting records and issuing audits for fiscal year 2008 and fiscal year 2009 was the second phase of strengthen the schools finances. The third step is the implementation of a new enhanced accounting system which includes automated internal control processes, fund accounting and an accounting manual.

Adequacy of Accounting System Internal Controls:

The internal controls currently in place are strong and compliment the current accounting system through segregation of duties (**See Exhibit B**). Institution of strong and comprehensive internal controls were part one of a multi step approach to enhancing the school finances and fiscal policies. Rebuilding of the accounting records and issuing audits for fiscal year 2008 and fiscal year 2009 was the second phase of strengthen the schools finances. The third step is the implementation of a new enhanced accounting system which includes automated internal control processes, fund accounting and issuance of a comprehensive accounting manual.

FINDING NO. 5:

The Board of Trustees of Philadelphia Academy Charter School approved comprehensive policies and procedures to govern the schools academic programs, operations and finances in October 2008 through January 2009. Professional development on these policies is conducted periodically.

The purchase threshold for the debit card is \$1,500.00, and all disbursements will be reviewed and verified by the business manager (**See Exhibit C**).

Philadelphia Academy Charter School currently does not have Travel Cards. The schools travel policy states that employees on travel for school business or professional development must obtain the most economical rates for airfare and lodging (**See Exhibit D**). A stipend of \$35.00 per day is allowed for breakfast, lunch and dinner inclusive. Philadelphia Academy Charter School will update its policy to state that school funds cannot be used for alcoholic beverages.

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print program

I certify that I worked solely on that program for the period January 1, 2011 to June 30, 2011.

Employee Signature

Date

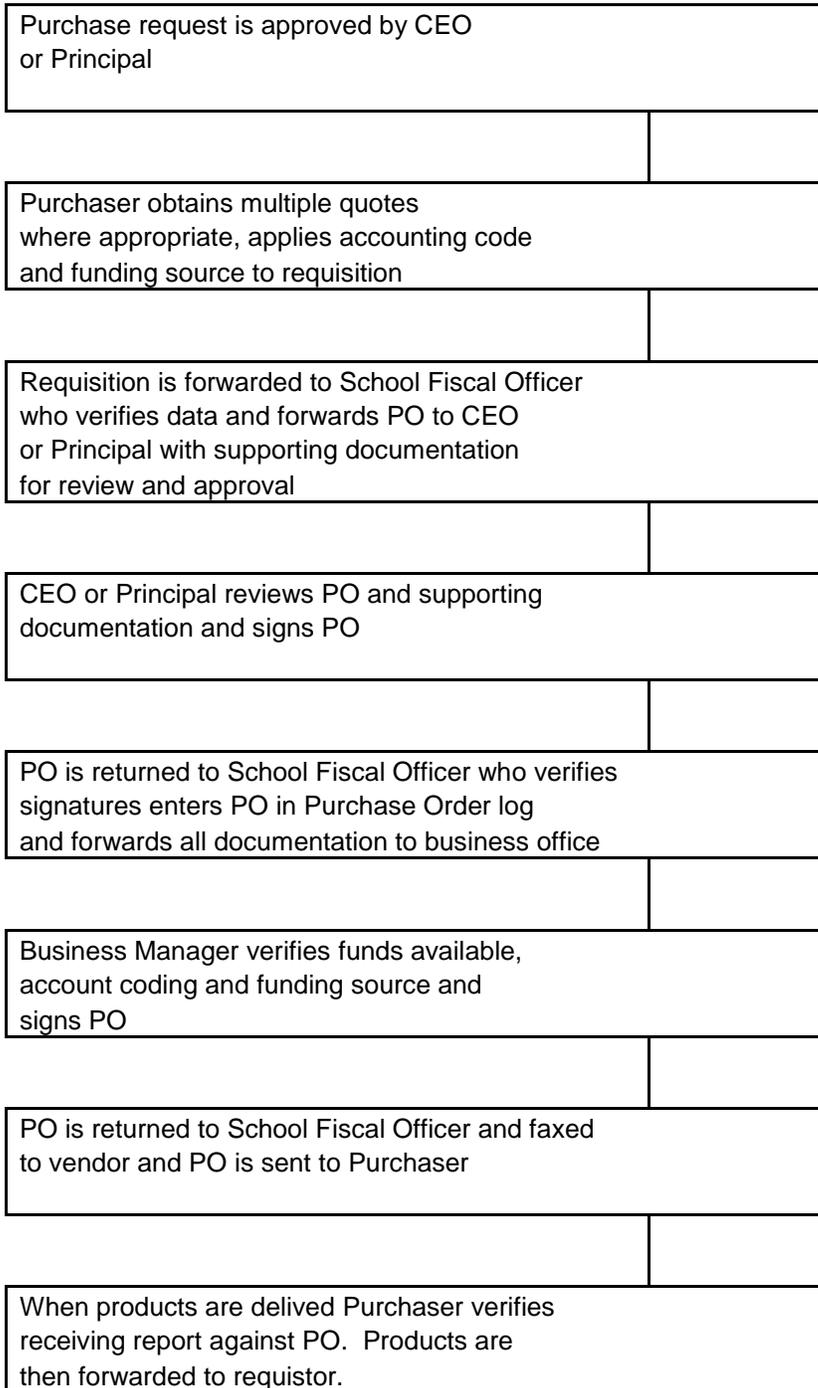
Supervisor Signature

Date

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Exhibit B

**Philadelphia Academy Charter School
Purchasing and Accounts Payable Process**



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When invoice is received from vendor School Fiscal Officer date stamps the invoice, reviews for accuracy and forwards to Purchaser

Purchaser verifies accuracy of invoice against PO, enters account code and initials invoice. Invoice is sent back to School Fiscal Officer

School Fiscal Officer completes an Accounts Payable transmittal and sends all invoices to the CEO for signature. Once transmittal is signed and returned School Fiscal Officer forwards transmittal with invoices to processor in Business Office

Processor review invoices for accuracy and verifies against PO log, then inputs invoice into QuickBooks. Once processor has completed this task a listing of pending payments with supporting invoices is forwarded to Business Manager for approval

Business Manager reviews each invoice and verifies proper account coding and funding source in QuickBooks. Once the review above is completed the documentation is sent back to processor to print checks.

Processor issues checks and packages documentaion in voucher format and initials checks as processor. Checks are then sent back to Business Manager who reviews documentation a second time and signs check as the first signer.

Vouchers are then sent to CEO for final review and signature.

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Vouchers are returned to processor who mails checks and files vouchers.

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Exhibit C

**Philadelphia Academy Charter School
Debit Card Procedures**

1. Purpose
 - a. Debit cards are provided to senior administrators that have a need to make purchases on behalf of the school when a credit card is required. The card is a convenience that carries responsibilities. Although the card is issued in an employee's name, it should be considered school property and should be used with good judgment.

2. Authority
 - a. The card is for business-related purchases only; personal charges are not to be made to the card. . Purchases are limited to meals, refreshments, travel, small supplies and equipment.

 - b. The cardholder is the only person entitled to use the card and is responsible for all charges made against the card. Improper use of the card can be considered misappropriation of school funds which may result in disciplinary action, up to and including termination.

3. Responsibilities
 - a. All charges are billed directly to and paid directly by the school. Any personal charges on the card could be considered misappropriation of school funds since the cardholder can not pay the bank directly

 - b. Cardholders are expected to comply with internal control procedures in order to protect school assets. This includes keeping receipts, coding transaction to the appropriate general edger code, reviewing the transaction for propriety, reconciling monthly statements and following proper card security measures. Cardholders are responsible for reconciling their monthly statement and resolving any discrepancies by contacting the supplier first and then the bank.

 - c. The purchasing threshold for the card is \$1,500.00.

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Exhibit D

832. EMPLOYEE EXPENSE REIMBURSEMENT REGULATIONS

1. Purpose

- 1.1 To establish the policies and procedures governing the reimbursement of travel and other reasonable and proper expenses incurred by employees in the performance of official and necessary School business.
- 1.2 Policies and procedures governing the reimbursement of travel other reasonable expenses incurred by employees in the performance official and necessary school business.

2. Authorization and Approval of Travel and Reimbursements

The CEO is responsible for authorizing travel on necessary and essential School business and the subsequent approval of incurred expenditures. The intent of reimbursement is to defray those expenses the employee would not ordinarily have incurred had the employee not been on travel status.

- 2.1 The CEO is responsible for authorizing travel on necessary and essential School business and the subsequent approval of incurred expenditures. The intent of reimbursement is to defray those expenses the employee would not ordinarily have incurred had the employee not been on travel status.”
- 2.2 Expenditures for out of town travel require the approval of the CEO in advance of such travel. Expenditures for out of town travel of the CEO and Principal require the approval of the Board of Trustees.
- 2.3 Expenditures in excess of the limitations established in these procedures will be approved only if fully documented and a review of the circumstances indicates that such expenditures were necessary and in the best interests of the School. Approval of the CEO is required.
- 2.4 Conference Participation:
 - (a) Participation in any one conference will be limited to a number such that there shall be substitute teacher coverage during the period of conference attendance.
- 2.5 Request for Reimbursement

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- (a) Employees will be reimbursed for approved expenditures within the policies and limitations established herein. Employee Expense Reimbursement will requested on a form to be provided by the school for routine or out of state travel. Receipts for transportation, hotel accommodations, taxi fares, tolls, etc., must be obtained and attached to the form.
- (b) All requests for reimbursement of travel expenses are subject to review by the Board Treasurer to determine the official nature of the expenditure and the propriety and reasonableness of the charges. Expenditures not deemed necessary or reasonable will not be reimbursed.

2.6 Reimbursable Expenses

- (a) Travel within city should be submitted for reimbursement on a monthly basis.
- (b) By Automobile:
 - (1) The shortest distance to the destination should generally be taken. Exceptions may be made when expressways or other highways are more convenient or require less time. Records must be kept of the distances between stops so that entries on the Reimbursement form will be accurate. In listing trips, indicate the start destination (school/location) of each trip and the miles covered. Show the total reimbursable miles covered for the day in the prescribed block, rounding the total to the nearest mile. A mileage reimbursement rate equal to the amount allowed by the Internal Revenue Service. Parking fees are reimbursable when parking at commercial parking areas is necessary. Parking fees are not reimbursable with respect to the regular or normal work location.
 - (2) Mileage reimbursement will not be granted for the first stop of each workday or for the trip home from the last work location of the day. These two trips are equivalent to going to work and returning home after work each day and are not reimbursable. Mileage after the first stop through the last official stop of the day is reimbursable.
- (c) Travel via public transportation:
 - (1) Generally, the least expensive mode of travel should be used. Enter the total fares for the day in the amount

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column on the reimbursement form. The cost of travel to and from home and an employee's school or office is not an allowable expense.

(d) Meals While in Travel Status

- (1) Meal allowance will be made for travel of over four (4) hours. All meals while on travel status are reimbursable, without documentation, at the following rates (taxes and tips included):

Meal Allowances:
Breakfast \$ 5.00
Luncheon 10.00
Dinner 20.00
Total Per Day \$ 35.00

Meals that are part of an official function (conventions, etc.) will be reimbursed in the amount actually expended and should not be included in the meal allowance. A receipt must accompany the reimbursement request for such meals. Meals that are included in the registration fee should not be included in the request for meal allowance.

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**FINDING NO. 2: PDE Needs to Improve Its Monitoring and Guidance of LEA
ARRA § 1512 Data Reporting**

Inaccurate Reporting of Job Creation Data

Response:

The CBO assumes all responsibilities associated with the reporting of federal project expenditures. It is part of the year-end process to analysis the appropriateness of federal program expenditures prior to submitting final expenditure reports.

CUSD did experience difficulty in attracting prospective candidates for these positions and found it difficult to fulfill a complete compliment of personnel within the initial phases.

CUSD did expend ARRA Title I and IDEA funds, however the ARRA expenditures accounts were not used at that time. The year-end analysis of federal projects has capture expenditures applicable to ARRA Title I and IDEA.

Recommendations:

We recommend that the Assistant Secretary for OESE, in coordination with OSERS, require PDE to:

- 2.1 Conduct monitoring and provide additional guidance to ensure that its LEAs receive and understand ARRA Title I and IDEA job creation and retention requirements; and
- 2.2 Work with LEAs to ensure they develop and implement an effective process that will properly track and report all ARRA § 1512 data.

Response:

CUSD followed the instructions and guidelines for reporting information to PDE. If there were any changes in reporting this information, CUSD submitted revised reports.

The CBO assumes all responsibilities associated with the reporting of federal project expenditures. It is part of the year-end process to analysis the appropriateness of federal program expenditures prior to submitting final expenditure reports.

**FINDING NO. 4: PDE Needs to Ensure that LEAs Have Adequate Fiscal
Controls Over the Use of Federal Funds**

Response:

All expenditure transactions are recorded at the time the expenditure is incurred through encumbering purchases and processing invoices or payrolls for payment. The issue is that the appropriate account was not used during the course of the year. Detailed payroll records, payroll history reporting and other expenditure transactions documents are part

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the project documentation file. All employee payroll records have been updated reflecting the proper account.

Tracking of Expenditures

Response:

All expenditure transactions are recorded at the time the expenditure is incurred through encumbering purchases and processing invoices or payrolls for payment. The issue is that the appropriate account was not used during the course of the year. Detailed payroll records, payroll history reporting and other expenditure transactions documents are part the project documentation file. All employee payroll records have been updated reflecting the proper account.

CUSD allocates payroll costs and benefits as part of its year-end process. When quarterly reports are submitted previous year expenditures are used as a means of projection expenditures for the next school year. This process is used because staffing levels, when compared from year to year are very similar. It is seldom that we experience excess cash with any of the district's federal projects.

Review of Journal Voucher Controls

Response:

At year end detailed payroll records, payroll history reporting and other expenditure transactions documents are part the project documentation file. The CBO, as part of the year end process reviews and prepares any correcting/adjusting/reclassification/allocation JV entries necessary to close-out a federal project. All Year End correcting/adjusting/reclassification/allocation JV entries are presented to the local auditors.

FINDING NO. 5: PDE Needs to Ensure that LEAs Develop, Implement, and Disseminate Adequate Policies and Procedures Over the Use of Federal Funds

Lack of Written Policies and Procedures and Adequate Review of Some Processes

Response:

The CBO assigns budget account number when an appropriate account(s) cannot be determined. Most of the requisition account numbers are assigned by district staff other than the CBO.

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**Dissemination of CUSD Manual of Business Operating
Procedures to all Employees**

Response:

A manual of business office operating procedures has been prepared and will be distributed to the appropriate departments and school facilities.