



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



# **American Recovery and Reinvestment Act**

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

### **Final Audit Report**



**Maryland State Capitol**

**ED-OIG/A03K0009**

**January 2013**

## **NOTICE**

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

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.



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

AUDIT SERVICES  
PHILADELPHIA REGION

January 03, 2013

Dr. Lillian M. Lowery  
State Superintendent of Schools  
Maryland State Department of Education  
200 West Baltimore Street  
Baltimore, MD 21201

Dear Dr. Lowery:

This **final audit report** presents the results of our audit to determine whether (1) the State of Maryland and selected subrecipients used and accounted for American Recovery and Reinvestment Act of 2009 funds in accordance with Recovery Act recipient plans, approved applications, and other applicable laws and regulations and (2) data reported by Maryland were accurate, complete, and in compliance with Recovery Act reporting requirements.

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 actions to be taken will be made by the appropriate Department of Education officials.

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

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It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within **30 days** would be appreciated.

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

Sincerely,

/s/

Bernard E. Tadley  
Regional Inspector General for Audit

Enclosure

## **Abbreviations, Acronyms, and Short Forms Used in this Report**

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AFRS	Annual Financial Reporting System
app	Application
Baltimore City	Baltimore City Public Schools
C.F.R.	Code of Federal Regulations
CSTEM	Communication, Science, Technology, Engineering, and Math
Department	U.S. Department of Education
ESEA	Elementary and Secondary Education Act of 1965
FTE	Full-Time Equivalent
FY	Fiscal Year
IDEA	Individuals with Disabilities Education Act, Part B
LEA	Local Educational Agency
Maryland	State of Maryland
Maryland Education	Maryland State Department of Education
MDM	Mobile Device Management
OMB	Office of Management and Budget
Prince George's County	Prince George's County Public Schools
Public Safety	Maryland State Department of Public Safety and Correction
Recovery Act	American Recovery and Reinvestment Act of 2009
SEA	State Educational Agency
SFSF	State Fiscal Stabilization Fund
SIG	School Improvement Grant
TEDL	Transforming Education through Digital Learning
Title I	Title I, Part A of the Elementary and Secondary Education Act of 1965

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

Control Number ED-OIG/A03K0009

### **PURPOSE**

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

We reviewed four education-related grants funded under the Recovery Act: State Fiscal Stabilization Fund (SFSF) Education Stabilization; SFSF Government Services; Title I, Part A of the Elementary and Secondary Education Act (ESEA) of 1965 (Title I); and the Individuals with Disabilities Education Act, Part B (IDEA). We reviewed selected costs charged to these grants from April 1, 2009, through May 31, 2010, and quarterly data reported from July 2009 through June 2010. Our review covered seven data elements that must be reported under Section 1512 of the Recovery Act—estimated number of jobs created or retained; vendor information; project status; and the amount of funds awarded, subawarded, received, and spent.

We conducted our review at the Maryland State Department of Education (Maryland Education), Maryland's Department of Public Safety and Correction (Public Safety) and two local educational agencies (LEAs) within Maryland: Baltimore City Public Schools (Baltimore City) and Prince George's County Public Schools (Prince George's County).

As a result of information that came to our attention during the review, we expanded our audit period for Prince George's County to include expenditures made from June 1, 2010, through May 31, 2011, for the grants discussed above. Our expanded review also included Title I Recovery Act School Improvement Grant (SIG) expenditures.

## RESULTS IN BRIEF

We concluded the following.

- Maryland's subrecipients' Recovery Act expenditures were generally allowable, reasonable, and accounted for in accordance with the recipients' plans, approved applications, and other applicable laws and regulations; however, we found some unallowable (\$362,939), unsupported (\$346,861), and inadequately supported (\$26,782) expenditures at the LEAs we reviewed.
- Maryland Education could improve the monitoring of expenditures to ensure subrecipients complied with Federal requirements related to the use of and accounting for Recovery Act funds.
- Maryland Education needs to provide additional guidance to LEAs and better oversee their application of indirect costs to Recovery Act funds.
- Maryland's reported data were generally accurate, complete, and in compliance with Recovery Act reporting. However, Maryland did not ensure that the jobs data reported by Public Safety and the LEAs that we reviewed were accurate, complete, or in compliance with Recovery Act reporting requirements.

We also found that the LEAs we reviewed spent \$11,556 of regular Title I funds for unallowable purposes.

This report discusses (1) Maryland Education's monitoring of LEA processes and expenditures; (2) unallowable, unsupported, and inadequately supported LEA expenditures; (3) inaccurate and incomplete data reported by Public Safety and the LEAs; (4) inadequate internal controls and policy enforcement for certain fiscal areas by the LEAs; and (5) our recommendations.

We provided a draft copy of this report to Maryland Education for review and comment on September 14, 2012. Maryland Education and the LEAs did not fully concur with all of our findings and recommendations.<sup>1</sup> Maryland Education stated that Finding Nos. 1 and 2 did not reflect all of Maryland Education's monitoring of the LEAs. Maryland Education concurred with Recommendations 1.3, 2.1, and 2.3 and partially concurred with Recommendations 1.1, 1.2, and 1.4. It did not concur with Recommendation 2.2. Maryland Education neither concurred nor nonconcurred with Recommendation 1.5. Maryland Education provided comments to our suggested corrective action in Finding 3. Although we considered Maryland Education's comments, we did not revise our findings and recommendations based on these comments. However, we did modify parts of the Findings. In Finding No. 1 we clarified our statement about Maryland Education reviewing supporting documentation for LEA reimbursement requests. In Finding No. 2 we removed the questioned indirect costs charged to Baltimore City's SFSF Education grant. In Finding No. 3 we revised the number of quarters that Prince George's County did not report Section 1512 FTE data. Maryland Education's comments are summarized at the end of each of the three findings. The full text of the Maryland Education's comments is included as an Enclosure to this report.

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<sup>1</sup> Maryland Education's comments included responses from both LEAs we reviewed.

## BACKGROUND

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

Maryland Education oversaw the State's 24 LEAs, consisting of 1,424 elementary and secondary schools that served more than 869,113 students during the 2009–2010 school year.

**Funding:** Maryland was awarded a total of \$1.2 billion in Recovery Act funds for the grants we reviewed. This consisted of \$879.8 million for SFSF funds (\$160.1 million for Government Services and \$719.7 million for Education Stabilization), \$200 million for IDEA funds, and \$136 million for Title I funds (see Table 1 at the end of this report section). Maryland received about 50 percent of its SFSF Education Stabilization (SFSF Education) funds by May 2009. The initial drawdown of the SFSF Education funds totaling \$225 million was allocated among the LEAs. SFSF Government Services funds amounting to \$81 million was allocated to Maryland's Departments of Public Safety, Human Resources, and Juvenile Services, and to the State Police. The Maryland General Assembly approved specific allocations for the remaining SFSF Education funds in December 2010, and required the funds to be expended by September 30, 2011.

**Administration and Reporting:** Maryland Education oversaw the State's education system and was responsible for administering Recovery Act funds. It administered Recovery Act funds through its Annual Financial Reporting System (AFRS) that tracked LEA expenditures. AFRS enabled LEAs to review award balances for all open awards, prepare and submit grant applications, submit grant reimbursement requests, and draw down grant funds from Maryland Education. All grants were administered on a reimbursement basis.

Maryland Education fulfilled Section 1512 reporting requirements on behalf of its LEAs, including the compilation of jobs data. Public Safety compiled its own Section 1512 data. Both Maryland Education and Public Safety reported the data to Maryland's StateStat Office<sup>2</sup> for submission to FederalReporting.gov.

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<sup>2</sup> Maryland's StateStat office collects and manages performance and other reporting data for the State. StateStat is a performance-measurement and management tool implemented by Maryland's Governor.



During the audit period, Maryland Education expended about \$446 million in Recovery Act funds. The following table summarizes the Recovery Act funds awarded and expended by program as of the June 30, 2010, reporting period.<sup>3</sup>

**Table 1: Maryland Recovery Act Funds Awarded and Expended by Program Reviewed**

<b>Program</b>	<b>Catalog of Federal Domestic Assistance No.</b>	<b>Total Amount Awarded</b>	<b>Total Expended Through June 30, 2010</b>
SFSF Education	84.394	\$719,676,984	\$251,052,213
SFSF Government Services	84.397	\$160,123,730	\$ 81,073,888
Title I, Part A	84.389	\$135,958,438	\$ 49,237,423
IDEA, Part B	84.391	\$200,216,990	\$ 64,296,233
<b>Total</b>		<b>\$1,215,976,142</b>	<b>\$445,659,757</b>

## FINDINGS AND RECOMMENDATIONS

### **FINDING NO. 1 – Maryland Education’s Monitoring Procedures Could Be Improved to Ensure That LEAs Comply With Federal Fiscal Requirements and Maintain Adequate Fiscal Controls**

A principle of the Recovery Act is to ensure accountability over the use of funds provided under the Act. Maryland Education could improve its monitoring of LEA expenditures to ensure subrecipients comply with Federal fiscal requirements related to the use of and accounting for all Federal grant funds. We found that both LEAs (Prince George’s County and Baltimore City) improperly used Recovery Act funds, had inadequately documented Recovery Act expenditures, and needed improvements in their internal controls.

The State educational agency (SEA) is responsible for monitoring subgrant-supported LEA activities to ensure compliance with applicable Federal requirements (Title 34 of the Code of Federal Regulations (C.F.R.), section 80.20(a)). LEAs are required to maintain effective control and accountability for all subgrant cash, property, and other assets and ensure that they use these assets solely for authorized purposes (34 C.F.R. § 80.20).<sup>4</sup>

#### **Maryland Education’s Monitoring of LEAs**

Although Maryland Education monitored its LEAs’ Federal expenditures and fiscal controls through its reimbursement process and monitoring site visits, we found that the monitoring instruments could be improved. Furthermore, Maryland Education did not monitor any Recovery Act funds until after the end of our audit period.

<sup>3</sup> Because Recovery Act data is reported quarterly and the end of our audit period (May 31, 2010) was not a quarter end month, we used the quarter that included May 31, 2010, and ended on June 30, 2010.

<sup>4</sup> Maryland Education’s Notice of Grant Award document to LEAs references 34 C.F.R. Part 80.

We reviewed Maryland Education's "Title I, Part A and ARRA Program Review 2009–2010" monitoring instrument. The instrument required Maryland Education Title I program office officials to review the LEA's monitoring of school fiscal processes, including how the LEA determines whether a school's Title I program purchases are reasonable and that supplanting did not occur. In addition, the instrument required the reviewer to determine who within the LEA monitors expenditures and how often. Although reviewing the LEA's monitoring processes is a good practice to engage in, the review instrument did not require the Maryland Education reviewer to test school- or LEA-level Title I expenditures. Furthermore, the instrument did not require a review of personnel expenditures, which is usually one of the largest Title I program expenditure categories for LEAs.

We also reviewed Maryland Education's Division of Special Education/Early Intervention Services program office's "Subrecipient Monitoring Instrument," which was revised in June 2011. Although the instrument included a review step about the allowability of expenditures in accordance with Federal and State requirements, it did not indicate (in the verification portion of the review step) what the reviewer should do to complete this step, nor what documentation the reviewer should examine.

We reviewed Maryland Education's "State Fiscal Year 2010 Subrecipient Monitoring Report," on Baltimore City, dated February 2, 2012, and found that although the monitoring instrument included a step to review personnel expenditures in accordance with OMB Circular A-87 requirements, the report did not include a finding on unsupported personnel expenditures. Our audit found a high percentage (78 percent) of unsupported personnel costs.

Maryland Education's monitoring instrument, "Fiscal Program Review" for SFSF Education funds stated that the monitoring review is to determine whether the funds were used in accordance with the LEA's Recovery Act Master Plan. The review required testing of no less than five transactions or five percent of recorded expenditures to determine whether they were in accordance with the planned use of funds and in compliance with policies and procedures. This step did not require testing expenditures to determine whether they were for allowable purposes. Testing expenditures to determine whether they were in accordance with the planned use of the funds would not necessarily determine whether the actual use of the funds (the expenditure) was for an allowable purpose. The actual expenditure could fit within the planned use but still not be an allowable use of program funds. If the policies and procedures are not adequate, then determining whether an expenditure was in compliance with the policies and procedures may not show whether an expenditure was allowable. The document included a step to select and test the allowability of journal entry expenditures; however, this is not adequate. Not all expenditures are made using journal entry procedures.

None of the monitoring instruments had a step requiring the reviewer to determine whether the LEAs had documented accounts payable policies and procedures, nor did these instruments have steps to determine whether LEAs were ensuring that technological devices were being used for authorized purposes. Having adequate policies and procedures for fiscal processes would reduce the amount of unallowable expenditures incurred by the LEAs.

Maryland Education also used single audits conducted by independent public accountants to monitor LEAs' Federal expenditures, according to its Section Chief for the Federal Aid Unit. We reviewed the fiscal year (FY) 2009 and 2010 single audit reports for Prince George's County and the 2010 single audit report for Baltimore City; none of the reports included any of the fiscal or internal control issues we found.

It should be noted that the Audit Chief of Maryland Education's State Audit Unit stated that his department began performing audits of Federal funds at the State's LEAs with the fiscal year that ended June 30, 2009. The audits are performed every 2 years, cover a 2-year period, and will be done at the same time as the LEA State fund audits. These audits are performed on regular Federal grant funds as well as Recovery Act funding.

As stated previously, Maryland Education monitored LEA expenditures through the reimbursement process. LEAs entered general expenditure data supporting reimbursement requests by file upload in AFRS. Although Maryland Education reviewed and approved the expenditure data, it reviewed only account code information; it did not review actual invoices or other supporting documentation. Maryland Education did not require LEAs to submit supporting expenditure documentation with the reimbursement requests. If LEAs were required to submit supporting documentation at least periodically upon request (even on a sample or random basis), Maryland Education could test expenditures and if necessary take early action on the appropriateness of an expenditure.

### ***LEA Improper Use of Funds and Inadequate Documentation of Expenditures***

We found that the LEAs had unallowable, unsupported, and inadequately supported nonpersonnel and personnel Title I, IDEA, and SFSF Education Recovery Act expenditures. The nonpersonnel expenditures were for items such as travel, entertainment events, awards, professional services, utility payments, items for personal use, food, and giveaway items for noneducational events. We also found that one LEA did not have adequate controls over the use of tablet computers purchased with Federal funds and did not have adequate policies and procedures for travel, and online purchasing. The other LEA did not have adequate accounts payable policies and procedures. See Other Matters and Enclosures 1 through 6 for the full details of the results of our review of the nonpersonnel and personnel expenditures and the other issues found. Although we reviewed Recovery Act grant funds, the issues noted apply to the use of and accounting for all Federal funds. We discuss some examples of the expenditures and internal control issues that we found below.

### **Nonpersonnel Expenditures**

We found unallowable, unsupported, and inadequately supported Title I, IDEA, and SFSF Education Recovery Act nonpersonnel expenditures at the LEAs we reviewed.<sup>5</sup> In total, we found \$130,124 in unallowable and \$28,274 in inadequately supported Title I grant expenditures; \$22,461 in unallowable IDEA grant expenditures; and \$13,785 in unallowable and \$95,615 in

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<sup>5</sup> We used a risk-based approach to judgmentally select expenditure transactions to review at each LEA. Detailed information on the number and amount of expenditures we selected at each LEA and the respective universes of expenditures is provided in Tables 7 and 8 in the Scope and Methodology section of this report.

unsupported SFSF Education expenditures. Tables 2 and 3 show (by grant) the universes, sample sizes and amounts, and the amount and number of expenditures reviewed for Prince George’s County and Baltimore City. Enclosures 1 through 3 include a full discussion of all the unallowable, unsupported, and inadequately supported nonpersonnel expenditures, and other related fiscal control issues we found at both LEAs.

**Table 2: Unallowable, Unsupported, and Inadequately Supported Nonpersonnel Expenditures at Prince George’s County**

Grant	Universe No.	Universe Amount	Sample No.	Sample Amount	Unallowable No.	Unallowable Amount	Unsupported or Inadequately Supported No.	Unsupported or Inadequately Supported Amount
Title I Recovery Act and Regular (expanded work) <sup>6</sup>	5,342	\$7,165,185	152	\$4,684,176	19	\$122,362	17	\$26,849
IDEA Recovery Act (expanded work)	4,857	\$6,911,054	32	\$686,792	6	\$6,633	0	\$0
SFSF Education	7,703	\$33,147,810	50	\$1,719,433	1	\$13,785	3	\$95,615

**Table 3: Unallowable, Unsupported, and Inadequately Supported Nonpersonnel Expenditures at Baltimore City**

Grant	Universe No.	Universe Amount	Sample No.	Sample Amount	Unallowable No.	Unallowable Amount	Unsupported or Inadequately Supported No.	Unsupported or Inadequately Supported Amount
Title I Recovery Act and Regular Title I	1,457	\$1,974,454	40	\$152,385	7	\$7,762	1	\$1,425
IDEA	192	\$1,027,968	22	\$392,393	6	\$15,828	0	\$0

<sup>6</sup> The sample included 22 expenditures, totaling \$100,678, that were funded by Title I SIG Recovery Act funds.

### *Examples of Unallowable Nonpersonnel Expenditures*

The following examples include unallowable travel costs, utility payments, overcharges for professional services, event giveaway items, and entertainment expenditures.

- Prince George's County charged \$108,882 to the Title I Recovery Act grant for unapproved travel.
- Prince George's County charged \$13,785 to SFSF Education funds for utility (electricity) obligations that were incurred before the Recovery Act was signed into law.
- Prince George's County spent \$8,736 in regular Title I funds for gifts and other items provided to staff at a principal's meeting.
- Prince George's County was overcharged \$2,256 for professional services that were charged to Title I Recovery Act funds.
- Prince George's County's Turnaround Schools Director was advanced \$1,083 from Title I Recovery Act funds for a rental car that he did not use.
- Prince George's County's Turnaround Schools Budget Administrative Specialist used Title I SIG Recovery Act funds to purchase a mini-refrigerator (\$212) and a microwave oven (\$199) from Staples for her personal use at the office.
- Baltimore City was overcharged \$15,828 for professional services on six invoices that were paid from IDEA Recovery Act funds.
- Two Baltimore City elementary schools used Title I Recovery Act and regular Title I funds, totaling \$4,352, for dinner cruises of Baltimore's Inner Harbor.

### *Examples of Unsupported and Inadequately Supported Nonpersonnel Expenditures*

- Prince George's County did not provide supporting documentation for three expenditures, totaling \$95,615, for utility (electricity) costs charged to the SFSF Education grant.
- Prince George's County did not have adequate supporting documentation for the hours billed on an invoice, totaling \$22,741, which was paid with Title I Recovery Act funds.
- Baltimore City provided inadequate documentation for two Title I Recovery Act expenditures, totaling \$1,425, for food at a school activity. The supporting documentation provided for the activity did not show what the activity was or support the number of people the food was ordered for.

**Personnel Expenditures**<sup>7</sup>

We found inadequately supported Recovery Act personnel expenditures at Baltimore City totaling \$117,919 for the Title I program; \$82,404 for the IDEA program; and \$49,431 for the SFSF Education program. Table 4 shows the results of our review of personnel expenditures for Baltimore City. Enclosure 4 details the unallowable, unsupported, and inadequately supported personnel expenditures we found.

**Table 4: Unsupported or Inadequately Supported Personnel Expenditures at Baltimore City**

Grant	Universe No.	Universe Amount	Sample No.	Sample Amount	Unsupported or Inadequately Supported No.	Unsupported or Inadequately Supported Amount
Title I	45,407	\$11,590,214	107	\$141,493	87	\$117,919
IDEA	15,116	\$2,517,456	49	\$122,347	31	\$82,404
SFSF	2,583	\$1,236,687	44	\$54,331	42	\$49,431

*Basis for Unsupported or Inadequately Supported Expenditures*

Title I and IDEA personnel expenditures were unsupported because Baltimore City did not provide time and effort certifications or personnel activity reports for partially funded employees who were working on multiple cost objectives (as required by OMB Circular A-87, Appendix B, 8.h.(3) and (4))<sup>8</sup> and sufficient supporting documentation (that is, a time sheet or sign-in sheet) to show that the employees actually worked during the payment period in which the expenditure was incurred (as required by OMB Circular, A-87, Appendix A, C.1. j., which states that expenditures should be adequately documented). Expenditures were inadequately supported because Baltimore City did not provide at least one of the types of supporting documentation discussed above.

Baltimore City’s SFSF Education personnel expenditures were unsupported because Baltimore City did not provide any documentation, such as sign-in sheets for professional development expenditures or time and attendance records for extracurricular activity expenditures. The SFSF Education expenditures did not meet the requirements in “Guidance for Grantees and Auditors, SFSF Program,” December 24, 2009, which states that LEAs must maintain documentation supporting salaries funded by SFSF funds. The documentation must be in the same manner as

<sup>7</sup> Because of time constraints, our review of personnel expenditures at Prince George’s County included only a review of time sheets and sign-in sheets. We reviewed 34 Title I Recovery Act expenditures, totaling \$89,242, from a universe of 15,526 expenditures totaling \$3,247,524 and found one minor unallowable expenditure. The LEA did not expend SFSF Education funds on personnel.

<sup>8</sup> Employees working on a single Federal award are required to submit semiannual certifications stating that the employee worked solely on that award during the time period. Employees working on multiple cost objectives are required to submit personnel activity reports at least monthly. Baltimore City did not provide us with any documentation to show whether the employees sampled worked on one or more cost objective.

that used to support the time and effort of personnel performing similar duties who are paid with State or local funds.

*Technology Purchased With Federal Funds At Risk of Being Used for Unauthorized Purposes*

The use of technology devices, such as cell phones, tablets, and laptop computers is increasing in education. Maryland Education should work with its LEAs to help ensure that its policies can help maximize the effectiveness of the use of these devices in education and allow for the proper accountability over the use of the devices. Maryland Education should update its monitoring instruments to include a review of such devices to determine whether LEAs have developed and implemented policies and procedures to ensure that the items are used for authorized purposes.

For the 2011–2012 school year, Prince George’s County purchased 3,922 tablet computers with Title I Recovery Act funds for its Transforming Education through Digital Learning (TEDL) technology initiative. The district gave tablet computers to all students, teachers, and select staff members in its four Title I middle schools. Although our review of the technology was early in the program year, we found some indications of possible issues that may arise with the use of the tablet computers, the policy relating to the use of the tablet computers, and ensuring appropriate accountability for the use of such devices. Prince George’s County’s policies and internal controls over the tablet computers did not ensure that the assets were used only for purposes consistent with its policies. Subgrantees must adequately safeguard all assets and must ensure that they are used solely for authorized purposes (34 C.F.R. § 80.20).

Teachers and other staff were allowed to take their assigned tablet computers home. When the tablets were not connected to the school server, teachers could use them for personal use. Prince George’s County’s staff policies on the tablet computers did not include guidance on staff incidental usage. To prevent unauthorized use, the policies should include guidance on use that is appropriate to the nature and the legitimate purposes for the devices and that allow for appropriate use, monitoring, and accountability.

Prince George’s County’s tablet computers usage policies for staff stated that Internet games were not allowed on the tablet computers and that downloading applications (apps) was strictly prohibited. We found that the district was not enforcing this policy.

We performed a physical inventory of the tablet computers distributed to staff in three of the middle schools<sup>9</sup> and issued to the Title I Department. In total, we reviewed 30 of the 137 tablet computers that had been distributed to staff at the 3 middle schools and 7 of the 21 tablet computers issued to the Title I Department. We found that 13 of the 37 tablet computers had apps on them that were against Prince George’s County’s policy and can be for personal use. For example, we found apps for social networking sites, Internet games, sporting sites, entertainment, music, and religion. These apps did not appear to be educationally related based

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<sup>9</sup> We did not visit all four middle schools in the TEDL program because one school was closed as a result of earthquake damage.

on the nature of the app and the subject matter the teacher taught. Enclosure 5 provides further detail on our review of the tablet computers.

The Title I Technology Specialist stated that there were no controls in place to prevent the downloading of apps; however, the tablet computers have a control that monitors applications for appropriateness. Prince George's County used Mobile Device Management (MDM), which captures an image of what apps are on the tablet computer at a given time. This software is installed on all staff and student tablet computers. The administrators at each of the schools in the TEDL program could review the images on the tablet computers at their own discretion, but they were not required to do it on a regular basis.

The Prince George's County's Director of State and Federal Programs provided us with articles and executive summaries that addressed how some of the apps discussed above could be used for educational purposes. However, the articles and summaries were on how the apps could be used for higher education, such as by university students and professors. Prince George's County did not provide us with information, such as lesson plans or screen images that showed how the apps were being used in Prince George's County's Title I middle schools.

Collectively, the lack of adequate internal controls that led to the issues identified at Prince George's County and Baltimore City increases the risk that LEAs could misuse Federal funds (Recovery Act and non-Recovery Act) and puts the LEAs at risk for noncompliance with applicable OMB cost principles, the C.F.R., Recovery Act guidance, and State of Maryland requirements. Similar issues may be happening at other LEAs in the State.

Based on our review of the two LEAs' Recovery Act expenditures, we concluded that Maryland Education should provide additional guidance to and improve its monitoring of its LEAs to minimize the risk of a reoccurrence of the issues we found. Improvements to Maryland Education's monitoring process should include revising its monitoring instruments to include the areas noted above, performing a review of expenditures before reimbursement is made, and providing additional fiscal control and accountability guidance to the LEAs. Strengthening Maryland Education's monitoring efforts will assist in reducing the risk that LEAs will charge unallowable, unsupported, or unreasonable expenditures to Recovery Act and non-Recovery Act Federal grants. Additionally, without adequate fiscal monitoring, Maryland Education cannot ensure that LEAs are exercising effective accountability over Federal funds and may not identify inappropriate payments for LEA expenditures.

## **RECOMMENDATIONS**

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education, in conjunction with the Assistant Secretary for the Office of Special Education and Rehabilitative Services and the Director of the Implementation and Support Unit, require Maryland Education to—



- 1.1 Revise its monitoring instruments to (1) ensure adequate oversight of and subrecipient compliance with fiscal requirements related to the appropriate use of and accounting for Federal grant funds and (2) determine whether LEAs have implemented appropriate internal controls to ensure that they are using technology items purchased with Federal funds for educational purposes.
- 1.2 Return to the Department \$166,370<sup>10</sup> in Recovery Act (Title I, IDEA, and SFSF Education) and regular Title I funds that were used for unallowable expenditures.
- 1.3 Provide guidance to its subrecipients on the unallowability of expenditures made with program funds for the types of unallowable items we found, such as entertainment trips, awards, travel, and items used for personal use.
- 1.4 Provide adequate documentation to support the \$373,643 in unsupported and inadequately supported Recovery Act expenditures or return any portion of that amount the Department determines is not adequately supported.
- 1.5 Require Prince George's County to develop and implement a process to enforce its tablet computer usage policy and ensure that technology purchased with Federal funds is used only for authorized purposes, including incidental use.

### **Maryland Education and LEAs' Comments**

Maryland Education stated that it did not concur with the finding because many of the monitoring instruments it used were not referenced. Maryland Education included a list of monitoring and outreach processes it used in the oversight of SFSF Education funds with its response.

Maryland Education also stated that because we used risk-based judgmental sampling that was targeted to high-risk areas, and because we found limited errors, this provides some evidence that its monitoring and oversight efforts were effective.

Maryland Education stated that reviewing LEA expenditures before reimbursement, even on a sample basis, is not practical because the resources required to put such a control in place would outweigh the benefits received.

Maryland Education stated that \$142,453 of the unallowable expenditures cited in the report were allowable and \$369,981 of the unsupported or inadequately supported expenditures could be adequately supported.

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<sup>10</sup> This amount also includes \$19,551 in unallowable expenditures found in addition to our sampled expenditures. These expenditures were for a principal's meeting, career expo (see Enclosure 1) and dinner cruises (see Enclosure 2).

Prince George's County's comments were provided as Attachment 4 to Maryland Education's response. Prince George's County partially concurred with the finding. The LEA did not concur with \$124,369 of the \$166,606 in unallowable nonpersonnel and personnel expenditures cited in the report. Prince George's County stated that it had supporting documentation for \$95,994 of the unsupported expenditures cited in the report. The LEA also stated that officials provided sign-in sheets, an agenda, and parent feedback documentation for the "Mother Daughter Tea" expenditure included in Enclosure 3.

Prince George's County commented that the MDM system on the tablet computers allows an administrator to remotely configure, query, lock, or wipe a device clean. It also commented that we had not requested lesson plans or screen shots showing how the devices were used in the classroom.

Baltimore City's comments were provided as Attachment 3 to Maryland Education's response. Baltimore City concurred with the finding, except for \$15,828 paid from IDEA Recovery Act funds for professional services. The LEA stated that adjustments to the costs charged by the vendor were made in April 2010; therefore, no overcharges occurred. Baltimore City also stated that it had supporting documentation for \$249,754 of the questioned personnel expenditures charged to Recovery Act Title I, IDEA, and SFSF Education funds. The LEA stated that it is still collecting some of the documentation and that additional documentation is available for review.

Recommendation 1.1: Maryland Education partially concurred with the recommendation. Maryland Education believes it has an adequate monitoring process; however, it will review its monitoring instruments to determine what additional review steps could be included.

Recommendation 1.2: Maryland Education partially concurred with the recommendation. Maryland Education stated that \$142,453 of the unallowable expenditures were allowable.

Recommendation 1.3: Maryland Education concurred with the recommendation.

Recommendation 1.4: Maryland Education partially concurred with the recommendation. Maryland Education stated that it can provide adequate supporting documentation for \$369,981 of the unsupported or inadequately supported expenditures.

Recommendation 1.5: Maryland Education neither concurred nor nonconcurred with the recommendation, but stated that it will incorporate a review of Prince George's County's compliance with its computer usage policy in the SEA's Federal grant monitoring instruments.

## **OIG Response**

As stated in the finding, we reviewed the grant monitoring instruments that were provided to us during our review. The additional information included in Attachment 1 to Maryland Education's response relates only to the SFSF grant and most of the items listed are not

monitoring instruments. Many are emails to the LEAs about issues such as funding and audit schedules. Although some of the information may have included guidance, they are not monitoring instruments.

As stated in the finding, we believe the monitoring instruments we reviewed could be improved. Revising the instruments as indicated in the finding and providing additional guidance to the LEAs will help to ensure that LEAs have adequate fiscal internal controls.

While using a risk-based sampling approach may allow for more unallowable and unsupported expenditures to be found, the unallowable and unsupported expenditures also show that the LEAs internal controls were not adequate or were not working as intended and that the LEAs may need additional guidance. As stated in the finding, Maryland Education should revise its monitoring instruments and provide additional fiscal control guidance to LEAs.

In response to Maryland Education's comments, we revised our statement about the SEA reviewing supporting documentation for LEA reimbursement requests. We still believe that adding a control to review supporting documentation for LEA expenditures on a sample or periodic basis before reimbursement is practical and could be achieved. Maryland Education could determine a threshold for the review of expenditures (for example, by dollar amount or percentage of a budget) and use a risk-based approach to select those LEAs that they consider to be high-risk. Other SEAs have implemented a similar process.

Although Maryland Education stated that \$142,453 of the unallowable expenditures was allowable and that \$369,981 of the unsupported or inadequately supported expenditures could be properly supported, these amounts are greater than the amounts cited by Prince George's County and Baltimore City. The differences represent questioned expenditures made by Prince George's County. There is a total difference of \$2,256 for the unallowable costs (this amount represents overcharges for professional services on a vendor's invoice, see Enclosure 1) and \$24,233 for the unsupported or inadequately supported costs (this amount represents \$22,741 for inadequately supported costs paid to a vendor for professional services and \$1,492 used for catering for end-of-the-year activities at a school, see Enclosure 3).<sup>11</sup> No explanation was provided for the differences.

Although Prince George's County provided an explanation of the capabilities of the MDM software, the software does not prevent downloading of unauthorized apps. Also, as stated in the finding, Prince George's County did not require that administrators review the apps downloaded on the tablet computers. During the exit conference, we requested that Prince George's County officials provide us with lesson plans and screen shots when we made our final follow-up visit in February 2012. They provided only the information discussed in the finding.

Neither Prince George's County nor Baltimore City provided any additional supporting documentation to us, other than written explanations, to support those nonpersonnel and

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<sup>11</sup> The total unallowable costs the LEAs stated were allowable was \$140,197, and the unsupported or inadequately supported costs was \$345,748.

personnel expenditures that they state are allowable or can be adequately supported. For example, Baltimore City did not provide supporting documentation to show that an adjustment was made to the IDEA Recovery Act grant for the \$15,828 overcharge for professional services nor was any supporting documentation provided for the \$249,754 in unsupported or inadequately supported personnel expenditures. In addition, as stated in Enclosure 3, Prince George's County did not provide us an agenda, sign-in sheets, or parent feedback information for the "Mother Daughter Tea" event.

Furthermore, both Prince George's County and Baltimore City had ample time to provide us with adequate supporting documentation. We conducted fieldwork at the LEAs in 2010 and 2011, held numerous discussions with the LEAs, and conducted follow-up site visits in February 2012. Because no additional supporting documentation was provided, we could not determine whether the expenditures were allowable or were adequately supported. We did not revise our finding or recommendations.

## **FINDING NO. 2 – Maryland Education Needs to Provide Additional Guidance to LEAs and Better Oversee LEAs' Application of Indirect Costs**

Maryland Education needs to provide additional guidance to LEAs and better oversee the LEAs' application of indirect costs to Recovery Act and other Federal funds. We determined that Baltimore City and Prince George's County overcharged \$196,569 in indirect costs to Recovery Act funds. Baltimore City improperly charged \$175,163 in indirect costs to two grants in our review by overstating its indirect cost base for the Title I grant and by using the incorrect indirect cost rate for the IDEA grant. Prince George's County overcharged Title I Recovery Act funds \$21,406 because it included excludable costs in its indirect cost base.

Maryland Education provided only limited guidance on indirect costs in its "Financial Reporting Manual for Public Schools" (revised 2009). The manual defined indirect costs and stated only the following in Appendix F, 1. Administrative costs (b).

Indirect costs associated with accounting, auditing, budgeting, disbursement services, management information systems, and purchasing are allowable to the extent of the Restricted Indirect Cost Rate approved for Federal programs, not to exceed a maximum of two percent. Grantees approved to use the rate, by including indirect costs on the award budget, must apply it to the total direct costs minus equipment costs.

This guidance was not adequate because it was very limited in its instruction. Furthermore, the guidance did not refer the reader to Federal regulations or OMB Circular A-87, which would provide more information on the application and recovery of indirect costs.

The Chief of Maryland Education's Office of Local Financial Reporting stated that Maryland Education did not conduct any monitoring of indirect costs. We reviewed the monitoring instruments Maryland Education used to monitor Recovery Act funds and found that only the

instrument for the IDEA grant required a review of indirect costs. The “Subrecipient Monitoring Instrument,” dated June 2011, for the Division of Special Education and Early Intervention Services included a review of indirect costs charged to the grant to ensure subrecipients computed costs in the grant budget and calculated them correctly. However, it is not apparent that the reviewer is required to test actual indirect costs charged to the grant. Although Maryland Education is currently performing some monitoring of LEA indirect cost calculations for the IDEA grant, it needs to do so for all Federal grants. Maryland Education needs to ensure that monitors review actual indirect costs that subrecipients charge to Federal grants. Maryland Education performed a monitoring review of Baltimore City’s school year 2010 IDEA (Recovery Act and non-Recovery Act) grants in November 2011. The monitoring report did not include any indirect cost findings.

The Chief of Maryland Education’s Office of Local Financial Reporting also stated that Maryland Education relied on single audits to determine whether LEAs were properly recovering indirect costs. Maryland Education’s reliance on the single audit is not sufficient to ensure that errors in the application of indirect cost rates and any inclusion of costs that should be exempt are disclosed in a timely manner because single audits generally occur well after the fiscal period in which transactions are recorded.

The Department’s guidance on indirect cost recoveries for Recovery Act Title I and IDEA funds (“Funds under Title I, Part A of the Elementary and Secondary Education Act of 1965 Made Available Under the Recovery Act,” dated November 2009, and “Funds for Part B of the Individuals with Disabilities Education Act Made Available Under the Recovery Act,” revised July 2009) states that an LEA is allowed to apply its current negotiated indirect cost rate to obligations incurred under the Recovery Act. The guidance alerts recipients that overrecoveries of indirect cost should be adjusted in future periods, thereby reducing future indirect cost recoveries.

### ***LEAs Did Not Follow Their Approved Indirect Cost Rate Plans***

When local governments receive funds only as a subrecipient, the primary recipient is responsible for negotiating indirect cost rates and monitoring the subrecipient’s plan (OMB Circular A-87, Appendix C, D. 3.). Both LEAs had FY 2010 Indirect Cost Plans, dated November 5, 2009, that were approved by Maryland Education. Baltimore City’s indirect cost plan excluded equipment and capital outlay expenditures from the indirect cost calculations. This exclusion applied to all grants we reviewed.

Capital outlays or unallowable items specified in the grantee’s indirect cost plan should be excluded from the indirect cost calculation. If a grantee uses a restricted indirect cost rate, general management costs covered by that rate must be excluded from the direct costs charged to the grant (34 C.F.R. §§ 76.569(a), (b)).

Equipment and other capital expenditures are unallowable as indirect costs (OMB Circular A-87, Appendix B, 15. b.(5)).

### **Baltimore City**

Baltimore City included \$417,323 in equipment costs that should have been excluded from the indirect cost base used to calculate the indirect costs charged to the Title I Recovery Act grant. As stated above, according to Federal regulations and Baltimore City's indirect cost rate plan, the district was not to include equipment costs in the indirect cost base. As a result, Baltimore City overstated the indirect cost base<sup>12</sup> it used for the Title I grant by \$417,323.

In addition, Baltimore City did not use the correct indirect cost rate for the IDEA Recovery Act grant. Baltimore City should have used the restricted indirect cost rate (0.0523) contained in its indirect cost plan for the IDEA program. Baltimore City used a rate of 0.0739 for the grant.<sup>13</sup> Because Baltimore City applied the incorrect indirect cost rate to the program, it overstated indirect costs that it charged to the IDEA Recovery Act grant.

Because Baltimore City did not properly exclude equipment costs from the indirect cost base and because it used an incorrect indirect cost rate, Baltimore City overcharged \$175,163 for indirect costs to Title I and IDEA Recovery Act funds (see Table 5 and Enclosure 6).

Baltimore City's Controller informed us that the LEA uses its current approved indirect cost rate until Maryland Education approves a new rate. Therefore, until the FY 2010 rate was approved, Baltimore City used its FY 2009 approved rates. Baltimore City's policy was to include encumbrances in its indirect cost base during the life of the grant and then back the costs out in the final indirect cost calculation. At the exit conference, Baltimore City officials informed us that they made an adjusting journal entry to deduct capital improvement and equipment costs from the indirect costs charged to the grants. However, the amount of the adjustment did not agree with the amount we calculated.

We reviewed the documentation and determined that the adjustment also included additional encumbrances and other expenditure accruals that were not in the original indirect cost calculation. The expenditure accruals were identified in FY 2011, after the FY 2010 year-end accounting procedures had been completed. In accordance with generally accepted accounting principles, these accrual expenditures should have been captured as prior period adjustments in the period they were identified (FY 2011) rather than being included as FY 2010 costs. OMB Circular A-87, Appendix A, C. 1.(f) and (g) requires indirect costs to be determined in accordance with generally accepted accounting principles. The correct amount of the adjustment should be \$175,163, as stated above. Baltimore City officials did not provide us with evidence that the adjustment was actually made to the grants in FY 2011.

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<sup>12</sup> The indirect cost base used was \$24,778,089.

<sup>13</sup> We could not determine why Baltimore City used this rate. The correct base cost was used. We calculated the rate using the base cost and the indirect costs charged to the grant (\$525,345 divided by \$7,112,961).

**Table 5: Baltimore City Overcharged Indirect Costs**

<b>Grant</b>	<b>Indirect Costs Charged</b>	<b>Correct Indirect Costs</b>	<b>Difference</b>
Title I	\$889,053	\$867,227	\$ 21,826
IDEA <sup>14</sup>	\$525,345	\$372,008	\$153,337
<b>Total</b>	<b>\$1,4174,398</b>	<b>\$1,239,235</b>	<b>\$175,163</b>

Baltimore City’s Controller informed us that the difference between the calculations for the IDEA grant (\$45,912) was because of encumbrances, the inclusion of the IDEA Preschool Recovery Act grant (which we did not include in our calculations), and other expenditure accruals posted after indirect costs were calculated. She also stated that the LEA recorded an additional expenditure accrual to reflect the expenditure in the proper accounting period. Baltimore City recorded the accrual after its year-end indirect cost journal entries had been recorded. The Controller further stated that Baltimore City did not make the related journal entry to record the accrual, although it should have. She informed us that Baltimore City would reemphasize the appropriate procedure to its grant accountants.

**Prince George’s County**

Prince George’s County overstated its Title I Recovery Act indirect cost base by \$515,805 because it included midlevel administration costs in its indirect cost base. These costs were excludable expenses according to Prince George’s County’s approved indirect cost plan. Using an indirect cost base (\$5,371,409) that included these costs resulted in an indirect cost recovery of \$222,914 (\$5,371,409 multiplied by 0.0415). The correct base should have been \$4,855,604 (\$5,371,409 minus \$515,805). The correct amount that Prince George’s County should have charged to Title I Recovery Act funds for indirect costs was \$201,508 (\$4,855,604 multiplied by 0.0415). Title I Recovery Act funds were overcharged \$21,406 (\$222,914 minus \$201,508) for indirect costs.

Neither Baltimore City nor Prince George’s County had written policies and procedures on how to apply and calculate indirect costs to Federal grants. Both LEAs relied on indirect cost guidance provided by Maryland Education.

Maryland Education needs to develop a process to better monitor the LEAs’ application of indirect costs to ensure that overcharges to indirect cost recoveries do not occur in the future.

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<sup>14</sup> Baltimore City also had an IDEA Preschool Recovery Act grant; the indirect cost calculation does not include that grant.

## RECOMMENDATIONS

We recommend that the Office Chief Financial Officer require Maryland to—

- 2.1 Provide additional guidance to and expand monitoring of subrecipients to ensure that they apply indirect costs to all Federal grants consistent with Federal regulations and their approved indirect cost recovery plan.
- 2.2 Return to the Department the \$196,569 in Title I and IDEA Recovery Act funds overcharged for indirect cost recoveries or ensure that the LEAs appropriately adjust indirect costs claimed in FY 2013.
- 2.3 Ensure that LEAs develop written policies and procedures for allocating indirect costs to Federal grants that ensure indirect costs charged to the grants are allocable, allowable, and consistent with Federal regulations and guidance and generally accepted accounting principles.

### Maryland Education and LEAs' Comments

Maryland Education disagreed that it provided inadequate monitoring of and guidance to the LEAs on indirect costs. Maryland Education stated that basic guidance on indirect costs is provided to LEAs in the “Financial Reporting Manual for Maryland Public Schools” and that the document was referenced by Maryland Education personnel in multiple training sessions.

Maryland Education stated that it disagrees that unallowable indirect costs were charged to the SFSF Education grant because of the flexibility in the grant provisions. The SFSF Education grant can absorb an unrestricted amount of indirect costs because it is not limited by the approved indirect cost rate or the base. A LEA would not be in violation of the SFSF Education grant provisions if all of its indirect costs were paid by SFSF Education funds. As of May 2011, Maryland Education developed a new indirect cost process in which overrecoveries or underrecoveries of indirect costs will be automatically adjusted in the development of the next year's indirect cost rates.

Baltimore City partially concurred with the finding. The LEA stated that it corrected the amount of indirect costs charged to the Recovery Act SFSF Education and Title I grants, it excluded capital expenditures from the calculation, it used the correct rate for the SFSF Education grant, and it excluded encumbrances from all the Recovery Act grants when the final adjustments were made. Baltimore City also stated that it did not include equipment costs in the Recovery Act Title I and SFSF Education indirect cost base.

Prince George's County did not concur with the finding. It stated that although midlevel administration costs should be excluded from the indirect cost rate calculation, the formula that it used to calculate its indirect costs was consistent with the instructions in the “Financial Reporting Manual for Maryland Public Schools” and its indirect cost plan. Neither document states that midlevel administration costs should be excluded from the indirect cost base.



Recommendation 2.1: Maryland Education concurred with the recommendation.

Recommendation 2.2: Maryland Education did not concur with the recommendation because as stated above, it believes there was no restriction on the amount of indirect costs that could be charged to SFSF Education grant funds.

Recommendation 2.3: Maryland Education concurred with the recommendation. It will incorporate a review of indirect costs into its Federal grant monitoring instruments.

### **OIG's Response**

We agree that basic guidance on indirect costs was provided in the “Financial Reporting Manual for Maryland Public Schools.” However, more than basic guidance should have been provided to the LEAs, such as ensuring that the LEAs were aware of the indirect cost requirements contained in OMB Circular A-87 and 34 C.F.R. §76.569.

We considered additional information about the indirect costs charged to SFSF Education Recovery Act funds. Because of the flexibilities in the use of the funds, we modified the finding to exclude questioned indirect costs charged to these grant funds.

As stated in the finding, Baltimore City calculated an adjustment to the indirect costs charged to the Recovery Act grants; however, LEA officials did not provide us with evidence that the indirect cost adjustment was actually made to the grants in FY 2011.

Although the “Financial Reporting Manual for Maryland Public Schools” and Prince George’s County’s indirect cost plan did not state that midlevel administration costs should be excluded from the indirect cost base used for the Title I program, Federal regulations require that the costs be excluded. As stated previously, the indirect cost rate cannot be applied to costs that are excluded from the indirect cost rate calculation. The indirect cost rate should be applied consistently with the rate calculation; therefore, the indirect cost rate can be applied only to those costs that are not excluded from the indirect cost rate calculation (in the base). Because midlevel administration costs were required to be excluded from the indirect cost rate calculation, the indirect cost rate cannot be applied to these costs.

We commend Maryland Education for developing a self-correcting indirect cost rate process. However, it did not provide us with any additional information on the process; therefore, we could not determine whether the new process will help to ensure that LEAs calculate and apply indirect costs appropriately.

### **FINDING NO. 3 – Maryland Did Not Ensure Section 1512 Jobs Data Were Accurate and Complete**

To ensure transparency in government spending, Section 1512 of the Recovery Act requires recipients to report data to the FederalReporting.gov Web site each quarter. We identified data quality issues at the two LEAs and the State agency we reviewed. Maryland did not have adequate processes and controls in place to ensure that the required data its LEAs submitted and the State agency reviewed were accurate and complete.

The Recovery Act Section 1512 jobs data reported for the first four reporting quarters, July 2009 through June 2010, to FederalReporting.gov by Maryland for the receipt of the SFSF Government Services funds and the two LEAs we reviewed were not accurate, complete, or in compliance with Recovery Act reporting requirements. The method Public Safety used to calculate the SFSF Government Services jobs data was flawed. Baltimore City's full-time equivalent (FTE) data did not include all summer pay, temporary salaries, and stipend positions funded by Recovery Act funds and was not based on actual hours worked in each quarter. Prince George's County's FTE data was not correct because it included unfilled positions in its FTE calculation and did not include all FTEs paid with Recovery Act funds.

The applicable Section 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 Section 1512 reporting requirements are met in a timely and effective manner, (2) implement internal control measures as appropriate to ensure accurate and complete information, and (3) 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.

In Maryland each state agency performed its own Recovery Act Section 1512 data collection for reporting. Reports with the data were sent quarterly to Maryland's StateStat Office for batch submission to FederalReporting.gov. Maryland's StateStat Office validated the data by determining that all mandatory fields were completed and that the alpha and numeric fields were correct. Public Safety submitted its data to Maryland's Department of Budget and Management, which then forwarded the data to Maryland's StateStat Office for reporting.

As a prime recipient of the Title I and IDEA Recovery Act funds, Maryland Education was responsible for establishing controls to ensure that LEAs submitted accurate and complete Recovery Act data that met the reporting requirements. LEAs reported their Recovery Act Section 1512 jobs data to Maryland Education's Office of Finance. A Staff Specialist in the Office of Finance stated that her office reviewed the data that LEAs submitted. Staff reviewed the data to determine whether the data type in each data field was valid and whether all data fields had been completed. Once the data review was completed, the Office of Finance forwarded the 1512 data to Maryland's StateStat Office, which consolidated it with all of Maryland's jobs data for reporting to FederalReporting.gov. Maryland Education did not

determine whether LEAs used an appropriate methodology to calculate jobs data nor whether the data were accurate and complete.

Although Maryland provided guidance on jobs data reporting to its subrecipients and State agencies, we found that the two subrecipients and the State agency we reviewed did not accurately interpret the requirements or did not understand them. Maryland's Governor's Grants Office provided guidance to State agencies through a Recovery Act Web site it created, statewide conference calls, webinars, and training sessions. Although Maryland provided extensive training and guidance, Maryland Education's review of the data that the recipients submitted was not adequate to determine reporting errors.

When submitting the data to Maryland, subrecipients and State agencies were required only to certify that they properly recorded their data, the data were accurate, Maryland could properly track the data, and that they had documentation including signed and approved timesheets and approved invoices. Maryland officials did not review subrecipients' or State agencies' FTE calculation methodology or review any supporting documentation for the data submitted to them. The certifications were not adequate for Maryland to ensure that its recipients' Recovery Act FTE reporting was accurate and complete.

### **Public Safety**

Public Safety's SFSF Government Services jobs data were not accurate or complete. Public Safety based its report of the number of jobs on budget estimates of planned and existing positions and included unfilled positions. Public Safety determined the number of FTEs that could be funded based on the average salary<sup>15</sup> for its six occupational classifications. The average salary was divided into the total amount of Recovery Act funds allocated (arbitrarily) for each classification to determine the number of positions. The number of positions was multiplied by 2,080 hours to determine the number of hours funded. The hours funded was divided by 520 (the number of quarterly hours in a full-time schedule) to determine the FTEs reported. In addition, the FTE calculation did not include the \$6,000,000 in overtime costs Public Safety charged to SFSF Government Services funds. As a result, the FTEs Public Safety calculated were not accurate and were underreported by 2,144. Maryland reported a total of 2,756 FTEs for the 4 quarters of FY 2010 for Public Safety; however, the correct number should have been 4,900.

Public Safety's jobs data methodology was not in compliance with OMB's "Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Jobs Estimates," December 18, 2009. OMB's guidance states that to calculate FTEs, the number of actual hours worked in funded jobs is divided by the number of hours representing a full work schedule for the kind of job being estimated. These FTEs are then adjusted to count only the portion corresponding to the share of the job funded by Recovery Act funds. Recipients should count all hours funded. Unfilled positions should not have been

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<sup>15</sup> The average salary was determined by dividing the total payroll budget for each classification by the total number of positions budgeted for that classification.

included as an FTE created or retained because these positions did not represent actual hours worked or were not funded with Recovery Act funds.

U.S. Department of Education “Clarifying Guidance on the American Recovery and Reinvestment Act of 2009,” dated August 26, 2010, and updated September 30, 2010, Question 3 also required recipients to include overtime hours in their calculations of jobs data.

Public Safety did not report FTEs for the first and second reporting quarters. Public Safety’s Director of Budget Management stated that Public Safety sent its methodology to Maryland’s Department of Budget and Management for review before the initial submission to FederalReporting.gov. Maryland’s Department of Budget and Management instructed Public Safety to revise the timeframe of the data it used but did not tell Public Safety that the methodology was incorrect.

When we brought the unfilled positions and overtime exclusion to the attention of Public Safety’s Director of Financial Services, she stated that Public Safety would revise the FTE calculation to include the overtime cost and exclude the unfilled positions. The Manager for the Division of Procurement Policy and Administration in the Department of Budget and Management obtained guidance on how to calculate its FTEs from the Department on January 20, 2011. Public Safety revised its methodology and recalculated the FTEs for the SFSF Government Services grant. The revised methodology was based on the total hours worked in a cost center.

The amount of SFSF Government Services funds allocated to each cost center was arbitrarily determined and based on the amount of funds Public Safety received each quarter. Using the revised methodology, the correct number of total FTEs for the four quarters was 4,900. Maryland could not report the revised data again because the time period for reporting corrected jobs data had expired. As a result, the FTE data reported and included on FederalReporting.gov was not accurate or complete.

The Maryland agency responsible for monitoring the data reported by the subrecipient of the SFSF Government Services funds was not designated. Although Maryland Education was designated as the payee of the funds by the Governor, Maryland Education indicated that it had no subrecipient oversight responsibilities for the SFSF Government Services funds because Maryland Education was not the actual awardee and none of its subrecipients expended the funds. The Governor’s Grants Office was awarded the SFSF Government Services funds and was dependent on Maryland’s Department of Budget and Management to oversee the reporting of Recovery Act Section 1512 data and ensure that the data were accurate and complete. This was consistent with its overall responsibilities of gathering the Section 1512 data for the entire State and reporting it as a single source to Maryland’s StateStat Office for submission to FederalReporting.gov.

A formal interagency agreement between Maryland Education and the Governor’s Grants Office would have been beneficial to clearly define the responsibilities of the parties involved in receiving the SFSF Government Services funds. This agreement would have defined which

agency was responsible for the monitoring of the recipient of the funds and how the monitoring should be conducted.

**Baltimore City**

Baltimore City’s FTE data were not accurate or complete. Baltimore City did not report FTEs for summer pay, temporary salaries, and stipends that were funded by Recovery Act funds. Baltimore City also did not calculate the FTEs based on actual hours worked in a quarter. Baltimore City’s Senior Financial Analyst initially informed us that the LEA created a query in its financial system to calculate the FTE jobs data for reporting. Based on the query, Baltimore City reported that the Title I, IDEA, and SFSF Education Recovery Act grants funded 875 FTEs during the 4 reporting quarters of FY 2010.

After further review, Baltimore City officials informed us that the LEA reported FTEs in quarters 1 through 3 based on estimated FTEs and budgeted amounts. According to Baltimore City’s Senior Financial Analyst, the LEA used estimates and budgeted amounts based on how Baltimore City interpreted the Recovery Act FTE reporting guidance at the time. In quarter 4, Baltimore City began reporting its FTEs based on the number of hours actually worked in the quarter because they better understood the Recovery Act guidance.

The Senior Financial Analyst provided us with the actual FTEs for each quarter of FY 2010. The actual FTEs included hours worked for the summer pay, temporary salaries, and stipend positions that were excluded from the data reported. Table 6 shows the reported and actual FTEs.

**Table 6: Baltimore City’s FY 2010 Reported and Actual FTEs**

<b>Grant</b>	<b>Quarter</b>	<b>FTEs Reported</b>	<b>Actual FTEs</b>	<b>Difference Overreported/ (Underreported)</b>
<b>SFSF Education</b>	<b>1</b>	235.0	105.9	129.1
	<b>2</b>	0	2.6	(2.6)
	<b>3</b>	0	6	(6.0)
	<b>4</b>	8.1	11.8	(3.7)
<b>Total</b>	<b>All Quarters</b>	<b>243.1</b>	<b>126.3</b>	<b>116.8</b>
<b>IDEA Recovery Act</b>	<b>1</b>	0	22.7	(22.7)
	<b>2</b>	30.0	27.0	3.0
	<b>3</b>	30.0	28.4	1.6
	<b>4</b>	27.8	26.2	1.6
<b>Total</b>	<b>All Quarters</b>	<b>87.8</b>	<b>104.3</b>	<b>(16.5)</b>
<b>Title I Recovery Act</b>	<b>1</b>	0	217.2	(217.2)
	<b>2</b>	216.0	236.9	(20.9)
	<b>3</b>	72.0	215.9	(143.9)
	<b>4</b>	256.2	267.5	(11.3)
<b>Total</b>	<b>All Quarters</b>	<b>544.2</b>	<b>937.5</b>	<b>(393.3)</b>
<b>Total, All Grants</b>	<b>All Quarters</b>	<b>875.1</b>	<b>1,168.1</b>	<b>(293)</b>

Baltimore City's FY 2010 Section 1512 quarterly reports for the SFSF Education grant were overstated by a total of 116.8 FTEs and were understated for the IDEA and Title I Recovery Act grants by a total of 16.5 and 393.3 FTEs, respectively. For the programs combined, the FTEs for the 4 quarters were underreported by 293.

### **Prince George's County**

Prince George's County did not report any FTEs for the Title I program in the second quarter, and it did not report any FTEs in the third quarter for the IDEA grant.<sup>16</sup> It also did not report accurate FTE data in the fourth reporting quarter. Prince George's County's Restricted Funds Supervisor informed us that the Title I program data was not reported because they did not have a grant award letter during the second quarter. We were not provided an explanation for the IDEA grant.

Prince George's County also did not report FTEs for some positions that were paid with Recovery Act funds and included unfilled positions in the FTEs it reported (11 for the Title I program and 30 for the IDEA program in each quarter). The unreported FTEs were for positions that were paid with Recovery Act funds but were not authorized by Prince George's County's staffing plan. Although the unreported positions were not authorized by the staffing plan, they should have been reported as an FTE because the positions were filled and paid with Recovery Act funds. As stated previously, unfilled positions should not have been included as an FTE created or retained. The December 2009 Updated OMB Recovery Act Job Reporting guidance states that the hours for all positions paid with Recovery Act funds should be included in the FTE calculation.

Prince George's County reported 46 FTEs in the third and fourth quarters for the Title I program, and it reported 91 FTEs for the first, second, and fourth quarters for the IDEA program. The LEA should have reported FTEs only for positions that were actually filled and paid with Recovery Act funds (120 total FTEs each quarter; 38 for the Title I program and 82 for the IDEA program).

### **Maryland's Title I Grant Waiver and Continued Jobs Data Reporting**

Maryland was granted a waiver on May 29, 2012, to extend the time period to obligate FY 2009 ESEA funds, including its regular and Recovery Act Title I funds, through September 30, 2012. As a condition of the waiver, Maryland must estimate the number of jobs created or retained with regular Title I funds after September 30, 2011, in a manner and format consistent with the quarterly reports required under Section 1512 of the Recovery Act. Maryland must provide the reports to the Department if the Department requests them. Therefore, Maryland needs to provide additional guidance to its LEAs and improve its monitoring of LEA jobs data to ensure the data reported is accurate and complete.

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<sup>16</sup> Based on the salaries paid from Recovery Act funds in each quarter, FTEs reported should have been reported for both the Title I and the IDEA programs for the second through fourth Recovery Act reporting periods.

We are not making a recommendation for this Finding because the period to obligate the Title I Recovery Act funds expired on September 30, 2012, and the other Recovery Act programs have expired. In the future, if multiple Maryland State agencies are involved in reporting requirements similar to the Recovery Act Section 1512 requirements, we suggest that Maryland prepare a formal interagency agreement that details each agency's responsibilities for collecting, maintaining, reporting, and reviewing the data quality. We also suggest that Maryland work closely with its subrecipients to ensure that they collect and report accurate and complete data in accordance with the requirements.

### **Maryland Education and the LEA's Comments**

Maryland Education neither concurred nor nonconcurred with the finding. It stated that during the audit period, accounting for FTEs was undergoing continual refinement by OMB and the Department. Because of the continual refinement inconsistencies in FTE reporting may have occurred.

Maryland Education noted that ongoing guidance from OMB, the Department, and the Recovery.gov Web site state that a solution to correct reports previously filed was being developed, but current guidance does not allow for correction of FTE jobs data. Maryland Education is reviewing and auditing its 1512 FTE reporting. Adjustments that are determined to be necessary based on these reviews will be reported in accordance with OMB's forthcoming guidance.

Baltimore City concurred with the finding. Prince George's County did not concur with the finding. Management stated that according to guidance provided by Maryland Education it was not responsible for reporting the FTEs until it received the Notice of Grant Award and that it notified Maryland Education in a March 2010 email that the information reported for Title I was the first reporting because they had not received the award notice earlier. Maryland Education did not provide a response from Public Safety on the finding.

### **OIG's Response**

We commend Maryland Education for reviewing and auditing its Section 1512 FTE data. Maryland Education's statement that OMB will be issuing forthcoming guidance on correcting previously reported FTE data may not be correct. Although OMB guidance issued in December 2009 (M-10-8, "Memorandum for the Heads of Executive Departments and Agencies, Updated Guidance on the American Reinvestment and Recovery Act-Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates") states that recipients will be required, at a time and process to be specified in the future, to submit prior period corrections to jobs and other data, guidance issued in September 2010 (M-10-34, "Memorandum for the Heads of Executive Departments and Agencies-Updated Guidance on the American Reinvestment and Recovery Act") states that changes to prior reports may not be initiated for the number of jobs field. Also, the American Reinvestment and Recovery Act Recipient Reporting Federalreporting.gov User Guide (Chapter 16) does not indicate that instructions or guidance on making corrections to prior period FTE data will be forthcoming. Maryland Education should

maintain a record of and any supporting documentation for any revisions that they find are needed in the event that reporting revised data is required.

We clarified our finding issue for Prince George's County to reflect that because the LEA did not have a Notice of Grant Award for the Title I Recovery Act grant until after the first reporting quarter ended, it did not have to report FTEs for the first reporting period (which ended in September 2009). Prince George's County's initial Title I Recovery Act grant award notice was approved in late October 2009 and received in early December 2009. Therefore, the LEA did have it in time for reporting FTEs in the second quarter, which ended in December 2009.

## OTHER MATTERS

### **Some SFSF Education Funds Were Spent for Questionable Purposes**

We found instances where SFSF Education funds used by Baltimore City were spent for questionable purposes. The purpose of the SFSF grant is to help stabilize State and local budgets to minimize and avoid reductions in education and other essential services. We noted SFSF Education expenditures that were spent for questionable purposes and did not fit the intended purpose of the SFSF Education grant. These expenditures were for face painters, balloons, and a steel orchestra (5 expenditures totaling \$5,410) for entertainment at a Baltimore City Middle Grades Fair. None of the expenditures were for essential activities or services or were used to minimize or avoid reductions in education or related to school reform, as stated in the purpose of the SFSF Education grant.

We suggest that Maryland Education work with its LEAs to ensure that Federal grant funds are being used in the most effective manner.

### **Maryland Education Comments**

Baltimore City disagreed with our statement in the draft report that questioned the use of funds for digitizing former employees' files and postage for mailing questionnaires to parents. Baltimore City stated that the employee files were digitized to ensure accuracy in maintenance of the employee records and that expenditure was a viable use of SFSF Education funds. The LEA further stated that the mailing of the questionnaire was done to obtain "accurate data used in identifying enrolled students ethnicity." Baltimore City stated that the Middle Grades Fair helps students explore high school choice selection and that the funds were used for materials, supplies, lunch, and other motivational activities.

### **OIG's Response**

Based on Baltimore City's comments, we removed the issue about the digitizing of the former employees' files and postage for the mailing questionnaires to parents. We still believe that the other expenditures did not meet the purposes of the SFSF Education grant. The funds were used to pay for nonessential activities at the Middle Grades Fair.



## **Questionable Online Purchases Made With Federal Funds**

In the universes of Prince George's County Recovery Act expenditures, we found questionable purchases from OfficeMax and Staples for items such as room deodorizers and facial tissues. Examples of other expenditures that we noted in the Title I Recovery Act universe were for popcorn, mints, cutlery, plates, a coffee canister, coffee creamer, and a \$222 electric pencil sharpener. Although we did not select these expenditures for sampling, based on the quantity of purchases of these types of items, these purchases could have been an abuse of the Federal funds. In the universe of all three grants reviewed at Prince George's County, we noted that 762 expenditures totaling \$124,920 were for items purchased from OfficeMax and Staples. Although the cost of the individual items purchased may not have been significant, the potential for more significant instances of abusive purchasing exists.

We requested policies and procedures for ordering items from OfficeMax and Staples. The Restricted Funds Supervisor provided us with a training document that showed how to access and use the OfficeMax Web site to purchase items. The document did not include policies on what items should not be purchased or on what funding sources could be used. The purchaser entered the account code with funding source in the system and sent the order for approval. The training document was also provided as the process for ordering items from Staples.

Purchasing items such as food, beverages, and supplies for break rooms should be restricted because the items could be for uses that are unallowable. See Enclosures 1 and 4 for similar unallowable and unsupported items that were purchased from OfficeMax or Staples. The purchasing of these items can be abused, as found in our samples. Federal funds should not be used to purchase these types of items because they are not necessary for the performance of the grant programs. For an item to be allowable it must be necessary and reasonable for the proper and efficient performance and administration of the Federal award (OMB Circular A-87, Appendix A, C. 1.).

We suggest that Maryland Education require Prince George's County to develop and implement processes and procedures to ensure that it complies with Federal laws, regulations, and requirements when using Federal funds to purchase items from online stores such as OfficeMax or Staples.

## **Maryland Education Comments**

Prince George's County stated that it has policies and procedures in place that govern all purchases. All purchases receive a standard level of review and that hierarchal approval of purchases occurs. Rules regarding purchases made with Title I funds are located in the LEA's Title I Manual and are enforced by the program director.

## OIG Response

As stated above, the only documented policies and procedures that we were provided was a training document on how to access and use the OfficeMax Web site to order items. Maryland Education needs to ensure that Prince George's County has adequate processes and procedures for using Federal funds to purchase items from online stores.

## OBJECTIVE, SCOPE, AND METHODOLOGY

The purpose of our audit was to determine whether (1) Maryland and selected subrecipients used and accounted for Recovery Act funds in accordance with Recovery Act recipient plans, approved applications, and other applicable laws and regulations and (2) data reported by Maryland were accurate, complete, and in compliance with Recovery Act reporting requirements. Our audit covered the use of funds and the quality of data submitted to FederalReporting.gov for Recovery Act funds for the Title I, IDEA, and SFSF grants from April 1, 2009, through May 31, 2010.

We selected two subrecipients (two LEAs—Prince George's County and Baltimore City) and one State agency (Public Safety) that received Title I, IDEA, and SFSF funds in Maryland to review. Our selections were based on risk factors such as the amount of Recovery Act funds allocated and expended and interviews conducted with Maryland Education officials.

We obtained background information about the programs, activities, and organizations being audited. To gain an understanding of the requirements applicable to use of funds and data reporting requirements for Federal grant programs at State and local agencies receiving Recovery Act funds, we reviewed Federal laws, regulations, OMB Circulars, and Recovery Act guidance issued by OMB and the Department. We reviewed prior Maryland Comprehensive Annual Financial Reports; prior independent audit reports (OMB A-133 single audits); State of Maryland Accounting and Procedures Manual for budgeting, project and grant accounting, and general accounting; and subrecipient monitoring instruments.

To gain an understanding of the processes and systems pertaining to the scope of our review, we interviewed the following officials at Maryland Education: Deputy State Superintendent (Administration); Director of Business Services; State Audit Unit, Audit Chief; Staff Specialist; Education Program Specialist, Program Improvement and Family Support Branch; Branch Chief for Special for Education Administration and Policy. At the LEAs, we interviewed the Senior Grants Financial Analyst for Baltimore City and the Restricted Grants Supervisor for Prince George's County. In addition, we interviewed the Directors of Purchasing and Payroll; and Accounts Payable personnel. For the SFSF Government Services grant, we interviewed Director of Financial Services, Director of Budget, the Deputy Director of the Governor's Grants Office, a manager and budget analyst in the Department of Management and Budget and an analyst from Maryland's StateStat Office.

We performed audit steps to determine whether Maryland complied with Federal requirements in the following areas.

**Use of Funds:** We performed limited assessments of the two selected LEAs' policies and procedures by selecting a judgmental sample of personnel and nonpersonnel expenditures at each LEA. We determined whether expenditures charged to Recovery Act grants complied with Recovery Act recipient plans, approved applications, laws, regulations, and guidance. We selected 443 expenditures, totaling more than \$8.1 million, made during the period April 1, 2009, through May 31, 2010. We judgmentally selected at least 10 percent of each grant's total expenditures for review.<sup>17</sup> Our samples and results cannot be projected to the audit universe. The personnel and nonpersonnel expenditure universes and sample sizes are summarized in Table 7 at the end of this report section.

We also reviewed Title I Recovery Act funds expended by Maryland Education. Maryland Education expended \$134,934. We reviewed all six of the expenditures made.

Additionally, we expanded our audit period for Prince George's County as a result of information that came to our attention. We judgmentally selected a sample of 201 nonpersonnel Title I, Title I SIG, IDEA, and SFSF Education expenditures, totaling \$5,844,103, for review. The sample represents 10 percent of Prince George's County's Recovery Act expenditures from June 1, 2010, through May 31, 2011. The universes and sample sizes are summarized in Table 8 at the end of this report section.

For personnel expenditures we reviewed time and effort certifications, personnel activity reports, timesheets, and sign-in sheets. We judgmentally selected our samples based on the payment descriptions in Baltimore City's and Prince George's County's payroll/personnel records. We used judgmental sampling to allow us to select samples that captured all of the different types of payment descriptions.

For nonpersonnel expenditures, we reviewed each LEA's universe of transactions, including dollar amounts and expenditure descriptions. We judgmentally selected large and small dollar expenditures, along with those whose description appeared to be unusual purchases for the programs we reviewed. We considered expenditures to be unusual if we concluded that the item purchased or the vendor would not usually be associated with the program type. We also considered whether the Recovery Act or Federal regulations specifically prohibited these expenditures.

We also performed inventories, both physical and virtual, of the tablet computers purchased by Prince George's County for the TEDL initiative, and other items purchased with Title I SIG Recovery Act funds. We conducted the physical inventory at three middle schools and Prince George's County's Title I Department. We inventoried a random sample of 30 of the 137 tablet computers issued to the three middle schools. We conducted the virtual inventory on all tablet

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<sup>17</sup> We only selected 8 percent of the total Title I expenditures because many of Baltimore City's Title I grant payroll expenditures were for small amounts.

computers purchased for the TEDL initiative to determine whether they were accounted for in the LEA's inventory system.

We reviewed the use of and accounting for the \$53.7 million in SFSF Government Services funds received by Public Safety during our audit period. Because it did not use individual salary costs for its FTE calculations, we could not select a personnel sample for review. We also could not select a sample of nonpersonnel expenditures to review because Public Safety did not account for the funds using actual individual costs. We reviewed the journal entries and related supporting documentation transferring the costs to Recovery Act funds.

We reviewed Maryland Education's procedures for approving and accounting for Recovery Act expenditures and issuing expenditure reimbursements to LEAs. We reviewed the drawdowns of grant funds reimbursed to Prince George's County to determine whether Maryland Education was appropriately reimbursing LEAs.<sup>18</sup> We also reviewed Maryland Education's ability to separately account for Recovery Act funds. We discussed the monitoring of LEAs with Maryland Education officials and reviewed guidance provided by Maryland Education to LEAs about compliance with Recovery Act requirements. We obtained information regarding the internal control structure at the State and local level through interviews with administrators and through reviews of policies and procedures and related documentation.

**Data Quality:** Through an interview we evaluated Maryland Education's procedures to collect and report the required data for Section 1512 reporting. We verified that LEA data submitted to Maryland Education were supported by source documentation. We used Maryland Education's data as control totals to verify the accuracy and completeness of the statewide LEA data and the aggregate recipient data.

We reviewed the methodology used by Public Safety in calculating its jobs data. We obtained the data from Public Safety's Office of Budget Management. We were unable to perform any verification of the SFSF Government Services data reported by Public Safety because the data reported were based on budget estimates rather than actual data.

To achieve our audit objectives, we relied, in part, on computer-processed data provided by Maryland Education and the two selected LEAs. We assessed the reliability of computer-processed data for the LEAs by comparing the reimbursement data from AFRS to amounts for "total Federal Recovery Act expended" and "total Federal Recovery Act received" in Maryland's Section 1512 quarterly reports. For "jobs funded," we reviewed supporting documentation and traced the data from origination to its posting on FederalReporting.gov. To determine whether the data were accurate, complete, and in compliance with Recovery Act reporting requirements, we reviewed supporting documents provided by Maryland Education and the LEAs. We then compared the data reported by Maryland Education with data queries we extracted from the LEAs, and Maryland's Recovery Act Web site ([www.StateStat.Maryland.gov](http://www.StateStat.Maryland.gov)). Based on our

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<sup>18</sup> We found no issues with Prince George's County's drawdowns. Because of time constraints, we did not test Baltimore City's drawdowns.

testing, we determined that the computer-processed data used were sufficiently reliable for the purposes of this audit.

We conducted fieldwork at Maryland Education's office in Baltimore, Maryland, in July 2010.<sup>19</sup> We conducted fieldwork at Prince George's County in Upper Marlboro, Maryland, in September 2010, June 2011, and August 2011. We conducted fieldwork at Baltimore City in Baltimore, Maryland, in December 2010 and February 2011. We held an exit conference with Maryland Education officials to discuss the results of the audit on February 2, 2012. We conducted follow-up fieldwork at Baltimore City and Prince George's County on February 16, 2012, and February 23, 2012, respectively.

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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<sup>19</sup> During our fieldwork at Maryland Education, we obtained Public Safety's drawdown and expenditure information.

**Table 7: Universe and Sample Selection of Recovery Act Expenditures by Grant and LEA**

LEA	SFSF Education Personnel Costs	Title I Personnel Costs	IDEA Personnel Costs	SFSF Education Nonpersonnel Costs	Title I Nonpersonnel Costs	IDEA Nonpersonnel Costs	Totals
<b><u>Baltimore City</u></b>							
<b>Total Costs</b>	\$1,236,687	\$11,590,214	\$2,517,456	\$15,796,583	\$1,974,454	\$1,027,968	<b>\$34,143,362</b>
<b>Total No. of Expenditures</b>	2,583	45,407	15,116	1,543	1,457	192	<b>66,298</b>
<b>Amount of Expenditures Sampled</b>	\$54,331	\$141,493	\$122,347	\$3,050,502	\$158,385	\$392,393	<b>\$3,919,451</b>
<b>No. of Expenditures Sampled</b>	44	107	49	37	40	22	<b>299</b>
<b><u>Prince George's County</u></b>							
<b>Total Costs</b>		\$3,247,524	\$5,532,498	\$33,147,810	\$1,551,671	\$3,149,287	<b>\$46,628,790</b>
<b>Total No. of Expenditures</b>		15,526	18,149	7,703	891	365	<b>42,634</b>
<b>Amount of Expenditures Sampled</b>	N/A	\$89,242	\$77,012	\$1,719,433	\$1,021,109	\$2,026,497	<b>\$4,933,293</b>
<b>No. of Expenditures Sampled</b>		34	38	50	49	57	<b>228</b>
<b><u>Totals</u></b>							
<b>Total Costs</b>	\$1,236,687	\$14,837,738	\$8,049,954	\$48,944,393	\$3,526,125	\$4,177,255	<b>\$80,772,152</b>
<b>Total No. of Expenditures</b>	2,583	60,933	33,265	9,246	2,348	557	<b>108,932</b>
<b>Amount of Expenditures Sampled</b>	\$54,331	\$230,735	\$199,359	\$4,769,935	\$1,179,494	\$2,418,890	<b>\$8,852,744</b>
<b>No. of Expenditures Sampled</b>	44	141	87	87	89	79	<b>527</b>

**Table 8: Prince George’s County Expanded Review Universe and Sample Selection of Recovery Act Nonpersonnel Expenditures**

	<b>SFSF Education</b>	<b>Title I<sup>20</sup></b>	<b>IDEA</b>	<b>Total</b>
<b>Total Costs</b>	\$41,700,659	\$7,165,185	\$6,911,054	<b>\$55,776,898</b>
<b>Total No. of Expenditures</b>	16,029	5,342	4,857	<b>26,228</b>
<b>Amount of Expenditures Sampled</b>	\$473,135	\$4,684,176	\$686,792	<b>\$5,844,103</b>
<b>No. of Expenditures Sampled</b>	17	152	32	<b>201</b>

<sup>20</sup> The Title I universe includes 719 Title I Recovery Act SIG expenditures, totaling \$624,741. We sampled 22 Title I Recovery Act SIG expenditures, totaling \$100,678.

**Enclosure 1: Finding 1 – Prince George’s County’s Unallowable  
Nonpersonnel Expenditures by Grant**

<b>Title I Recovery Act (84.389A)</b>		
<b>Expenditure Description</b>	<b>Criteria</b>	<b>Amount</b>
<p>Eight expenditures were for the travel of 85 students, parents, and teachers (from various elementary, middle, and high schools) to a Communication, Science, Technology, Engineering, and Math (CSTEM) conference in Texas in April 2011.</p> <p>Prince George’s County did not budget funds for travel to the national competition in its FY 2010 Title I Recovery Act carryover report (this report, dated November 30, 2010, was for budgeting unspent FY 2010 Title I Recovery Act funds for spending during the 2010-2011 school year).<sup>21</sup> Funds were budgeted for only contractual services and materials for Prince George’s County’s own CSTEM (local) competitions. The funds excluded should not have been used without approval. Furthermore, because the funds were expended for the competition, some of the other services or activities, such as staff training, that were budgeted and approved may not have been carried out.</p>	<p>According to an Education Program Specialist in Maryland Education’s Program Improvement and Family Support Branch, the funds could be used for the travel costs only if the travel expenditures were budgeted in the FY 2010 Title I Recovery Act carryover report.</p>	<p>\$108,882</p>
<p>Prince George’s County paid a vendor’s invoice without adequate supporting documentation to show that the hours billed were the actual hours worked, resulting in an overcharge for professional services. The supporting documentation had to be provided by the vendor; however, the documentation did not match all of the hours billed. We noted four differences between the supporting documentation and the invoice: two employees were billed at \$42 per hour although the supporting documentation indicated that they were to be billed at \$30 per hour employees (\$2,106 overcharge); one employee’s monthly hours totaled 36 although she was paid for 35 hours (\$30 undercharge); and another employee’s monthly hours totaled 28 although she was paid for 37 hours (\$270 overcharge).</p> <p>The invoice should not have been paid without proper supporting documentation to show that the hours billed were actually worked, and should have been reconciled to supporting documentation. Prince George’s County personnel should have performed this verification. We found that the Title I Department did not have written procedures that required the review of invoices with supporting documentation for the costs billed prior to payment.</p>	<p>OMB Circular A-87, Appendix A, C.3.a. Costs are allocable to a cost objective if the services involved are chargeable in accordance with benefits received.</p> <p>OMB Circular A-87, Appendix A, C.1.j. To be allowable costs must be adequately documented.</p> <p>34 C.F.R. § 80.20(b)(6). Accounting records must be supported by source documentation such as payrolls and time and attendance records.</p>	<p>\$2,256</p>

<sup>21</sup> The carryover report was to inform Maryland Education about the amount of the LEA’s FY 2010 carryover and its proposed use. Within the report, LEAs were reminded that any amendment to the activities or budgeted funds had to be submitted and approved before funds could be expended.



**Enclosure 1: Finding 1 – Prince George’s County’s Unallowable  
Nonpersonnel Expenditures by Grant (continued)**

<b>Title I Recovery Act (84.389A)</b>		
<b>Expenditure Description</b>	<b>Criteria</b>	<b>Amount</b>
Food provided for a school planning and management team meeting. The meeting agenda showed that the “goal of the meeting was to provide leadership and vision goals to ensure concrete structure and procedures for implementation.” Based on our review of the agenda, we concluded that this was a staff meeting and not a meeting or training session where technical information was discussed.	OMB Circular A-87, Appendix B, 27. Costs of meetings and conferences, the primary purpose of which is the dissemination of technical information, are allowable. This includes costs of meals.	\$180
The purchase of 6 USB key chains, totaling \$108. The Title I Budget Analyst provided us a written statement that the USB key chains were “awarded” to high school seniors who had graduated.	OMB Circular A-87, Appendix B, 1.f.(3) Costs of memorabilia, including models, gifts, and souvenirs are unallowable.	\$108
<b>Title I Recovery Act SIG (84.388)</b>		
<p>Advanced payment for a car rental. Principals of the Turnaround Schools (5) and the Turnaround Schools Director took a trip to Chicago, Illinois. The Turnaround Schools Director was advanced funds to rent a car while in Chicago. Prince George’s County could not provide us with a receipt for the car rental. During a follow-up site visit we learned that the Director signed an “Employee Acknowledgement of Restitution” form acknowledging that he was overadvanced \$1,083 (the amount advanced for the rental car). Prince George’s County did not require the Director to complete a Travel Reimbursement Request (Form 4133-4), which was used to reconcile funds advanced with expenses incurred, as required by the LEA’s travel policy.</p> <p>By not ensuring that travelers submit a Travel Reimbursement Form, with receipts, there is no supporting documentation to show that expenses were actually incurred or that the travelers actually took the trip. Prince George’s County did not enforce its own travel policies and procedures.</p>	<p>OMB Circular A-87, Appendix A, C.3.a. Costs are allocable to a cost objective if the services involved are chargeable in accordance with benefits received.</p> <p>Prince George’s County’s travel policy 4134, “Nonlocal Reimbursable Travel,” required travelers to maintain receipts for hotels, conference registrations, airlines, and similar costs. The travel policy also required the completion of a Travel Reimbursement Request form within five days of the traveler’s return from travel to work.</p> <p>34 C.F.R. § 80.20(b)(3) requires that effective internal control and accountability must be maintained for all grant and subgrant cash and that subgrantees must assure that it is used for authorized purposes.</p>	\$1,083

**Enclosure 1: Finding 1– Prince George’s County’s Unallowable Nonpersonnel Expenditures by Grant (continued)**

<b>Title I Recovery Act SIG (84.388)</b>		
<b>Expenditure Description</b>	<b>Criteria</b>	<b>Amount</b>
<p>Trip to a skating rink to recognize students who complied with the code of conduct to increase positive behavior. The request for the trip approval states it was an incentive trip. The funds were not used in a manner that met the intent and purpose of the Title I SIG grant, which is to use the funds to provide adequate resources to substantially raise the achievement of students in the lowest-performing schools.</p>	<p>OMB Circular A-87, Appendix A, C.1.a. For an item to allowable it must be necessary and reasonable for proper and efficient performance and administration of the Federal award.</p> <p>Title I, Part A, Section 1003(g) requires states to provide subgrants to LEAs for the purpose of providing assistance for school improvement consistent with section 1116.</p>	<p>\$525</p>
<p>Purchase of a mini-refrigerator (\$212) and a microwave oven (\$199). The Turnaround Schools Budget Administrative Specialist stated that these items were being used for her personal use. The costs of goods or services for an employee’s personal use are unallowable. These items were purchased online from Staples.</p>	<p>OMB Circular A-87, Appendix B, 20. Costs of goods or services for personal use of employees are unallowable.</p>	<p>\$411</p>
<p>Legal book on the termination of school employees. The cost of the book was \$168, with an additional \$12 for shipping and handling charges. The book purchase was unallowable because it was not allocable to the Title I SIG grant. It could not be used in a manner that met the intent and purpose of the Title I SIG grant (stated above).</p>	<p>OMB Circular A-87, Appendix A, C.3.a. Costs are allocable to a cost objective if the services involved are chargeable in accordance with benefits received.</p> <p>Title I, Part A, Section 1003(g) requires states to provide subgrants to LEAs for the purpose of providing assistance for school improvement consistent with section 1116.</p>	<p>\$180</p>
<b>Title I, Part A Regular Funds (84.010)</b>		
<p>For a May 21, 2011, principals’ meeting, the Title I Department purchased 145 watches and velvet pouches to hold the watches for \$2,565 (including a set-up fee for imprinting of the watches and shipping and handling charges). One hundred laser pens, that were also USB devices, were purchased, totaling \$2,631 (the cost of each pen was \$25; there was also a \$75 “set-up” fee for imprinting the pens and \$56 for shipping and handling). The principals were also given folders with their school names printed on the front. The 150 folders, along with index labeling and the printing of the names, cost \$3,539.</p>	<p>OMB Circular A-87, Appendix A, C.1.a. For an item to allowable it must be necessary and reasonable for proper and efficient performance and administration of the Federal award.</p>	<p>\$8,736</p>

**Enclosure 1: Finding 1 – Prince George’s County’s Unallowable  
Nonpersonnel Expenditures by Grant (continued)**

<b>IDEA Recovery Act (84.391A)</b>		
<b>Expenditure Description</b>	<b>Criteria</b>	<b>Amount</b>
Items purchased for a Career Expo. We were informed that the Career Expo was a type of professional development for students with disabilities so they would be ready for the outside world after high school. The students received training on various topics, such as resume writing, managing money, and employer expectations. Prince George’s County purchased portfolio binder bags (\$743), book bags (\$4,484), pens (\$244), pocket folders (\$524), and water bottles (\$468) and had them imprinted with “Career Expo 2011.” Although the Career Expo event was allowable, the purchase of the items was not necessary to carry out the event. Because of the custom printing these items are considered promotional items, gifts, or souvenirs.	OMB Circular A-87, Appendix A, C.1.a. For an item to allowable, it must be necessary and reasonable for proper and efficient performance and administration of the Federal award.  OMB Circular A-87, Appendix B, 1.f.(3). Costs of memorabilia, including models, gifts, and souvenirs are unallowable.	\$6,463
Overbilling for a student’s transportation to school. The supporting documentation for the expenditure stated that the student was sick and did not attend school on March 25, 2011; however, Prince George’s County was billed and paid for the student to be transported that day. The LEA was not required to pay for transportation if the student was sick. The total amount of the expenditure that was sampled was \$3,910. The \$170 billed for the day’s transportation was not allocable to the grant and therefore unallowable because there was no benefit received.	OMB Circular A-87, Appendix A, C.3.a. Costs are allocable to a cost objective if the services involved are chargeable in accordance with benefits received.	\$170
<b>SFSF Education (84.394)</b>		
<b>Expenditure Description</b>	<b>Criteria</b>	<b>Amount</b>
Utility expenses incurred before the Recovery Act was signed into law. Prince George’s County’s Test Administration received an invoice for reimbursement, dated January 22, 2010, for 18 utility (electricity) bills for service received from August 13, 2007, through February 11, 2009. The real estate management company that managed the property paid the utility expense for the entire building and then billed Prince George’s County for reimbursement for the portion of the property that it occupied (52 percent). Although the invoice from the property management company was dated after the date of the enactment of the Recovery Act, these obligations were incurred before February 17, 2009.	The Department’s Guidance for Grantees and Auditors, State Fiscal Stabilization Fund Program, December 24, 2009, page 6, states that the Department has authorized States to use SFSF funds to support allowable obligations that were incurred as of February 17, 2009, the date of the enactment of the Recovery Act.  34 C.F.R. § 76.707(e) states that the obligation for public utility services is made when the service is received.	\$13,785
<b>Total</b>		<b>\$142,779</b>

## Enclosure 2: Finding 1– Baltimore City’s Unallowable Nonpersonnel Expenditures by Grant

<b>Title I Recovery Act (84.389A) and Title I Regular Funds (84.010)</b>		
<b>Expenditure Description</b>	<b>Criteria</b>	<b>Amount</b>
<p>Expenditures for two dinner cruises of Baltimore’s Inner Harbor taken by different elementary schools. Both cruises were presented as being for parents and school volunteers. On the first cruise, 17 of the 45 attendees were school personnel. The total cost of the cruise was \$2,590, of which \$1,090 was paid from Title I Recovery Act funds and, \$1,500 was paid from regular Title I funds.</p> <p>On the second cruise 18 of the 30 attendees were school personnel. The total cost of this cruise was \$1,742. Title I Recovery Act funds were charged \$422 and the regular Title I funds were charged \$1,320.</p> <p>The total costs of both cruises are unallowable. Title I Recovery Act funds were charged \$1,512 and regular Title I funds were charged \$2,820</p>	<p>OMB Circular A-87, Appendix B, 14. specifically prohibits charging entertainment costs to Federal grants. Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sporting events, meals, lodging, rentals, transportation, and gratuities) are unallowable.</p>	\$4,352
<b>Title I Recovery Act (84.389A)</b>		
<p>The cost of food purchased for a school parent teacher association meeting was unnecessary and unreasonable. One expenditure (\$2,413) was for the purchase of fried chicken, potato salad, coleslaw, biscuits, cookies, and soda. Another expenditure of \$64 was for the “shipping and handling” of the food. The agenda for the May 12, 2010, meeting showed items discussed were the school budget for the school year 2010–2011, the bylaws of the organization, and the treasurer’s and president’s reports. The Title I guidance does not require that food is provided for parental events.</p> <p>The supporting documentation showed that 28 people attended the meeting (3 were either teachers or staff). The amount of funds spent on food for this meeting is unreasonable. The cost of the meal was \$99 per parent (\$2,477/25). U.S. General Services Administration Federal meal per diem for Baltimore City at that time was \$36 for dinner; therefore, \$63 per parent (\$99-\$36) is unreasonable.</p>	<p>OMB Circular A-87, Appendix A, C.1.a. For an item to be allowable it must be necessary and reasonable for proper and efficient performance and administration of the Federal award.</p> <p>OMB Circular A-87, Appendix A, C.2.a. Reasonable costs are determined by giving consideration to whether the cost is generally recognized as ordinary and necessary for operation of the governmental unit or the performance of the Federal award.</p>	\$1,575
<p>Expenditure for admission for 30 people to a theatrical performance at a theater in downtown Baltimore, Maryland. The theatrical performance was the final event of a parent appreciation dinner and awards ceremony for an elementary school, which also included dinner, dancing, and a performance by a “local singer.”</p>	<p>OMB Circular A-87, Appendix B, 14. specifically prohibits charging entertainment costs to Federal grants: Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sporting events, meals, lodging, rentals, transportation, and gratuities) are unallowable.</p>	\$1,336

**Enclosure 2: Finding 1 – Baltimore City’s Unallowable Nonpersonnel Expenditures by Grant (continued)**

<b>Title I Recovery Act (84.389A)</b>		
<b>Expenditure Description</b>	<b>Criteria</b>	<b>Amount</b>
Baltimore City paid for the catering of food for an event for mothers and daughters to have a makeover day at one of the schools. Participants paid \$5 to a local ladies’ civic organization to attend the event. Baltimore City provided food for the event. A makeover day does not fit the requirement of a parental involvement activity, which is to improve student academic achievement.	Section 1118 of the ESEA. Schools receiving Title I funds must ensure effective involvement of parents and support a partnership among the school, the parents and the community to improve student academic achievement through training, information, and coordination activities.	\$500
<b>IDEA Recovery Act (84.391A)</b>		
<p>We reviewed six IDEA Recovery Act invoices, totaling \$296,430,<sup>22</sup> that did not have a description of the services rendered or the associated time frame of the work performed. The invoices only charges were for salaries, the vendor’s rent, utilities, advertising, and indirect costs. When we informed the LEA of the issues, the Director of Special Education agreed that the invoices were not adequate because of the lack of information and stated that he would take corrective action.</p> <p>Baltimore City also paid the invoices without adequate supporting documentation from the vendor to show that the costs billed were actually incurred. During a February 16, 2012, site visit we were provided supporting documentation for the services rendered. Baltimore City’s Controller stated that this cost reimbursement contract was invoiced and paid monthly based on “estimated costs.” We compared the actual costs incurred to the estimates invoiced and found that Baltimore City was overbilled \$15,828 over the 6 months we reviewed.</p> <p>Baltimore City’s written accounts payable policies and procedures were not adequate because they did not require the review of supporting documentation for costs billed prior to payment of an invoice. Having adequate policies and procedures is part of effective internal controls.</p>	<p>34 C.F.R. § 80.20(b)(3) requires that effective internal control and accountability must be maintained for all grant and subgrant cash and that subgrantees must assure that it is used for authorized purposes</p> <p>OMB Circular A-87, Appendix A, C.3.a. Costs are allocable to a cost objective if the services involved are chargeable in accordance with benefits received.</p>	\$15,828
<b>Total</b>		<b>\$23,591</b>

<sup>22</sup> The expenditures were a portion of a \$1,200,000, 2-year district level contract for the recruitment of school psychologists and social workers. The six invoices were for \$49,405 each.

**Enclosure 3: Finding 1 – Unsupported and Inadequately Supported  
Nonpersonnel Expenditures by LEA and Grant <sup>23</sup>**

<b>Prince George’s County- Title I Recovery Act (84.389A)</b>	
<b>Expenditure Description<sup>24</sup></b>	<b>Amount</b>
<p>For one invoice we were provided sign-in sheets to support the hours billed on the invoice but were unable to reconcile the number of hours supported by the sign-in sheets to the hours billed. Prince George’s County officials also could not reconcile the hours. The Senior Budget Analyst for Title I informed us that the unwritten procedure was for the Title I Instructional Specialist to receive the invoice from the vendor and compare it with the instructor sign-in sheets maintained in the Title I department. The Instructional Specialist also reviewed them against the student sign-in sheets maintained at the schools that were provided the services. Once the review was complete the invoice was submitted to the Accounts Payable department for payment.</p> <p>For the invoices we reviewed, there was no evidence that this process was performed; the invoices were paid and adequate supporting documentation for the hours billed was not provided. The Senior Budget Analyst for Title I also told us that at the close of the fiscal year, the Title I department was in the process of writing standard operating procedures for the Title I department. The updated policy will require the vendor to turn in a log with the invoices. The log will be used for additional verification before payment is made.</p>	<p>\$22,741</p>
<p>Recovery Act funds were used for catering of end-of-year events at one school. They included a parent and student field day; student and parent end of year celebrations; and pre-K, kindergarten, and 6th grade promotion ceremonies. The cost for the purchases of water and snacks for these events was transferred to Title I Recovery Act funds via journal entry. No agenda, information on activities conducted or sign-in sheets were provided.</p>	<p>\$1,492</p>
<p>Breakfast food for a Moms of Mount Rainer breakfast event held at the elementary school. The event was stated as being for mothers, grandmothers, sisters, aunts or any significant women in a student’s life. We were provided only with the invitation to the event and sign-in sheets from the event. No agenda or other information on the activities conducted at the event was provided.</p>	<p>\$810</p>
<p>Ten expenditures for the purchase of items for a Mother Daughter Tea held at a school. Items such as paper plates, water, cutlery, napkins, tea, coffee, popcorn, and candy were purchased for this event. The event included musical, poetic, and dance entertainment, along with gifts for the mothers. No agenda or other information on any other activities conducted at the event were provided. The items were purchased online from OfficeMax.</p>	<p>\$379</p>

<sup>23</sup> The criteria for all the unsupported or inadequately supported expenditures is 34 C.F.R. § 80.20(b)(6). Accounting records must be supported by source documentation such as cancelled checks, paid bills, payrolls, time and attendance records, and contract and subgrant award documents. The Federal regulation at 34 C.F.R. § 80.20(b)(3) about internal controls applies to the policies and procedure issues noted.

<sup>24</sup> If no supporting documentation at all was provided to us then the expenditure was unsupported. All other expenditures were inadequately supported.

**Enclosure 3: Finding 1– Unsupported and Inadequately Supported  
 Nonpersonnel Expenditures by LEA and Grant (continued)**

<b>Prince George’s County- Title I Recovery Act SIG (84.388)</b>	
<b>Expenditure Description</b>	<b>Amount</b>
Four Title I SIG Recovery Act expenditures for food for parental involvement workshops (description on the requisitions for the events) held at the Turnaround Schools. We were not provided any supporting documentation to show parental attendance or what activities were conducted at the workshops.	\$1,427
<b>Prince George’s County- SFSF Education (84.394)</b>	
No supporting documentation was provided to us for three SFSF Education Recovery Act expenditures for utility (electricity) expenses.	\$95,615
<b>Baltimore City-Title I Recovery Act (84.389A)</b>	
Two expenditures for food for an activity at a school. The purchase order for the expenditure indicated that food was ordered for 100 people; however, the supporting documentation provided was only a sign-in sheet that included 17 names. We did not receive a program or an agenda that identified the type of activity conducted. As a result, we could not determine whether the activity, and therefore the food, was allowable.	\$1,425
<b>Total</b>	<b>\$123,889</b>

**Enclosure 4: Finding 1– Baltimore City Unsupported Personnel Expenditures**

<b>Grant (CFDA)</b>	<b>Expenditure Description</b>	<b>Criteria</b>	<b>Amount</b>
<p><b>Title I Recovery Act (84.389A)</b></p>	<p>Baltimore City did not provide time and effort certifications, personnel activity reports (for partially funded employees) or supporting documentation (that is, a time sheet or sign-in sheet) to show that the employees actually worked during the payment period that the expenditure was incurred for 87 expenditures.</p>	<p>OMB Circular, A-87, Appendix A, C.1.j. To be allowable under Federal awards, costs must be adequately documented.</p> <p>OMB Circular A-87, Appendix B, 8.h.(3). For employees that work solely on a single Federal award or cost objective, charges for their compensation will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification.</p> <p>OMB Circular A-87, Appendix B, 8.h.(4). For employees working on multiple activities or costs objectives, a distribution of their compensation will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5)(c) They must be prepared at least monthly and must coincide with one or more pay periods.</p>	<p>\$117,919</p>
<p><b>IDEA Recovery Act (84.389A)</b></p>	<p>Baltimore City did not provide time and effort certifications, personnel activity reports or supporting documentation to show that the employees actually worked during the payment period that the expenditure was incurred for 31 expenditures.</p>	<p>Same as previous criteria.</p>	<p>\$82,404</p>
<p><b>SFSF Education (84.394)</b></p>	<p>No supporting documentation for 42 expenditures was provided to show that the employees actually worked during the payment period. Examples of supporting documentation that could have been provided are sign-in sheets for the professional development or time and attendance records for the extracurricular activities.</p>	<p>34 C.F.R. § 80.20(b)(6). Accounting records must be supported by such source documentation such as cancelled checks, paid bills, payrolls, time and attendance records, and contract and subgrant award documents.</p>	<p>\$49,431</p>
<p><b>Total</b></p>			<p><b>\$249,754</b></p>



**Enclosure 5: Apps Found on Prince George’s County Staff’s Tablet Computers That Were Noneducational and Could Be Used for Personal Use**

<b>Title I Department</b>	
<b>Position</b>	<b>Apps</b>
Program Accounting Tech	Photobooth
Instructional Technology Specialist	Bible, Pandora Internet Radio
Senior Budget Analyst	Bible
<b>Buck Lodge Middle School</b>	
<b>Subject Taught</b>	<b>Apps</b>
Science	Skype
Physical Education	Facebook, Bible, Angry Birds
Math	Skype
Language Arts	People Magazine, Internet Movie Database, Pandora Internet Radio
Social Studies	Fox Soccer 2go, Words With Friends
Math	Words With Friends
<b>Charles Carroll Middle School</b>	
<b>Position or Subject Taught</b>	<b>Apps</b>
Math and Science	Facebook, Mahjong
Math and Science	Skype
Social Studies	Facebook, Pandora Internet Radio
Reading/Language Arts Resource	Pandora Internet Radio

**Enclosure 6: Finding 2 – Summary of Baltimore City’s Overstated and Correct Indirect Costs Calculations**

<b>Grant</b>	<b>Indirect Cost Base Used by LEA</b>	<b>Correct Indirect Cost Base</b>	<b>Indirect Costs Charged</b>	<b>Indirect Costs Using Correct Rate</b>	<b>Overstated Indirect Costs Charged Due to Incorrect Rate</b>	<b>Overstated Indirect Costs Charged on Excludable Costs</b>	<b>Correct Indirect Costs</b>
	<b>(A)</b>	<b>(B)<sup>25</sup></b>	<b>(C)</b>	<b>(D)</b> <b>(A*.0523)</b>	<b>(E)</b> <b>(C-D)</b>	<b>(F)</b>	<b>(H)</b> <b>(D-F)</b>
<b>Title I</b>	\$17,665,128	\$17,247,805	\$889,053	\$889,053 <sup>26</sup>	\$0	\$21,826	\$867,227
<b>IDEA</b>	\$7,112,961	\$7,112,961	\$525,345	\$372,008	\$153,337	\$0	\$372,008
<b>Total</b>	<b>\$24,778,089</b>	<b>\$24,360,766</b>	<b>\$1,414,398</b>	<b>\$1,261,061</b>	<b>\$153,337</b>	<b>\$21,826</b>	<b>\$1,239,235</b>

<sup>25</sup> The correct indirect cost base was determined by subtracting the excludable costs included in Finding 2 from the indirect cost base used by Baltimore City (Column A above).

<sup>26</sup> The base cost multiplied by the indirect cost rate does not equal this amount; Baltimore City could have charged more indirect costs to the grant.

## Enclosure 7: Maryland Education's Comments to the Draft Report



Lillian M. Lowery, Ed.D.  
State Superintendent of Schools

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October 15, 2012

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

Dear Mr. Tadley:

Thank you for the draft audit report on Maryland's Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs. We have reviewed the report and appreciate the time and attention that it represents on the part of you and your colleagues in the Office of the Inspector General.

Enclosed is our response to the finding and recommendations. Please be assured that the Department will deploy and follow up on the Corrective Actions noted in the response to address and resolve the issues contained in the finding and recommendations. If you have any questions regarding our response, please contact Mr. Preston D. Alderman, Jr., Director of Audit, or Mr. Richard C. McElroy, Internal Auditor Supervisor, on 410-767-0104 or 410-767-8856, respectively.

Sincerely,

Lillian M. Lowery, Ed.D.  
State Superintendent of Schools



Maryland Public Schools: #1 in the Nation Four Years in a Row

## **Enclosure 7: Maryland Education’s Comments to the Draft Report (continued)**

*Finding No.1 – Maryland Education’s Monitoring Procedures Could Be Improved to Ensure That LEAs Comply With Federal Fiscal Requirements and Maintain adequate Fiscal Controls*

The Maryland State Department of Education (MSDE), as a matter of operational policy, consistently looks for opportunities for improvement. Therefore, this Agency appreciates the wording of this issue in terms of improvement. However, MSDE disagrees with the audit issue inasmuch as the text does not reference many of the strong, overlapping and multi-tiered monitoring instruments used by the Department in its review of ARRA funding.

This Agency takes very seriously its responsibility for stewardship of taxpayer monies. As evidenced in responses throughout this document and in information provided to the OIG, there were comprehensive monitoring instruments designed to give reasonable assurance to the public that the grants were managed appropriately and that material errors would be corrected timely.

While the Agency acknowledges that many items found by the auditors should not have been charged to the grants, we do not believe that, in and of itself, this demonstrates that the monitoring was inadequate. We understand that the ultimate goal would be to avoid any error resulting in unallowable or unsupported claims. However, noting that the auditors used a risk-based judgmental sample targeted to the highest risk areas, we believe that the limited types and numbers of errors that were found provide some evidence that the outreach, training and monitoring has worked effectively.

As an aside, we note that later in the audit report it is noted that that MSDE provided “extensive training and guidance” to the recipients. The Agency appreciates this recognition. While certainly not a substitute for the monitoring requirements, this robust communication of grant requirements certainly provided a strong basis for preventing grant mismanagement issues.

MSDE believes that there is limited practicality to the suggestion that documentation for expenditures be reviewed prior to reimbursement. Even on a sampling basis, the Agency believes that the cost of the resources required for establishing and maintaining this suggested control would far outweigh the value added.

The audit mentions the Agency’s reliance on A-133 federal single audits and a few monitoring tools used. Note that these are only a couple of the multiple methods of grant monitoring utilized by MSDE for oversight of ARRA grants:

MSDE has recovered Title 1 funds in the past from LEAs that do not spend funds in accordance with the law. Discovery of inappropriately used funds was not a result of Single Audit reports; rather, such discovery was made through MSDE’s own monitoring protocol.

MSDE’s Title 1 Staff will continue to monitor its LEAs via three on-site visits per year. The Title 1 Staff will continue to utilize a monitoring instrument which mirrors the protocol used by the USDE. This instrument has been revised to include more in dept fiscal monitoring.

## Enclosure 7: Maryland Education's Comments to the Draft Report (continued)

MSDE has also recovered DSE/EIS funds from a LEA whose expenditures were determined unallowable. This unallowable expenditure was discovered during an MSDE DSE/EIS monitoring visit, not as the result of a Single Audit report.

MSDE's IDEA schedules onsite LEA monitoring visits based upon monitoring priorities and the results of a risk assessment. MSDE's DSE/EIS utilizes a fiscal monitoring instrument that includes testing samples of expenditures for allowability.

Please see Attachment 1 to this response that reflects a comprehensive list of monitoring/outreach processes used by MSDE in oversight of ARRA SESE funding.

Recommendation 1.1 – MSDE partially agrees. As noted above, the Agency believes that we have instituted a strong monitoring process. Nevertheless, we will review each monitoring instrument to determine what additional tests could be added (e.g., screening for internal controls on technology purchases).

Recommendation 1.2 – MSDE partially agrees. The agency believes that \$142,453 of the cited purchases were allowable. Please see Attachments 7 (Baltimore City Public Schools) and 8 (Prince George's County Public Schools) for explanations regarding the expenditures we considered allowable. With regard to the \$51,850 (Baltimore City, \$7,763; and Prince George's County, \$44,087) of unallowable purchases, MSDE requests an equitable offset. The LEAs can provide supporting documentation for allowable purchases that were charged to State funds during the audit period.

Recommendation 1.3 – MSDE agrees. The agency will continue strong communication of program requirements and will include these points in outreach to the local school systems.

Recommendation 1.4 – MSDE partially agrees. The agency believes that adequate documentation can be provided to OIG for \$369,983 of the cited expenditures. With regard to the \$3,662 (Baltimore City, \$1,425; and Prince George's County, \$2,237) of inadequately supported expenditures, MSDE request an equitable offset. The LEAs can provide adequate supporting documentation for expenditures that were charged to State funds during the audit period.

Recommendation 1.5 – Prince George's County has provided MSDE with a copy of its computer usage policy. A review of the LEAs' compliance with this policy will be incorporated into MSDE's monitoring instruments for federal grant reviews.

## Enclosure 7: Maryland Education's Comments to the Draft Report (continued)

### *Finding No. 2 – Maryland Education Needs to Provide Additional Guidance to LEAs and Better Oversee LEAs' Application of Indirect Costs*

The audit report notes numerous instances of inconsistent or inadequate documentation of the indirect costs charges for these federal grants. Despite the quote attributed to MSDE's Chief of the Office of Local Finance Reporting, MSDE disagrees with the assertion that there was inadequate monitoring of and guidance related to indirect cost use by local school systems.

The *Financial Reporting Manual for Maryland Public Schools* provides the basic guidance to local school systems on the calculation and use of indirect costs. In addition to publication on the MSDE website, the *Manual* was referenced in multiple training sessions by MSDE staff.

The audit period incorporated a time of significant changes to the indirect cost allocation methodology. As background, Maryland's indirect cost process as noted in the *Financial Reporting Manual for Maryland Public Schools* was approved since 1993 under delegated authority from USDE. In June 2009, the Agency was notified by USDE that the process and delegated authority needed to be updated. This was developed, reviewed, vetted with local school systems, and negotiated with USDE. A revised calculation process was established as of May 2011. The new rates process began with fiscal year 2011.

Local school systems were initially notified that the rates were under review in November 2009. They were further consulted regarding the process in June 2010 as to the two options put forward as possible solutions by USDE. Once approved by USDE, the new plan and process were presented to school systems at a School Finance Officials webinar on May 11, 2011. On June 3, 2011, MSDE presented the newly-adopted Indirect Cost Rate Plan and a copy of the official delegation agreement to the school system staff responsible for calculating and reporting indirect costs. Furthermore, additional training was added in 2012 to address the additional processes associated with calculation and incorporation of the carryforward adjustment in the rates.

The new process has significant advantages over the process used at the time, not the least of which is that the rates are now self-correcting. Maryland has moved from a simple predetermined fixed rate to a fixed with carryforward rate. Therefore, over- or under-recoveries of indirect costs will adjust automatically in the development of subsequent years' rates.

One specific concern with the issue as noted in the audit report is the assertion of unallowable indirect costs charged through the State Fiscal Stabilization Fund (SFSF). MSDE notes that this grant by its nature was developed to be extremely flexible at the local level. In fact, states were specifically precluded from directing local school systems how to use the funds (with the exception of the list of items specifically designated as unallowable).

Therefore, MSDE contends that the amount of indirect costs charged to the SFSF grant is not limited by the approved indirect cost rate or base. Indeed, a school system would not be in violation of the SFSF provisions even if it were to pay all of its indirect costs through SFSF.

## Enclosure 7: Maryland Education's Comments to the Draft Report (continued)

Guidance associated with the SFSP program<sup>1</sup> establishes the unique nature of this funding source relative to other programmatic-type grants. MSDE notes the following key excerpts from the guidance relative to this issue:

- *The SFSP program provides resources to support education and other services that may have occurred even in the absence of Federal funds. There is no State- or local-level supplanting prohibition. Furthermore, if it so chooses, an entity may use SFSP funds to pay the full amount of its indirect costs. Thus, an LEA or HLE that receives Education Stabilization funds may use those funds to pay its indirect costs. Similarly, a State or an entity that receives Government Services funds may use those funds to pay its indirect costs.*
- *The SFSP program supports a broad array of activities (e.g., general expenditures, operating expenditures, salaries, and government services). Similar to Impact Aid funds, SFSP funds are essentially general aid. Thus, the specific cost principles in the OMB Circulars do not apply to SFSP funds. However, SFSP funds must be spent consistent with applicable State and local requirements and the statutory provisions of ARRA.*
- *Because of the unique characteristics of this program as described above, while the specific requirements in the OMB Circulars that apply cost principles, such as OMB Circulars A-21 and A-87, do not apply to SFSP funds, expenditures attributed to the SFSP program must still be "reasonable and necessary," and consistent with applicable State and local requirements.*

Therefore, MSDE feels that by restricting the amount of SFSP funds chargeable to indirect costs, the auditors are holding these funds to a tighter set of criteria than is required under the SFSP funding authorization.

Recommendation 2.1 – MSDE agrees. Because of the revision of the indirect cost process, MSDE has launched a focused outreach to LEAs regarding the new calculation process. The Agency has included additional reminders in these training sessions on the correct methodology for charging funds. MSDE will amend the *Financial Reporting Manual for Maryland Public Schools* to reflect the new calculation and process.

Recommendation 2.2 – MSDE disagrees. The most significant portion of this figure, \$721,134, is associated with indirect costs charged to SFSP. For the reasons noted above, MSDE contends that there is no restriction on how much funding can be charged to indirect costs through SFSP. Additionally, Maryland is now using a fixed with carryforward set of rates. Therefore, the rates are now self-accounting.

<sup>1</sup> Guidance for Grantees and Auditors, State Fiscal Stabilization Fund Program (December 24, 2009)

## Enclosure 7: Maryland Education's Comments to the Draft Report (continued)

Recommendation 2.3 – MSDE agrees. As noted above, school systems have been provided in multiple instances with the official process for calculating and assessing indirect costs. This will be incorporated into MSDE's monitoring instruments for federal grant reviews.

### *Finding No. 3 – Maryland Did Not Ensure Section 1512 Jobs Data Were Accurate and Complete*

The auditors note instances of misreported data under Section 1512 reports for FTEs created by the ARRA funding. As context to this response MSDE notes that during the audit period the issue of how to account for ARRA FTEs was undergoing continual refinement.

The audit report references the December 2009 guidance regarding FTEs. Note that this guidance was the fifth iteration of guidance issued by OMB and USDE since June of 2009 and was issued two quarters into the audit period. These releases updated and in some cases significantly changed the process for calculating FTEs (Attachment 2 of this response includes a list of the updates to guidance that occurred during this time). While Maryland consistently relayed this evolving set of procedures and calculations to the local school systems, it not surprising that some inconsistencies may have occurred during this period.

It is also important to note that ongoing guidance from OMB, USDE and Recovery.gov indicated that a solution to correct previously filed quarterly reports was in process and that such a solution would be made available to recipients. The current solution<sup>2</sup> still does not allow for corrections to FTE jobs data.

MSDE notes that it has dedicated resources to reviewing and auditing 1512 FTE reporting. Any adjustments that are revealed as necessary based on these tests will be accumulated and reported in a manner and methodology as eventually determined by the OMB.

### *Other Matters*

- SFSE Purchases for "Questionable Purposes" – MSDE is unclear what criteria the auditors are using to determine the appropriateness of the SFSE purchases. This Agency does not believe that the titles of the purchases should be used to deem them as "questionable" with specific context as to the nature of the purchase or need of the school system.
- Questionable purchases for Title I – Again, MSDE is unsure what criteria are being used. Although the Agency acknowledges that these funds are much more restricted than SFSE, it would be necessary to understand the context of these costs.

<sup>2</sup> FederalReporting.gov User Guide, Chapter 16 – How to Request a Change to a Prior Quarter Report



## Enclosure 7: Maryland Education's Comments to the Draft Report (continued)

### Attachment I – List of documents supporting outreach and monitoring for ARRA SFSF funding

#### Policies and Procedures for Reviewing LEA Applications

1. Transmittal Letter: SFSF Grant Awards
2. Sample Application and Assurances (5)  
Allegany County  
Baltimore City  
Calvert County  
Montgomery County  
Prince George's County

#### LEA Allocations – Communication to LEAs

1. Email to Maryland Superintendents from Steve Brooks, re: Funding Update (February 13, 2009)
2. Press Release – Governor Martin O'Malley Announces Plan to Fully Fund Maryland Schools (February 20, 2009)
3. Email to Maryland Superintendents from Steve Brooks, re: ARRA, Estimated Totals (June 11, 2009)
4. Email to Maryland Superintendents from Dr. Nancy Grassmick, re: State Fiscal Stabilization Fund Application and Assurances (June 22, 2009)
5. Email to Maryland Superintendents from Rick Baker, re: Final FY 10 State Aid Calculations (June 23, 2009)
6. Email to Maryland Superintendents from Dr. Nancy Grassmick, re: Maryland's SFSF Application Approval (June 2, 2009)
7. Summary of Major State Aid Programs, FY2010, Federal ARRA SFSF Portion
8. USDE Attachment 2, SFSF State Fund Tracking Spreadsheet
9. ARRA State Fiscal Stabilization Funds – State FY 2010 Allocation to LEAs

#### Fiscal Oversight of SFSF Funds

1. Maryland State Department of Education Fiscal Program Review; State Fiscal Stabilization Fund Audit Program
2. Tentative Schedule: FY 2009 and FY 2008 Audits
3. MSDE Federal Funds' Drawing Policy
4. Maryland State Department of Education Audit Resolution

#### Sub-recipient Monitoring

1. Letter to Local Superintendents of Schools re: guidance on implementing the fiscal reporting requirements of ARRA funds (July 2, 2009)
2. Email to School Business Officials from Robert Crawford, re: CFDA and Fund Numbers for ARRA grants
3. Maryland State Department of Education Proposed New Fund Numbers Associated with ARRA Grants

## Enclosure 7: Maryland Education's Comments to the Draft Report (continued)

### Attachment 1 - continued

4. Maryland State Department of Education Local School System Monitoring Questionnaire – State Fiscal Stabilization Fund
5. 2009 Master Plan Annual Update Guidance – Part III: American Recovery and Reinvestment Act (ARRA) Supplement (11/6/2009)
6. Maryland State Department of Education SFSF Monitoring Schedule

### ARRA Reporting

1. Email to School Business Officials from Steve Brooks, re: ARRA Quarterly Reporting Guidance (September 14, 2009)
2. Email to School Business Officials from Steve Brooks, re: ARRA Quarterly Reporting Guidance – Additional Information (September 18, 2009)
3. Email to School Business Officials from Steve Brooks, re: ARRA Quarterly Reporting Guidance – Great News (September 24, 2009)
4. Email to School Business Officials from Steve Brooks, re: ARRA Quarterly Reporting Guidance – Great News, Clarification (September 24, 2009)
5. Email to MSDE ARRA Grant Points of Contact, re: ARRA Resources for Completing 1512 Reports (September 25, 2009)
6. Email to School Business Officials from Steve Brooks, re: ARRA Reporting – Important Reminder (September 30, 2009)
7. Email to School Business Officials from Steve Brooks, re: ARRA Reporting – Revised OMB Guidance – Quarter 2 (December 16, 2009)
8. Local School System Reporting Tool – ARRA 1512 Quarterly Reports – Job
9. Local School System Reporting Tool – ARRA 1512 Quarterly Reports – Vendor Data
10. Maryland State Department of Education Quality Assurance Steps for ARRA 1512 Reporting
11. ARRA 1512 Reports – Important Notes
12. Grant Balances – ARRA; control document
13. USDE Edcups Q5 External Award Activity History Report; control document

### State Guidance Documents

1. Power Point Presentation – American Recovery and Reinvestment Act; School Finance Officials (April 16, 2009)
2. Power Point Presentation – American Recovery and Reinvestment Act (July 23, 2009)
3. Screen-print – [www.marylandpublicschools.org](http://www.marylandpublicschools.org); ARRA Initial Reporting Requirements

## Enclosure 7: Maryland Education’s Comments to the Draft Report (continued)

**Attachment 2 -- List of Guidance Updates from OMB / USDE regarding ARRA 1512 Reporting**

Office	Document	Release Date
OMB	Original ARRA 1512 Guidance	June, 2009
OMB	Frequently Asked Questions	August, 2009
USDE	ARRA 1512 Guidance	September, 2009
USDE	Revised ARRA 1512 Guidance	October, 2009
OMB	Revised ARRA 1512 Guidance	December, 2009
OMB/USDE	Revised ARRA 1512 Guidance, FTE calculation example	January, 2010
OMB	Revised ARRA 1512 Guidance	March, 2010
USDE	Revised ARRA 1512 Guidance	April, 2010
USDE	Revised ARRA 1512 Guidance	August, 2010
OMB	Revised ARRA 1512 Guidance	September, 2010
USDE	Revised ARRA 1512 Guidance	September, 2010

## Enclosure 7: Maryland Education's Comments to the Draft Report (continued)

### Attachment 3

#### Baltimore City Public Schools (City Schools) Response to the USDE OIG DRAFT Audit Report

#### Finding 1

- \* Finding 1 Table 3 (pages 4-8, 11-12, 33-34) Unallowable, Unsupported, Inadequately Supported Expenditures – Non-Personnel Expenditures totaling \$25,016
  - o Expenditure Listing
    - \* Title I \$4,352 for dinner cruises (unallowable expenses)
    - \* Title I \$1,575 for food for parent teacher assoc meeting (exceeded allowable per diem so \$1,575 of \$2,477 deemed unnecessary and unreasonable)
    - \* Title I \$1,336 admission for a theatrical performance (unallowable)
    - \* Title I \$1,425 Table 3 (supporting documentation not provided for food at a school activity)
    - \* Title I \$550 catering of food for make-over day (does not fit requirement of parental involvement activity)
    - \* IDEA \$15,828 overcharged for professional charges
  - o Management Response
    - \* Management agrees with the findings for Title I relating to unallowable, unsupported, or inadequately supported expenditures totaling \$9,188.
      - o *City Schools requests the use of equitable offset for General Fund expenditures for the same fiscal period which meet the criteria of the grant.*
    - \* Management partially disagrees with the finding for IDEA relating to overcharges of \$15,828 for professional services.
      - o *City Schools personnel had paid estimated invoices in non-compliance with City Schools Procurement procedures.*
      - o *Prior to the USDE OIG audit review, City Schools staff had conducted a True-Up process with the vendor commencing in April 2010 which resulted in a catch-up adjustment; thus no overcharges were recorded over the life of the grant.*
  - o Additional Corrective Actions - City Schools Title I staff and multiple departments collaboratively established a more detailed monitoring procedure that engaged designated staff in the preliminary processing of procurement requests; discussions were conducted with City Schools IDEA staff on the K12Buy Procurement process.
    - \* *By the fall of 2010, all Family and Community Engagement (FCE) Specialists were trained on K12Buy and were included in the approval queue of the K12 Buy Requisition according to their assigned school and associated budget.*

## Enclosure 7: Maryland Education's Comments to the Draft Report (continued)

- Concurrently, all Title I specialists and Coordinators were trained on K12Buy and were included in the aforementioned approval queue as one of the first line approvers.
  - As a result, since FCE developed and approved the Title I parent involvement spending plan, presentation to the Title I Specialists/Coordinator of approval/disapproval would denote a sufficient initial review for allowability of that component.
  - During the fall of 2010, all FCE Specialists and Title I Coordinators and Specialists received training on "Federal Cost Principles."
  - During April 2011, various but relevant Title I staff attended the Brustein and Manseviz grants management conference to develop their knowledge on EDGAR requirements, further building capacity for appropriate grants management.
  - On June 11, 2011, stakeholders (including school leadership, parents and members of the community) had an opportunity to attend a "nuts and bolts" workshop on the requirements of Title I to include "federal cost principles" at the Title I Conference.
  - During July 2011, all Title I staff received additional training on Federal Cost Principles.
  - The Title I and Family and Community Engagement offices will continue to work together to ensure that all funds, but specifically the parent involvement related activities, are managed appropriately. Additionally, Title I will maintain the aforementioned internal controls of using a cohort approach to assign Specialists/Coordinators to work closely with Title I schools and all other personnel who are assigned to provide guidance and accountability to the school. Grants Administration Staff will further collaborate with the Director of Title I to provide training and expand the knowledge base of allowable costs for Title I activities to staff system-wide to ensure grant spending aligns to and meet compliance with federal regulations.
  - Finance staff has participated in the ongoing grant manager meetings to re-emphasize to all grant personnel that the posting of receipts in K12Buy by City Schools staff confirms that staff entering the receipts have personal knowledge that the invoiced services have been rendered and that invoices for estimated services are not paid.
- Finding I Table 9 (pages 8-10, 11-12, 38) Unsupported or Inadequately Supported Expenditures – Personnel Expenditures totaling \$249,364
- Expenditure Listing
    - Title I \$117,919 for unsupported or inadequately supported expenditures because City Schools did not provide time and effort certifications, personnel

## Enclosure 7: Maryland Education's Comments to the Draft Report (continued)

activity reports or sufficient supporting documentation to show that employees actually worked during the payment period that the expenditure was incurred

- IDEA 882.404 for unsupported or inadequately supported expenditures because City Schools did not provide time and effort certifications, personnel activity reports or sufficient supporting documentation to show that employees actually worked during the payment period that the expenditure was incurred
  - SFSE 549.431 for unsupported or inadequately supported expenditures because City Schools provided either no documentation or insufficient documentation to show the employee actually worked during the payment period
- ⊙ **Management Response**
- Management partially agrees with the finding in that City Schools did not produce all of the necessary support documentation regarding personnel costs paid with federal funds within the timeframe specified during the audit.
    - While selected time and effort certifications could not be located for certain split-funded employees, timesheets/sign in sheets are required for compliance with the City Schools payroll procedures and records retention policy and should be available to confirm that the employees actually worked during the payment period. These timesheets/sign in sheets and additional support documentation have been requested from the cost center managers for submission and review, which in most cases are schools which delay the collection process. While additional records are available for review, the collection effort is continuing.
    - For those amounts for which the requested support documentation cannot be provided, City Schools requests the use of equitable offset for General Fund expenditures for the same fiscal period which meet the criteria of the grant.

⊙ **Additional Corrective Actions**

- City Schools has procedures and guidance in place for Principals and Managers regarding the semi-annual certification (including time and effort) of staff paid on federal funded programs.
  - Central Office staff distributes staff listing to Principals and Managers (cost center head), for which they sign in recognition of receipt.
  - As part of the certification, Principals and Managers indicate "yes" or "no" for the status of federal-funded staff working in their cost center. If applicable, completion of a recertification form is required to properly account for staff.
  - For staff whose cost is partially funded on a federal grant, the cost center head enforces requirement for staff person to keep daily Time and Effort

## Enclosure 7: Maryland Education's Comments to the Draft Report (continued)

records for work performed on specific federal fund. The staff person submits form to cost center head weekly, whereby both parties' signatures are contained.

- o Principals and Managers are required to return the completed forms to Central Office for reconciliation and maintenance.
- City Schools will continue working to monitor and ensure that proper documentation is maintained and produced upon request for all personnel costs paid with federal funds.

### Finding 2

#### • Finding 2 Table 7 (pages 12-15, 40-41) Incorrect Application of Indirect Cost totaling \$896,297

##### o Expenditure Listing

- Title I \$23,826
- IDEA \$153,357
- SFSE \$721,134

##### o Management Response

- Management partially disagrees with the findings for SFSE indirect cost charges in that indirect cost had been originally recorded in error on capital expenditures for SFSE but were subsequently excluded.
  - o *These capital expenditures had been excluded from the indirect cost calculation during the final True-Up so that indirect costs for capital expenditures were not recorded on the SFSE grant. Supporting documentation and clarifying materials have been submitted and explained to the USOE OIG audit team.*
- Management disagrees that equipment expenditures were included in the City Schools indirect cost base for Title I and SFSE
  - o *City Schools does not include equipment in the indirect cost calculation. Supporting documentation and clarifying materials have been submitted and explained to the USOE OIG audit team.*
- Management partially disagrees in that City Schools did not initially use the unrestricted rate for the SFSE grant but subsequently used the unrestricted rate
  - o *City Schools used a rate of 4.43% during FY10 (less than the allowable 3.13% restricted rate for FY10) for the SFSE grant. The unrestricted rate of 4.03% was not originally used as the approved Notice of Grant Award cited the grant as "restricted". However the correct unrestricted rate of 4.03% was used in the final indirect cost True-Up calculation for the grant. Support documentation and clarifying materials had been submitted and explained to the USOE OIG audit team.*

## Enclosure 7: Maryland Education’s Comments to the Draft Report (continued)

- *As directed by MSDE, City Schools uses the most recent approved indirect cost rate until MSDE approves the rate for the current fiscal year. When MSDE approves the indirect cost rate for the current fiscal year, City Schools records a retrospective adjustment to apply the current fiscal year rate to the current year expenditures.*
- Management partially disagrees in that City Schools had historically applied the indirect cost rate to encumbrances during the interim life of the grant but were excluded in the final calculation
  - *Encumbrances were excluded from the indirect cost base in the final indirect cost True-Up calculation for each grant. Support documentation and clarifying materials had been submitted and explained to USDE OIG audit team.*
  - *City Schools no longer included encumbrances in the cost base for the indirect cost calculation.*
- **Additional Corrective Action**
  - *City Schools had adjusted the indirect cost recovery expenditures to reflect the appropriate amount of indirect cost on the SFSF grant. The City Schools indirect cost calculation takes into consideration the correct rate, the exclusion of equipment, capital and other applicable exclusions. All of the support documentation has been provided to the USDE OIG audit team. City Schools will monitor closely to ensure that the proper amount of indirect cost recovery is reflected in federal grants.*

### Finding 3

- **Finding 3 Table 8 (pages 16-21) Recovery Act Section 1512 Jobs Data - FTE Reporting were not accurate, complete, or in compliance with Recovery Act reporting requirements**
  - **Management Response**
    - Management agrees with the finding for FTE reporting.
      - *City Schools initially reported FTEs in FY10 Quarters 1 through 3 based on contracted FTEs and budget FTEs as a result of the interpretation of the guidance at the time. Thus City Schools did not initially calculate FTEs based on hours available in quarters and did not calculate FTEs for opioids, summer pay and temporary salaries. City Schools did report FTEs in FY10 Quarter 4 and future quarters based on a more accurate interpretation of the guidance, which included calculating the FTEs based on hours available in the quarter.*



## Enclosure 7: Maryland Education’s Comments to the Draft Report (continued)

- Additional Corrective Action – City Schools gained an accurate interpretation of the guidance provided and began to report FTEs based on hours available in a quarter for full time salary as well as stipends, temporary pay and summer pay.

### Other Matters

- Other Matters (page 22) Some SFSE funds were spent for questionable purposes totaling \$55,609
  - Listing of questioned expenditures
    - SFSE \$35,400 for digitalizing former employee’s files
    - SFSE \$14,709 for postage for mailing a questionnaire concerning their children’s ethnic backgrounds
    - SFSE \$5,410 for face painters, balloons, and a steel orchestra for entertainment at a Middle Grades Fair
  - Management Response
    - Management disagrees that these expenditures did not fit the intended purpose of the SFSE Education grant. City Schools attempted to use the SFSE Education grant funds in ways that would not result in unsustainable commitments after the funding expired.
      - Digitalizing Employees’ files: *A system-wide goal is to integrate and upgrade technology in all facets of the district’s operation. As such, a choice was made to digitalize employee files to ensure accuracy in maintenance and accessibility of employee record.*
      - Children’s Ethnic Backgrounds: *In order to comply with a recent federal mandate to annually record and submit student race codes to the Maryland State Department of Education, City Schools elected to fund the postage/ mailing cost of parent questionnaires that produced accurate data used in identifying enrolled students’ ethnicity.*
      - Middle Grade Fair: *City Schools opted to use SFSE funds to cover associated costs with an annual initiative that assembles students and parents as they explore high school choice selections and career option and programs that prepare students for college. This all day event highlights student talents from various schools, covers the cost for materials and supplies used in student performances, provides funds for lunch for participating school groups, and covers the cost for other motivational activities.*

## Enclosure 7: Maryland Education's Comments to the Draft Report (continued)

**Attachment 4**  
**Prince George's County Public Schools (PGCPS) Response to the USDE OIG DRAFT Audit Report**

**FINDING #1 - Maryland education monitoring procedures could be improved to ensure LEAs comply with federal fiscal requirements and maintain adequate fiscal controls.**

o **Expenditure Listing**

- PGCPS charged \$108,882 to the Title I Recovery Act grant for unapproved travel.
- PGCPS was overcharged \$2,256 for professional services that were charged to the Title I Recovery Act Funds. PGCPS did not have adequate supporting documentation for the hours billed on invoices, totaling \$22,741, which was paid with Title I Recovery Act Funds.
- Unallowable Recovery Act personnel expenditures at PGCPS totaling \$236 for the Title I Program. Payment to a teacher for achieving a national teaching certification.
- PGCPS spent \$8,736 in regular Title I funds for gifts and other items provided for staff at a principal's meeting.
- Breakfast food for a Mon's of Mount Rainer breakfast event held at the elementary school (5316)
- Trip expenditures for the purchase of items for a "Mother Daughter Tea" held at a school (\$379)
- Food provided for a school planning and management team meeting (\$180).
- The purchase of 6 USB pens key chains, totaling \$108. The Title Budget Analyst provided us a written statement that the USBkey chains were "awarded" to high school seniors who had graduated.
- Utility expenses incurred before the Recovery Act was signed into law. PGCPS charged \$13,785 to SFSF Education funds for utility (electricity) obligations that were incurred before the Recovery Act was signed into law.
- No supporting documentation was provided to us for SFSF Ed. Recovery Act. expenditures for utility (electricity) expenses totaling \$95,615.
- Advanced payment for a car rental. PGCPS Turnaround Schools Director was advanced \$1,083 from the Title I Recovery Act funds for a rental car that he did not use.
- PGCPS Turnaround Schools Budget Administrative Specialist used Title I SFG Recovery Act funds to purchase a mini-refrigerator (\$212) and a microwave oven (\$199) from Staples for her personal use at the office.
- Trip to a skating rink to recognize students who complied with the code of conduct to increase positive behavior (\$525).
- Legal book on the termination of school employees. The cost of the book was \$168, with an additional \$12 for shipping and handling.

## Enclosure 7: Maryland Education's Comments to the Draft Report (continued)

- Four Title I SIG Recovery Act expenditures for food for parental involvement workshops (description on the requisitions for the event) held at the Turnersound Schools (\$1,427)
  - Items purchased for a Career Expo (\$6,463)
  - Overbilling for a student's transportation to school (\$170)
  - A salary payment of \$2,356 to a school psychologist whose position was not funded by IDEA Recovery Act funds according to Prince George's County Public Schools position control Specialist in an email to its Restricted Funds Supervisor (total paid between 8/8/2009 and 1/24/2009 - \$27,607).
- o **Internal Control and Procedural Issues**
- PGCCPS internal controls over the tablet computers did not ensure that the assets were used only for authorized purposes
  - The PGCCPS Director of State and Federal Programs provided us with articles and executive summaries that addressed how some of the apps discussed could be used for educational purposes. However, the articles and summaries were on how apps could be used for higher education, such as by university students and professors. PGCCPS did not provide us with information, such as lesson plans or screen images that showed how the apps were being used in PGCCPS Title I middle schools.
  - Eight expenditures were for the travel of 85 students, parents and teachers (from various elementary, middle, and high schools) to a Communication, Science, Technology, Engineering, and Math (C-STEM) conference in Texas in April Maryland Education's 2011. PGCCPS did not budget funds for travel to the nation competition.
- o **Management Response**
- Management partially agrees with the finding; management disagrees with the following issues:
- PGCCPS does not agree that funds should be returned, because the C-STEM Initiative was an activity within the auspices of approved waivers of required set-aside funds in the ARPA grant application. Nevertheless, at the start of the application process, the Title I Senior Budget Analyst will forward a request for funding opportunities to the Title I Director, Instructional Specialist and Technology Specialist. Once all requests are submitted, a detailed spreadsheet will be developed and submitted to the Title I Director for review and approval. All applications for funding will receive an inner office peer review. Following the peer review, the application would be forwarded to the Title I Director and the Grants Financial Management Office for review and approval.
  - The items in question (total cost \$8,755) were not gifts for the principals. The USB pens contained all the necessary documents and instructions for the upcoming fiscal years. The pens were given to the principals, secretaries, and in some instances

## Enclosure 7: Maryland Education's Comments to the Draft Report (continued)

school-based Title I resource teachers. The staff was instructed to complete the document and save them on the pen. Title I provided one-on-one assistance for principals and staff to assist them with completing their budgets. The pens were used to save budget information throughout the school year. The folders contained copies of school-based fiscal information pertaining to budget allocations. The folders and their contents were used during the training. The watches were used as incentives for principals to assist them to better manage meeting required timelines and deadlines associated with school program operations. The cost of the items aligns with OMB Circular A-87 cost principles as being reasonable and necessary. The purchase in question supplied 60 principals, 60 secretaries / bookkeepers, 8 Title I specialist, 4 Title I budget analyst, the Director and 20 to 30 resource teachers. The combined cost for the 32GB 2.0 USB flash drive pen and file folder with notepad was approximately \$47.00/person.

- The Title I Office provided an agenda for the "Mother Daughter Tea," sign-in sheets, and parent feedback forms when documentation in support the sample was requested.
- The meeting was held to provide the staff with an update of the systemic initiatives and school-based curriculum activities within the district. Discussions were held pertaining to benchmarks, roadblocks, and next steps to ensure success. Therefore, in accordance with OMB Circular 87, the information was deemed technical in nature, and, consequently, the food provided (\$180), is an allowable expense.
- The described purchases were given to reward students for attendance, academic achievement, and positive student behaviors, which PGCFPS believes are essential components to instruction, particularly in high poverty school-wide programs. Although not specifically addressed in OMB A-87, rewards/incentives are allowable when reasonable in cost and necessary to accomplish program objectives. Therefore, the funds were not used in a fraudulent, wasteful or abusive manner.
- Staff from the Maintenance Office, identified by Director, Larry Pauling has been assigned to review and approve all utility invoices over \$25,000. In addition, 10 invoices are randomly selected for review each month. The Accounts Payable Office provides Maintenance with copies of all utility invoices on a monthly basis. PEPCO is the only vendor that submits their invoices electronically and the usage time is collected electronically on the invoice distribution line. The Office of Information Technology developed a report for the Maintenance Office to assist them in the management of electricity usage. PGCFPS can provide supporting documentation for samples which totaled \$95,615.
- The items purchased were instructional materials, not promotional materials. The Career Expo was an extension of the required program of instruction in career exploration and workforce readiness. Many of the participants were students with cognitive impairments who were preparing to transition to supported employment. The Career Expo included a vendor/agency fair where employers and community

## Enclosure 7: Maryland Education's Comments to the Draft Report (continued)

agencies staffed booths with representatives, informational materials, and applications. Students were encouraged to visit the booths and take away information and applications for programs of interest. The bookbags and all of the items contained therein were also intended for use by the students when they began new jobs. The bookbags contained pocket folders, a pen, a portfolio binder, and a water bottle, and were designed to reinforce good preparation for the workday. The students who received these items have special needs. To characterize these instructional materials as souvenirs or gift items reflects a misunderstanding of the intended instructional purpose.

- The Title I Office adhered to Administrative Procedure M-12-02 which in part states, "the In-Use Inventory database will record additions, changes and deletions only for items valued at \$500 or greater." All schools and offices must continue to keep records of their equipment valued at \$499 or less to document purchases from school funds and support any claims for equipment damaged or stolen which fall within the self-insurance guidelines. After completing an internal inventory and adhering to the administrative procedure, the Title I Office submitted all necessary documentation, and the iPads were added to IT inventory and given asset numbers. The OIG auditor insisted that they should be on the register in our procurement office and, as a result of following this direction, the iPads received duplicate sets of asset numbers. Both sets of asset numbers were submitted to the auditor twice. Therefore, if the asset numbers were used for unauthorized purposes, it was at the request of the OIG auditor. The school system has extra security for the iPads. The Mobile Device Management (MDM) system was purchased from Absolute, which is able to monitor what is on the device as well as locate the device. The MDM system allows the district to remotely manage and secure the iPads in PGCCPS deployment from a single console. The administrator can configure, query, and even wipe or lock managed devices. With the MDM system, PGCCPS can also inventory assets; secure data and devices; remotely provision profiles; and deploy and manage applications.
- The articles submitted were evidence of the PGCCPS mission dedicated to the philosophy of ensuring that all students become college- and career-ready in their courses of study. It is imperative to provide sound academic and classroom instruction to our students in this 21st century. The State academic standards require that all students fully understand 21st Century skills, how to leverage them to compete in the global society, and be career- and college-ready. Copies of lesson plans or screen shots of how applications were being used were never requested; however, a detailed response regarding the educational value of the referenced applications has been provided.
- At the start of the application process, the Title I Senior Budget Analyst will forward a request for funding opportunities to the Title I Director, Instructional Specialist and Technology Specialist. Once all requests are submitted, a detailed spreadsheet will be

## Enclosure 7: Maryland Education's Comments to the Draft Report (continued)

developed and submitted to the Title I Director for review and approval. All applications for funding will receive an inner office peer review. Following the peer review, the application will be forwarded to the Title I Director and the Grants Financial Management Office for review and approval. PGCPSS does not agree that funds should be returned, because the C-STEM Initiative was an activity within the auspices of approved waivers of required set-aside funds in the ARRA grant application.

**FINDING #2 - Maryland education needs to provide additional guidance to LEAs and better oversee LEAs' application of Indirect Cost.**

**Expenditure Listing**

- Prince George's County Public Schools overcharged Title I Recovery Act Funds \$21,406 because it included excludable costs in its indirect cost base. PGCPSS overstated its Title I Recovery Act indirect costs base by \$515,305 because it included mid-level administration costs in its indirect cost base. PGCPSS did not have written policies and procedures on how to apply and calculate indirect cost.

**Management Response**

Management disagrees with the finding:

- While Mid-level administration expenditures are excluded from the indirect cost rate calculation, in the indirect recovery formula as reflected in the Financial Reporting Manual for Maryland Public Schools (Revised Edition 2009; Appendix A; page-iii) instructions indicate "to calculate the indirect cost amount, grantees must apply the approved rate to the total direct costs minus equipment cost." Therefore, PGCPSS believes that the current formula applied to recover indirect costs on restricted grants is consistent with the citation reflected in the *Financial Reporting Manual for Maryland Public Schools* and is properly stated in accordance with the approved Indirect Cost Rate Agreement. Internal procedures are in place to ensure that final year-end expenditures are analyzed and reviewed to ensure that the appropriate indirect cost recovery postings are allowable and accurate. The formula for allocating the budget indirect cost amount without exceeding the total grant is as follows: (Total grant expenditures-equipment) x Indirect Cost Rate / (1+ Indirect Cost Rate). There is no reference contained in the Indirect Cost Rate Plan or *Financial Reporting Manual for Maryland Public Schools* that requires the exclusion of Mid-level administration as of the formula calculations applicable to the indirect cost recovery for restricted grant programs.

**FINDING #3 - Maryland did not ensure section 1512 jobs data were accurate and complete.**

**Procedural Issues**

- Prince George's County Public Schools did not report complete FTE data in the first three quarters of the year. It also did not report accurate FTE data in the fourth reporting quarter. It did not report FTEs for the Title I program in the first and

## Enclosure 7: Maryland Education's Comments to the Draft Report (continued)

second quarters and it did not report FTEs in the third quarter for the IDEA grant. PGCCPS also did not report FTEs for some positions that were paid with Recovery Act funds and included unfilled positions in the FTEs it reported (11 for the Title I program and 30 for the IDEA program in each quarter).

o **Management Response**

- Management disagrees with the finding. At the outset, PGCCPS obtained FTE data from the program managers. These Program Managers were provided with all of the documentation provided to PGCCPS regarding the reporting of FTEs for ARRA Reporting. PGCCPS changed its process in March, 2010. At that time, PGCCPS began to get the required information for the ARRA Reporting from the Office of Human Resources and then verified this information with the program managers. In response to the FTEs not being reported for certain quarters, according to guidance provided by MSDE prior to reporting, PGCCPS was not responsible for reporting until the school system actually received a Notice of Grant Award. We notified MSDE in an email dated March 17, 2010 that the information reported for Title I was a first-time reporting because the school system had not received an award letter in time to report the FTE data for previous quarters.

**Other Matters:**

o **Questionable Online Purchases Made With Federal Funds**

- In the universes of Prince George's County Recovery Act expenditures we found questionable purchases from OfficeMax and Staples for items such as room deodorizers and facial tissues. In the universe of all three grants reviewed at PGCCPS, we noted that 762 expenditures totaling \$124,920 were for items purchased from OfficeMax and Staples.

o **Management Response**

- PGCCPS has policies and procedures that govern all purchases of commodities, goods and services. The focus should have been specific to the Title I manual and governance thereof. The Oracle Procurement System allocates for purchases from a variety of funding sources, including grants. All purchases and acquisitions undergo a standard level of audit review and approval from various hierarchical levels of authorization, per the procurement manual. Specific rules regarding purchases associated with the Title I Program are located in the Title I Manual and enforced by the Program Director. Office Max and Staples are approved vendors included in our internal ordering system. Hierarchical approval occurs from the lowest to the highest level of authorization.

**Anyone knowing of fraud, waste, or abuse involving U.S. Department of Education funds or programs should contact the Office of Inspector General Hotline:**

<http://www2.ed.gov/about/offices/list/oig/hotline.html>

We encourage you to use the automated complaint form on our Web site; however, you may call or write the Office of Inspector General.

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