



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
Chicago/Kansas City/Dallas Audit Region

September 29, 2008

Control Number
ED-OIG/A07H0017

Dr. D. Kent King
Commissioner of Education
State of Missouri
P.O. Box 480
Jefferson City, MO 65102

Dear Dr. King:

This Final **Audit Report**, entitled *St. Louis Public School District's Use of Selected U.S. Department of Education Grant Funds*, presents the results of our audit. The objective of the audit was to determine whether St. Louis Public School District (District) used Title I, Part A - Improving Basic Programs Operated by Local Educational Agencies (Title I, Part A); Title I, Part B - Student Reading Skills Improvement Grants - Reading First (Reading First); Title II, Part A - Improving Teacher Quality (Title II, Part A); and Individuals with Disabilities Education Act, Part B (IDEA, Part B), program funds only for costs that were allowable and in accordance with applicable laws, regulations, and grant provisions. Our audit covered the period July 1, 2005, through June 30, 2006.

BACKGROUND

The District includes the entire corporate city limits of St. Louis, Missouri, and operates as the largest public school system in Missouri. The District has a total of 5,122 full-time and part-time employees and operates 91 schools with an average daily attendance of 34,600 students. According to the Missouri State Department of Elementary and Secondary Education, the District was governed by a 7 member Board of Education prior to June 15, 2007. Effective June 15, 2007, the Missouri State Board of Education (MSBE) voted to revoke the District's accreditation and removed the 7 member Board of Education. The Board of Education filed a petition in Cole County Circuit Court (Court) to stop the MSBE intervention. The Court denied the Board of Education's petition, allowing MSBE to replace the 7 member Board of Education with an appointed committee.

According to the A-133 compliance audit report, *Comprehensive Annual Financial Report* (CAFR), the District expended \$47,745,265 of U.S. Department of Education funds for the four

programs reviewed during the year ended June 30, 2006. The District's expenditures for the programs were

<u>Program</u>	<u>Funds</u>
Title I, Part A	\$26,507,282
Reading First	\$ 3,880,386
Title II, Part A	\$ 4,393,834
IDEA, Part B	<u>\$12,963,763</u>
Total	<u>\$47,745,265</u>

The Title I, Part A, program provides financial assistance to local educational agencies (LEA) and schools with high numbers or high percentages of poor children to help ensure that all children meet challenging state academic standards. The Reading First program provides assistance to establish reading programs for children in kindergarten through grade three that ensures that every child can read at grade level or above no later than the end of grade three. The Title II, Part A, program provides assistance to improve the quality and quantity of teachers and principals in schools. The IDEA, Part B, program provides assistance for special education and related services to children with disabilities.

AUDIT RESULTS

During the period July 1, 2005, through June 30, 2006, the District generally used the Reading First funds we tested as part of our audit only for costs that were allowable and in compliance with the law, regulations, and grant provisions. However, the District did not always use Title I, Part A; Title II, Part A; and IDEA, Part B, funds only for costs that were allowable and in compliance with the laws, regulations, and grant provisions. Contrary to the No Child Left Behind Act of 2001, OMB Circular A-87, and selected regulations governing the allowability of costs, the District (1) did not maintain effective control and accountability for all personal property purchased with grant funds, resulting in a loss of over \$178,000; (2) charged unallowable costs of \$37,035 to the Title I, Part A, and IDEA, Part B, programs; and (3) charged inadequately documented costs of \$549,342 to the Title I, Part A; Title II, Part A; and IDEA, Part B, programs.

In its comments to the draft report, the Missouri Department of Elementary and Secondary Education (DESE) concurred with the findings and generally concurred with the recommendations. DESE's comments are summarized at the end of each finding and the full text of the comments are included as an Attachment to this report.

FINDING NO. 1 – Ineffective System of Control and Accountability Resulted in the Loss of Laptop Computers Purchased with Federal Funds

The District did not maintain effective control and accountability for personal property purchased with federal grant funds. In July 2005, the District purchased 700 laptop computers with IDEA, Part B, program funds. Upon delivery, the District stored the laptop computers in an

unlocked room on the third floor of the District's administration building. In addition, the District used about 300 laptop computers for a training session without ensuring adequate safeguards were in place. Further, teachers left the District and not all of them returned their laptop computers. The District conducted an audit and concluded that some laptop computers were either stolen or no record was maintained to document the location. As of the end of our field work, the District still could not account for 125 of the 700 laptop computers.

Pursuant to 34 C.F.R. § 80.20(a),¹ "A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds." In addition, pursuant to 34 C.F.R. § 80.32(b), "A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures."

According to the *Missouri Financial Accounting Manual*, issued by DESE, under *Accounting Principles and Policies for Equipment Capital Outlay*,

- M. Equipment costing \$1,000 or more per unit and having a useful life expectancy of more than one year is considered to be capital outlay and costs will be entered and controlled in the General Fixed Assets Account Group. The district may establish a local policy to use a unit cost of less than \$1,000 to determine capital outlay expenditures.

In addition, under *Capital Outlay and Accounting for Property*,

- I. The LEA Board of Education and administration should develop policies and procedures outlining the various responsibilities for the care and custody of the fixed assets and for the taking of the physical inventory.
- J. In the final analysis, the financial records should be capable of producing two separate listings:
 - (1) A detailed list of property owned by the district.
 - (2) School district personnel should perform an annual physical inventory by making a list of property verified by visual inspection.

These two lists should then be compared and reconciled by the LEA staff. If losses are discovered, administrative action may be taken and the accounting records posted to reduce the Accession Ledger and the General Ledger.

Without effective policies and procedures over the care and custody of fixed assets, equipment purchased with federal funds is not safeguarded against loss, damage, or theft. The District could not account for laptop computers purchased with IDEA, Part B, program funds. As of January 10, 2008, the District indicated the current status of the 700 laptop computers was 556 located, 19 stolen, and 125 missing. The total purchase price for the 125 laptop computers was \$178,625.² When such losses occur, there is harm to the federal interest: (1) the property is not available for essential program activities, (2) the District and the Department do not have

¹ Unless otherwise noted, references are to the July 1, 2005, edition of the C.F.R.

² Purchase price for each laptop computer was \$1,429.

assurances that the property was necessary to operate the program, and (3) information on the laptop computers could be sensitive and contain personally identifiable information.

Recommendations

We recommend that the Assistant Secretary for Special Education and Rehabilitative Services require the Missouri State Board of Education to direct the District to—

- 1.1 Provide evidence that it has located or recovered the 125 laptop computers or return \$178,625 to the Department; and
- 1.2 Develop and implement an inventory control system that provides reasonable assurance that loss, damage, or theft of the equipment will be prevented. The system should cover (a) maintenance of complete and accurate inventory records, (b) the conduct of an annual physical inventory, (c) adequate safeguards to prevent the disclosure of sensitive and personally identifiable information, and (d) the investigation of any equipment that is lost, stolen, or damaged.

DESE's Comments

DESE concurred with the finding but noted the number of missing/unaccounted for laptop computers changed. DESE explained the draft report indicated 125 laptop computers, but an exception report given to the District during the audit indicated 102 laptop computers, for a discrepancy of 23 laptop computers or \$32,867.

Regarding recommendation 1.1, DESE asked that the District be allowed to replace/purchase 102 laptop computers of equal quality and functionality from local/state funds by January 1, 2009, instead of returning the funds to the Department. According to DESE, this would allow the planned online IEP [individualized education program] and Medicaid Recovery Management System to come online as planned. To require the District to return funds from local/state sources and purchase more laptop computers, either from state or federal sources, would result in a double penalty which would be detrimental to the educational programs for children with disabilities.

OIG Response

Based on the most recent status report provided by the District, 125 laptop computers still were missing. DESE is correct in stating that the initial exception report given to the District indicated 102 laptop computers were missing. However, District personnel provided the OIG with an updated status report on the laptop computers at the end of our fieldwork, dated January 10, 2008. We used the updated status report data in the draft audit report. We made no changes to the report regarding the number of missing laptop computers.

In regards to replacing/purchasing laptop computers instead of returning the funds, the Department can take that into consideration during audit resolution. We did not change our recommendation.

FINDING NO. 2 – Unallowable and Inadequately Documented Costs Charged to the Title I, Part A; Title II, Part A; and IDEA, Part B, Programs

During the period July 1, 2005, through June 30, 2006, the District charged unallowable and inadequately documented costs to federal education programs.

Unallowable Costs

The District used Title I, Part A, program funds at ineligible schools and used IDEA, Part B, program funds for an unnecessary laptop computer purchase.

Title I, Part A, Program Funds Used at Ineligible Schools

The District used Title I, Part A, program funds for costs incurred by two schools that were not eligible Title I, Part A, schools. The District did not designate these two schools as Title I eligible, because they did not meet the poverty threshold requirement. These two schools used approximately \$34,627³ in Title I, Part A, funds to cover personnel costs during the 2005-2006 school year.

According to the *No Child Left Behind Act of 2001*, section 1113(a), “A local educational agency shall use funds received under this part only in eligible school attendance areas.”

IDEA, Part B, Program Funds Used for Unnecessary Laptop Computer Purchase

The District used federal funds to purchase a laptop computer that was not necessary for the operation of its IDEA, Part B, program. In January 2006, a Special Education Senior Business Analyst purchased a laptop computer for approximately \$2,408 with personal funds. The District later reimbursed the Senior Business Analyst for the purchase of the laptop computer. The District could not provide an adequate explanation for the purchase of this laptop computer when six months prior it had purchased 700 laptop computers for use in the IDEA, Part B, program.

Pursuant to OMB Circular A-87⁴, Attachment A (C)(1), “To be allowable under Federal awards, costs must (a) Be necessary and reasonable for proper and efficient performance and administration of Federal awards . . . and (j) Be adequately documented.”

Inadequately Documented Costs

The District did not provide adequate documentation to support two months of transportation costs. The District charged the Title I, Part A, program \$57,627 for the transportation of students participating in supplemental education services during the months of March and April of 2006.⁵ Of the multitude of transportation billings for each month, the District could not provide us with documentation that identified the billings that made up the costs charged to the Title I, Part A, program.

In addition, the District did not maintain time and effort certifications for employees whose salaries and benefits were charged to the Title I, Part A; Title II, Part A; and IDEA, Part B, programs. (The District provided time and effort certifications for employees whose salaries and

³ The two ineligible schools, Kennard CJA #503 and McKinley CJA #313, received \$17,528 and \$17,099 respectively.

⁴ OMB Circular A-87, Revised 5/10/04

⁵ The District charged transportation costs of \$27,662 for March and \$29,965 for April.

benefits were charged to the Reading First program.) We reviewed the records for 28 employees whose salaries and fringe benefits were charged to the Title I, Part A; Reading First; Title II, Part A; and IDEA, Part B, programs. For the period July 1, 2005, through June 30, 2006, all 28 employees were required to submit semi-annual certifications. However, the District could not provide certifications for 9 of the 28 employees. These 9 employees received \$491,714 in salaries and benefits during the period July 1, 2005, through June 30, 2006.⁶

Program	No. of Employees Reviewed	No. Without Certifications	Salaries and Benefits Received for Employees Without Certifications
Title I, Part A ⁷	5	4	\$203,862
Title II, Part A	6	4	\$230,843
Reading First	6	0	\$0
IDEA, Part B	11	1	\$57,009
Total	28	9	\$491,714

Pursuant to 34 C.F.R § 80.20(a)(2), fiscal control and accounting procedures of the state and its sub-grantees must be sufficient to “Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.”

In addition, OMB Circular A-87, Attachment B, section (8)(h), *Support of salaries and wages*, states:

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

When a grantee uses federal funds for unallowable costs, those funds are not available to pay for items and services that will advance the program. In addition, when a grantee fails to maintain adequate supporting documentation, we cannot determine if program funds were used only for allowable purposes.

⁶ We did not perform enough work to project our results to the entire population.

⁷ In February 2008, the Department issued revised non-regulatory guidance for Title I, Fiscal Issues that includes Consolidating Funds in Schoolwide Programs. The revised guidance states that “if a school operating a schoolwide program consolidates Federal, State, and local funds under section 1114(a)(3) in a consolidated schoolwide pool . . . an employee who is paid with funds from that pool is not required to file a semi-annual certification. Because Federal funds are consolidated with State and local funds in a single consolidated schoolwide pool, there is no distinction between staff paid with Federal funds and staff paid with State or local funds.” The District consolidates only Title I, Part A funds in its schoolwide program. However, the Department’s guidance became effective after our audit period.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education and the Assistant Secretary for Special Education and Rehabilitative Services, as appropriate, require the Missouri State Board of Education to direct the District to—

- 2.1 Provide adequate documentation to support the eligibility of the two ineligible schools that received Title I, Part A, program funds or return to the Department that portion of the \$34,627 in Title I, Part A funds that was provided to the ineligible school or schools;
- 2.2 Provide adequate documentation to support that \$57,627 in transportation costs charged to the Title I, Part A, program was allowable under OMB Circular A-87 or return the amount that was not allowable to the Department;
- 2.3 Return to the Department \$2,408, the purchase price of the unnecessary laptop computer purchased with IDEA, Part B, funds;
- 2.4 Provide time and effort certifications or other similar evidence covering the period July 1, 2005, through June 30, 2006, to support the personnel costs for the 9 employees paid with Title I, Part A; Title II, Part A; and IDEA, Part B, funds or return to the Department that portion of the \$491,714 paid to those employees that cannot be supported with proper evidence; and
- 2.5 Develop a process to obtain and maintain time and effort certifications to support salaries and wages paid from federal awards.

Auditee Comments

DESE concurred with the finding and the recommendations as a whole. However, in response to recommendation 2.4, DESE stated it would allow the District to retroactively provide time and effort certifications that cover the period from July 1, 2005, through June 30, 2006, if those staff members can be contacted. According to the comments, the targeted completion date for this action is October 20, 2008.

OIG Response

We agree with the corrective action being undertaken by the District as sufficient to address recommendation 2.4, as long as time and effort certifications or some other similar evidence are obtained from those employees. Because the corrective action has not been completed, we did not modify our recommendation.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether the District used Title I, Part A, Reading First, Title II, Part A, and IDEA, Part B, program funds only for costs that were allowable and in accordance with applicable laws, regulations, and grant provisions. Our audit covered the period July 1, 2005, through June 30, 2006.

To achieve our objective, we performed the following procedures.

1. Reviewed the *Comprehensive Annual Financial Report*, prepared by RubinBrown LLP, independent public accountants, for the years ended June 30, 2005, and 2006.
2. Reviewed the allocation reports, payment histories, and final expenditure reports for the District's Title I, Part A; Reading First; Title II, Part A; and IDEA, Part B, programs for the period July 1, 2005, through June 30, 2006.
3. Reviewed the District's organizational charts, DESE's Federal Programs Unit report and website, and conducted interviews to gain an understanding of the District's programs and organization.
4. Gained a limited understanding of the District's internal control structure, policies, procedures, and practices applicable to the administration of the four programs by interviewing District officials, observing operations, and reviewing written policies and procedures. (We did not assess the adequacy of the control procedures.)
5. Reviewed selected provisions of the No Child Left Behind Act, IDEA, Department regulations, and OMB Circulars applicable to the audit objective.
6. Obtained and reviewed accounting records that identified federal funds expended for the Title I, Part A; Reading First; Title II, Part A; and IDEA, Part B, programs during the period July 1, 2005, through June 30, 2006.
7. Selected a judgmental sample of non-personnel transactions charged to the Title I, Part A; Reading First; Title II, Part A; and IDEA, Part B, programs for the period July 1, 2005, through June 30, 2006. The transactions were selected based on dollar amount and type of transaction, and to provide coverage of all four programs. We selected 252 transactions totaling \$4,328,621 from a universe of 25,092 transactions totaling \$16,916,582 for the Title I, Part A; Reading First; Title II, Part A; and IDEA, Part B, programs.
8. Traced the selected non-personnel transactions to purchase orders, invoices, and cancelled checks to determine whether they were allowable.
9. Selected a random sample of personnel transactions charged to the Title I, Part A; Reading First; Title II, Part A; and IDEA, Part B, programs for the period July 1, 2005, through June 30, 2006. We selected 120 transactions totaling \$170,669 from a universe of 13,415 transactions totaling \$20,339,173 for the Title I, Part A; Reading First; Title II, Part A; and IDEA, Part B, programs.
10. Reviewed 28 employees' records for time and effort certifications. We identified these employees from the transactions discussed in #9 above. We reviewed time and effort certifications for (a) 5 employees in the Title I, Part A, program, (b) 6 employees in the Reading First program, (c) 6 employees in the Title II, Part A, program, and (d) 11 employees in the IDEA, Part B, program.

11. We traced the selected personnel transactions to payroll records and certifications, when available, to determine whether the transactions were allowable, adequately documented, and properly allocated to each of the four federal programs. We reviewed fringe benefits for each employee selected in our sample.
12. Selected a judgmental sample of 66 of the 556 laptop computers the District could locate (of the 700 laptop computers purchased with IDEA, Part B, program funds). We verified the District located the 66 laptop computers selected. We judgmentally selected the laptop computers based on locations that had the most computers.
13. Selected a judgmental sample of 41 of 138 computers (laptops and desktops) selected as part of our judgmental sample of Reading First non-personnel transactions. We verified the District could locate all 41 computers selected. We judgmentally selected the computers based on the locations that had the most computers.
14. Selected a judgmental sample of five employees from each of the four programs. We conducted interviews with each employee to verify the employees' existence, job functions, and the program on which they worked.

We also relied, in part, on personnel and non-personnel transaction data provided to us by the District from its Systems, Applications, and Products (SAP) system. We performed an initial assessment of the reliability of the personnel and non-personnel data. We reviewed the data for completeness to determine if the District could account for all funds received. We also reviewed the records for relevance to ensure they included only transactions from our audit period. We further reviewed transactions for accuracy by tracing them to supporting records such as invoices and receipts. We assessed whether the data were reliable by comparing the data with purchase orders, invoices, cancelled checks, and other information on paper documents maintained by the District. Based on these comparisons, we concluded that the data the District provided for personnel and non-personnel transactions were sufficiently reliable for the purposes of our audit.

We conducted our audit from July 2007 through January 2008 at the District's offices in St. Louis, Missouri, and at our offices. We discussed the results of our audit with District officials on March 24, 2008.

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 objectives.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvement, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective actions to be taken, including the recovery of funds, will be made by the appropriate Department of Education officials in accordance with the General Education Provisions Act.

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

Kerri L. Briggs
Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Avenue, SW
Washington, D.C. 20202

Tracy R. Justesen
Assistant Secretary
Office of Special Education and Rehabilitative Services
U.S. Department of Education
400 Maryland Avenue, SW
Washington, D.C. 20202

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/

Gary D. Whitman
Regional Inspector General
for Audit

Attachment

ATTACHMENT

Missouri Department of Elementary and Secondary Education's Comments

D. Kent King
Commissioner of Education



P.O. Box 480
Jefferson City, MO 65102-0480
<http://dese.mo.gov>

Missouri Department of Elementary and Secondary Education

— *Making a positive difference through education and service* —

July 23, 2008

Mr. Gary D. Whitman
Regional Inspector General for Audit
500 West Madison Street, Suite 1414
Chicago, IL 60661

RE: ED-OIG/A07H0017

Dear Mr. Whitman:

The Missouri Department of Elementary and Secondary Education (DESE) has reviewed the findings and recommendations in Report ED-OIG/A07H0017 regarding the St. Louis Public School District (District). The DESE has and will continue to work with the District to develop a corrective action plan.

Ineffective System of Control and Accountability Resulted in the Loss of Computers Purchased with Federal Funds. Both the DESE and the District concur with finding Number 1 related to missing/unaccounted for laptop computers. However, the draft audit report received by the DESE indicates 125 laptop computers are unaccounted for. The exception standard report given to the District indicates 102 laptop computers are missing (a discrepancy of twenty-three computers or \$32,867).

In response to recommendation 1.1, the District proposes, and the DESE accepts as a reasonable, student-effective response to this finding, that the District replace/purchase 102 laptop computers of equal quality and functionality from local/state funds by January 1, 2009. This will allow the planned online IEP and Medicaid Recovery Management System to come online as planned. To require the District to return funds from local/state sources and purchase more computers, either from state or federal sources, will result in a double penalty which will be detrimental to the educational programs for children with disabilities.

Unallowable and Inadequately Documented Costs Charged to the Title I, Part A; Title II, Part A; and IDEA, Part B, Programs. The DESE concurs with finding Number 2 and with the recommendations as a whole. However, in response to recommendation 2.4, the DESE would allow the District to retroactively provide time and effort certifications that cover the period from July 1, 2005 through June 30, 2006 if those staff members can be contacted. A list of the nine uncertified employees is requested. The targeted completion date for this finding is October 20, 2008.

If you have questions, please contact Bette Morff, DESE Director of Financial Management, at 573-751-8280 or Bette.Morff@dese.mo.gov.

Sincerely,

D. Kent King