UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services
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Control Number
ED-OIG/ A06H0011

Mr. Robert Scott
Commissioner of Education
Texas Education Agency
1701 N. Congress Avenue
Austin, TX 78701

Dear Mr. Scott:

This **Final Audit Report,** entitled *Adequacy of Fiscal Controls Over the Use of Title I, Part A Funds at Dallas Independent School District*, presents the results of our audit. The objective of the audit was to determine whether Dallas Independent School District (DISD) had adequate fiscal control over the use of Title I, Part A funds. Our audit covered DISD's system of internal control as of June 30, 2006, and Title I, Part A funds expended for the period July 1, 2005, through June 30, 2006 (2005-2006 school year).

BACKGROUND

Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the No Child Left Behind Act of 2001 (NCLB), provides financial assistance through State educational agencies (SEAs) to local educational agencies (LEAs) and public schools with high numbers or high percentages of economically disadvantaged children. This financial assistance provides additional academic support and learning opportunities to help students meet State academic content and student academic achievement standards. Funds are allocated based primarily on census poverty estimates and the cost of education in each State. Title I, Part A funds may be used by LEAs for schoolwide or targeted assistance programs. Under a schoolwide program, an LEA may consolidate and use Title I, Part A funds with other Federal, State, and local funds to upgrade the entire educational program of a school. If a schoolwide program exercises this authority, it is exempt from many statutory and regulatory provisions of the programs whose funds and resources it combines as long as it meets the intent and purposes of those programs. For the period July 1, 2005, through June 30, 2006, DISD operated over 200 schools, 191 of which ran schoolwide programs.

For the 2005–2006 school year, DISD had an approximate enrollment of 161,000 students. Demographically, the DISD student body was 62.6 percent Hispanic, 30.8 percent African American, 5.3 percent Caucasian, 1 percent Asian/Pacific Islander, and 0.3 percent Native American. In total, 83 percent of the student body was considered economically disadvantaged. According to its approved *Consolidated Application for Federal Funding*, DISD was awarded about $79.3 million in Title I, Part A funds for the 2005-2006 school year. For that period, DISD's Title I, Part A expenditures totaled $64,037,684. The Texas Education Agency (TEA) approved the carryover of approximately $15 million to the subsequent school year.

AUDIT RESULTS

As of June 30, 2006, DISD did not have adequate fiscal control over the use of Title I, Part A funds during the 2005-2006 school year. As a result, DISD charged over $1.6 million in costs to the grant (1) without the required prior approval from TEA, (2) for unreasonable and unnecessary costs, and (3) for purchases of other unallowable items. In addition, DISD expended over $1.8 million in Title I, Part A funds for which it provided us with either no documentation or insufficient documentation to demonstrate (1) management approval, (2) purpose of the purchase or how grant objectives were met, (3) proof of cancellation, or (4) whether payroll costs were appropriately charged to the Title I, Part A program.

The improper use of Title I, Part A funds occurred because, as of June 30, 2006, DISD's system of internal control over the expenditure of Title I, Part A funds was inadequate to provide reasonable assurance that Title I, Part A funds were used only for allowable purposes. DISD's practices, controls, guidelines, and processes were not applied consistently throughout the district. Written policies and procedures and effective employee training were lacking, resulting in documentation that could not be located or was not presented for audit. Also, the Grants Department did not effectively monitor grant expenditures during the 2005-2006 school year. Further, DISD management was either slow in taking, or took no, corrective action in response to internal control weaknesses cited in prior audits, reviews, and investigative reports made between August 2003 and November 2006.

We provided a draft of this report to TEA for review and comment on December 23, 2008. We received TEA's comments, along with additional documentation, on February 9, 2009. In its comments, TEA acknowledged the serious weaknesses in DISD's grants management and concurred, in part, with the finding and recommendations. As a result, in a letter dated August 26, 2008, TEA designated DISD as a high-risk grantee. TEA stated that it has implemented several special grant conditions for DISD. TEA required DISD to contract with and pay for a grants manager. In addition, each month, TEA is requesting from DISD the supporting documentation for expenditures for one formula grant and one discretionary grant.

After reviewing supplemental supporting documentation provided by DISD in response to the draft of this report, TEA concluded that $1,713,340 in costs was still unallowable or inadequately documented. We made changes to our finding and the recommendations in response to TEA's comments and to reflect our review of the additional documentation.

However, we did not change our overall conclusion that DISD did not have adequate fiscal control over the use of Title I, Part A funds. We concluded that $3,524,636 was still unallowable or inadequately documented. TEA's comments are summarized at the end of the finding. Except for personally identifiable information protected under the Privacy Act of 1974 (5 U.S.C. § 552a), the entire narrative of TEA's comments is included as an Attachment to this report. Because of the voluminous nature of the additional documentation TEA provided with its comments, we have not included them in the Attachment. Copies of the additional documentation, less any personally identifiable information, are available on request.

FINDING – DISD's Inadequate Fiscal Controls Resulted in the Misuse of Title I, Part A Funds

As of June 30, 2006, DISD did not have adequate fiscal control over the use of Title I, Part A funds. As a result, during the 2005-2006 school year, DISD did not use Title I, Part A funds in accordance with all applicable regulations, grant terms, and cost principles.

From a universe of transactions with an absolute value of $87,133,130, we sampled transactions with an absolute value of $14,846,991.[1] Our tests disclosed that over $11.3 million in costs charged to the Title I, Part A program was allowable and properly documented. However, DISD charged over $3.5 million in unallowable or inadequately documented costs to the Title I, Part A program during the 2005–2006 school year.[2]

Table 1 – Summary of Transaction Testing

	Allowable	Unallowable	Inadequately Documented	TOTAL QUESTIONED COSTS
6100-Payroll[3]	$252,499	$141,943	$45,507	$187,450
6200-Professional and Contracted Services	$6,495,414	$0	$1,045,596	$1,045,596
6300-Supplies and Materials	$3,822,683	$209,027	$499,617	$708,644
6400-Other Operating Costs	$14,294	$260	$95,163	$95,423
6600-Capital Outlay	$592,437	$1,330,299	$21,958	$1,352,257
SUB-TOTAL	$11,177,327	$1,681,529	$1,707,841	$3,389,370
Purchase cards (P-cards)	$145,644	$8,156	$127,110	$135,266
TOTAL	$11,322,971	$1,689,685	$1,834,951	$3,524,636

[1] The universe ($87,133,130) and sample ($14,846,991) transaction totals represented here are absolute values and include the P-card universe ($5,432,334) and sample ($280,170) transactions. Table 3 does not include P-cards.
[2] Because our sample selection was a combination of judgmental and random, the results of our samples should not be projected to the universe of transactions.
[3] The total ($439,948) of Allowable, Unallowable, and Inadequately Documented payroll costs in Table 1 does not equal the test value presented in Table 3 ($440,073). The difference of $125 was for one state insurance payment not included in Table 1.

DISD Used Title I, Part A Funds for Unallowable Purposes

During the 2005-2006 school year, DISD charged over $1.6 million in costs to the Title I, Part A program in violation of Federal, State, or district requirements. DISD expended funds (1) without the required prior approval from TEA, (2) for unreasonable and unnecessary costs, and (3) for purchases of other unallowable items.

Costs Incurred without Prior TEA Approval. DISD charged the Title I, Part A program over $1.3 million for capital equipment without prior approval from TEA. While each individual item purchased fell below DISD's $5,000 capitalization threshold, we considered these sets, as described below, individual purchases that required prior approval from TEA because the net invoice price exceeded $5,000. DISD purchased—

- 5 sets of 30 laptop computers (including 30-port rolling carts and rolling cases) and 175 desktop computers (including monitors) totaling $501,109.
- 963 hand-held devices (Palm Pilots) and software for each device (to equip all DISD kindergarten through fifth grade reading teachers) for $827,563.

Pursuant to 34 C.F.R. § 80.20(a),[4] a State is to expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. *Office of Management and Budget (OMB) Circular A-87 (Revised 5/10/04), Cost Principles for State, Local and Indian Tribal Governments,* Attachment B, subsection 15b, requires capital expenditures to be approved in advance by the awarding agency in order to be allowable. OMB Circular A-87, subsection 15.a, paragraph (2), defines "equipment" as "an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of (a) the capitalization level established by the governmental unit for financial statement purposes, or (b) $5,000." DISD set its capitalization level at $5,000. TEA's schedule of instructions for the *Consolidated Application for Federal Funding* states "Capital expenditures for equipment means the net invoice price of the equipment, including the cost of any modifications, *attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it was acquired*." (Emphasis added.)

The laptop computers and rolling cart sets were purchased to provide campuses with mobile computers that could be moved from classroom to classroom. The purchase of each item individually would not accomplish the intended purpose. The purchase of the sets of desktop computers was to outfit seven high school campuses with computer labs. The purchase of individual computer components would not have served the same purpose at each of the schools. Additionally, the Palm Pilots, if purchased only at the request of individual teachers, would not have enabled the district as a whole to electronically capture and record all kindergarten through fifth grade student reading development. Purchasing individual units would not have accomplished the intended purpose of the purchase. Therefore, while each of the invoices included unit prices that were less than $5,000, the total expenditure exceeded $5,000 and should have been pre-approved by TEA.

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

Unreasonable and Unnecessary Costs. DISD charged the Title I, Part A program over $208,600 for supplies and capital outlay that were either unreasonable for the value added ($112,488) or unnecessary because the items were never used or were under used ($75,148). We found that—

- DISD used $112,488[5] to purchase Communicator Clearboard Customized Kits. These kits (classroom set of 30) are comparable to plastic page protectors into which worksheets can be placed and then students can write on the protectors for simultaneous class participation. We consider the cost of $90 per Clearboard kit unreasonable because a local vendor offered three different brands of similar clear page protectors at an average cost of $6.00 for 30 protectors. We concluded that the lower cost protectors were similar given that both are plastic sleeves into which paper may be inserted and on which markers can be used to write and erase for reuse.
- Of 1,204 calculators we physically counted at 5 campuses, 344 ($28,976) had not been used, and 392 ($44,845) were used only once, during the annual Texas Assessment of Knowledge and Skills.
- Of 26 laptop computers we counted at one campus, 12 ($20,988) were unused.[6]
- Of 156 algebra text books we counted at one campus, 98 ($1,327) were unused.
- DISD made large purchases in the spring to expend remaining Title I, Part A funds and stored the items that were not immediately needed. These unused/under-used items suggest that they were unnecessary. However, DISD did not have a system in place to provide reasonable assurance that schools need the items purchased with Federal funds. According to the central receiving inventory, 18,005 units of various supplies and equipment were ordered and received into the central receiving warehouse between July 1, 2005, and June 30, 2006. As of August 2007, 5,326 units (29.58 percent) remained in central receiving storage. Warehouse personnel did not receive shipments, place barcodes on the controllable assets, and distribute the orders to the campuses or other departments. Instead, the warehouse was used as a long-term storage facility.

According to OMB Circular A-87, Attachment A, subsection C.1.a., to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards.

Other Unallowable Costs. DISD used Title I, Part A funds for various payroll, supplies, and capital outlay without documentation showing how they related to the purpose of the program. DISD expended $173,377 on additional unallowable costs, including costs for (1) non-Title I, Part A activities; (2) books and equipment that could not be accounted for; and (3) various other purchases for non-academic purposes.

1. DISD charged $141,943 for salaries and related fringe benefits paid to non-Title I employees and approximately $17,016[7] for books disbursed to non-Title I, Part A campuses. According to OMB Circular A-87, Attachment A, subsection A.2.a., paragraph (2), "Governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal Award."

[5] These costs were charged to Supplies and Materials.
[6] These costs were questioned as unallowable capital purchases without prior TEA approval.
[7] These costs ($17,016) were charged to Supplies and Materials ($16,838) and Capital Outlay ($177).

2. DISD charged the Title I, Part A program $16,284 for books and equipment that could not be accounted for during our inventory. DISD purchased 165 books ($2,234) that could not be accounted for at 1 district high school, 14 calculators ($1,602) that could not be found at another high school, and 7 laptop computers ($12,243) and a hand-held device ($205) that could not be accounted for at 3 other district campuses.[8] Pursuant to 34 C.F.R. § 80.20(a) and TEA's Financial Accounting and Reporting Guide, school districts must be able to account for supplies and equipment purchased with Federal funds.
3. DISD used Title I, Part A funds to purchase various supplies and equipment without documentation of the academic purpose. DISD used (a) $4,408 to purchase a message system, DVD player, carrying cases, nursing supplies, and maintenance supplies;[9] (b) $2,486 for music and art supplies;[10] (c) $2,426 for collectibles, memorabilia, and other promotional items, such as mugs and T-shirts;[11] (d) $745 in P-card transactions to purchase gifts and awards; and (e) P-card charges of $518 to purchase sporting and game equipment. Section 1001 of the ESEA states the purpose of Title I, Part A of the ESEA is to "ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education and reach, at a minimum, proficiency on challenging state academic achievement standards and state academic assessments." In addition, OMB Circular A-87, Attachment B, subsection 1.f, paragraph (3), prohibits the use of grant funds for costs of promotional items and memorabilia, including models, gifts, and souvenirs.

DISD Used Title I, Part A Funds for Costs That Were Inadequately Documented

DISD provided us with either insufficient documentation ($1,683,145) or no documentation ($151,806) to demonstrate that over $1.8 million in grant expenditures for the 2005-2006 school year were allowable. The supporting documents that DISD provided for review were inadequate for us to determine (1) management approval, (2) purpose of the purchase or how grant objectives were met, (3) proof of cancellation, or (4) whether payroll costs were appropriately charged to the Title I, Part A program.

[8] These costs ($16,284) were charged to Supplies and Materials ($2,234 and $1602) and Capital Outlay ($12,243 and $205). The Capital Outlay costs are also questioned as unallowable capital purchases without prior TEA approval.
[9] These costs ($4,408) were charged to Other Operating Costs ($260), Capital Outlay ($1,250), and P-cards ($2,898).
[10] These costs($2,486) were charged to Supplies and Materials ($9), and P-cards ($2,477).
[11] These costs ($2,426) were charged to Supplies and Materials ($709), Capital Outlay ($200), and P-cards ($1,518).

Table 2 – Summary of Inadequately Documented Costs

	Lack of Documented Management Approval	No Evidence of How Costs Met Grant Goals	No Evidence of Cancellation	No Supporting Documentation Provided	TOTAL
6100-Payroll	$0	$45,507	$0	$0	$45,507
6200-Professional and Contracted Services	$117,312	$928,284	$0	$0	$1,045,596
6300-Supplies and Materials	$187,754	$19,305	$249,645	$42,913	$499,617
6400-Other Operating Costs	$920	$90,402	$0	$3,841	95,163
6600-Capital Outlay	$3,053	$4,705	$0	$14,200	$21,958
SUB-TOTAL	$309,039	$1,088,203	$249,645	$60,954	$1,707,841
P-card	$12,540	$23,718	$0	$90,852	$127,110
TOTAL	$321,579	$1,111,921	$249,645	$151,806	$1,834,951

Lack of Documented Management Approval. Management approval was not sufficiently documented for $321,579 in purchases charged to Professional and Contracted Services, Supplies and Materials, Other Operating Costs, Capital Outlay, and P-cards. We reviewed 188 transactions totaling $14 million. Contrary to DISD's policy, 17 purchases were made from vendors not on DISD's approved vendor list and without the required management approval (14) or without prior board approval (3). DISD policy requires that purchases of $10,000 or less made from vendors not on the approved vendor list have management approval. DISD policy further requires prior board approval for purchases of $50,000 or more.

Inadequate Evidence of How Costs Were in Line with the Program's Purpose. Documentation that DISD provided was insufficient to show either what was purchased or how the costs tied to the Title I, Part A program—

- DISD expended $504,036 for which we were unable to determine the funding source or for which documents we reviewed conflicted with the approved funding source. Specifically, we identified $459,540 of contract services transactions for licensed product agreements and contracts that were approved for General Operating Funds without justification for payment with Title I, Part A funds. Additionally, DISD charged $44,496 of payroll costs to the grant, including travel allowances, undefined payroll stipends, and extra duty pay that lacked sufficient documentation of the "extra" duties performed, time period in which they were performed, or verification that non-Title I, part A expenses were not paid with Title I, Part A funds.
- Sufficient documentation was not available to show that the Title I, Part A program benefited from $579,156[12] expended for various contracts for services, travel costs, supplies, books, and equipment.

[12] This amount consists of $468,744 charged to Professional and contracted Services, $ 19,305 charged to Supplies and Materials, $86,402 charged to Other Operating Costs, and $4,705 charged to Capital Outlay.

- DISD made P-card purchases of $7,957 for food and beverage costs. P-card receipts included purchases of crackers, water, juices, and pastries, which generally are allowable expenses; however, proper documentation of purpose, attendees, or work product was not maintained by DISD. OMB Circular A-87, Attachment A, section C, requires costs, among other requirements, to meet the following general criteria to be allowable ". . . (c) be authorized or not prohibited under State or local laws or regulations . . . and; (j) be adequately documented." As described in TEA's *Federal Cost Principles Side By Side Matrix*, food and beverage charges are an allowable cost only if they were for (1) a light lunch during an all day meeting or training session, (2) a working lunch during an all day meeting or training session, (3) nutritional snacks for students in extended day programs and in child care while parents are participating in grant activities, and (4) food necessary to conduct nutrition education programs for parents and parent involvement activities where refreshments are necessary to encourage participation or attendance by parents. Additionally, TEA requires the grantee to maintain an agenda that clearly identifies the exercise or activity in which the participants are engaged and should retain a representative sample of any work product.
- Another $15,761 in P-card receipts reviewed were damaged, illegible, or lacked sufficient additional supporting documentation to determine the allowability of the items purchased.
- DISD charged the Title I, Part A program (a) $4,000[13] for field trips to entertainment venues (Celebration Station, the Farmers Market, and the Dallas Aquarium) without corresponding documentation of how they met program objectives; and (b) $1,011 in monthly payroll travel allowances without documentation of authorization for or the purpose of the travel. OMB Circular A-87, Attachment B, subsection 14 states, "Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs are unallowable." Although Attachment B, subsection 43.a allows travel costs for transportation and related items incurred by employees who are in travel status on official business of the governmental unit, TEA's *Federal Cost Principles Side By Side Matrix* states that field trips in general are not allowable grant expenditures. Also, according to DISD's Finance and Accounting Division Manager, travel allowances are not a Title I, Part A expense and should not be charged to the grant.

No Proof of Cancellation. Our sample included $249,645 in cancelled supply invoices as identified by DISD. The documentation presented for review were screen prints of journal entries marked by hand "Invoice Cancelled" without a copy of the vendor's cancelled invoice or other verification of cancellation. We determined that two supply invoices (for over $249,000) lacked sufficient documentation that the invoices were in fact cancelled and Title I, Part A funds were repaid.

Employee Certification Policy Not Followed The Department's Ed-Flex waiver, which was granted to all Texas LEAs in 2002, eliminates the employee certification requirement of OMB Circular A-87, Attachment B, subsection 8.h, paragraph (3), as long as the employee's job description clearly states the employee is assigned 100 percent to the program or single cost objective. However, DISD's written policy continues to require certifications and personnel activity reports (PAR) for these exempt employees. DISD violated its own written policy in that, of the 45 employees sampled—

[13] This cost was charged to Other Operating Costs.

- Certifications were not provided for 3 employees.
- 23 certifications or PARs for 14 employees were signed after the certification period, 16 of which were signed during our audit fieldwork.[14]
- 10 certifications or PARs for 7 employees contained errors, including 1 certification signed for the period July 1, 2005, through December 31, 2005, even though the employee was not hired until December 12, 2005.

History of Systemic Internal Control Weaknesses

Based on our review and findings of unallowable and inadequately documented costs charged to the grant during the 2005-2006 school year, we have concluded that DISD's system of internal control over the expenditure of Title I, Part A funds as of June 30, 2006, was inadequate to provide reasonable assurance that Title I, Part A funds were used only for allowable purposes. DISD's practices, policies, guidelines, and processes were not applied consistently throughout the district. Written policies and procedures and effective employee training were lacking, resulting in documentation that could not be located or otherwise not presented for audit; and the Grants Department did not effectively monitor grant expenditures during the 2005-2006 school year.

During interviews of campus and district-level personnel, we found that implementation and understanding of written policies and procedures varied. While district-level personnel were able to convey district policy and procedures, campus employees were unsure of those procedures. When we requested written policies, we were often directed to the DISD website. The campuses maintained a "Title I Notebook" in which to keep all records pertaining to the grant, including procedures, copies of personnel certifications, PARs, budget records, purchase orders, and receipts. However, the procedures usually consisted only of excerpts from Federal and State regulations and handwritten notes. The written policies and procedures provided by DISD for review primarily addressed only purchasing requirements, yet grant purchases were not authorized in a consistent and efficient manner.

Prior audits and monitoring reports have identified these same weaknesses. DISD management has been either slow in taking, or took no, corrective action in response to internal control weaknesses cited in prior audits, reviews, and investigative reports.

- August 2003: The DISD Internal Audit Department issued a report on the Process Review of the P-card Program, which found significant areas of internal control weaknesses and recommended the P-card program install control points within the system to allow constant monitoring of transactions. DISD management issued an updated P-card manual in June 2005. A subsequent Internal Audit report, dated August 12, 2005, cited additional monitoring deficiencies.
- August 2004: Our final audit report (ED-OIG/A06D0023) on DISD's administration of the Bilingual Education, Systemwide Improvement Grant, reported that DISD demonstrated weak management controls and did not properly account for the grant funds in accordance with all applicable regulations, grant terms, and cost principles. Based on the audit work, we detailed unallowable costs in the amount of $383,318 and inadequately documented costs in

[14] Employee certification exceptions are not included in questioned costs; however, we include them here to demonstrate an internal control weakness.

the amount of $434,978. Because DISD management did not concur with the OIG findings, they made only minor changes and provided subsequent supporting documentation for inadequately documented costs. On September 25, 2003, the Office of English Language Acquisition, Language Enhancement and Academic Achievement for Limited English Proficient Students (OELA) discontinued the grant's final year of funding because of DISD's "Failure to Achieve Substantial Progress."

- January 2005: The Department's Student Achievement and School Accountability team stated in its Title I, Part A Monitoring Report of TEA, that principals of some of the schoolwide program schools interviewed by the team, including principals in DISD (DISD was one of 4 districts cited), were not familiar with the implementation guidelines for schoolwide programs and were unable to articulate their knowledge of schoolwide program requirements. The Monitoring Report also stated that DISD (one of two LEAs cited) did not maintain control of the Title I program for eligible private school students either directly or through a contract with a third party.
- November 2005: The Independent Auditors' Report for the year ended June 30, 2005, and Information required by the Single Audit Act and Generally Accepted Government Auditing Standards, disclosed a material weakness in the Title I, Part A program: expenditures made using P-cards were not properly approved. This occurred because the District's policy for fiscal year 2005 was limited to the cardholder reviewing and approving his/her own charges. DISD revised the P-card manual in June 2005 to require the approving official to review and sign off on the P-card bank statements on a monthly basis and to inform the P-card Administrator of cardholder status changes. The P-card program was abolished in 2006 because of uncontrolled card use.
- November 2006: DISD's Comprehensive Annual Financial Report (CAFR), published by KPMG LLP for the fiscal year ended June 30, 2006, contained eight findings in the areas of internal control, unallowable costs, and compliance. KPMG LLP noted certain matters involving the internal control over compliance and its operation were considered to be reportable conditions. DISD management made corrections to the calculation used for Maintenance of Effort certification and increased contact between the Grants Office and the Human Resources office to ensure job descriptions clearly state whether an employee is assigned 100 percent to a program or single cost objective.

DISD also was the subject of negative news reports regarding misuse of Federal funds through its P-card program. In response to the negative reports, the district superintendent terminated the P-card program in July 2006 and created the Office of District Integrity in August 2006. DISD hired the outside law firm Fish & Richardson P.C. (F&R) to independently analyze and investigate the structure, management, and supervision of the P-card program, as well as the expenditures of the district employees who held these P-cards. In May 2007, F&R concluded that the P-card program was implemented without adequate and regimented supervisory protocols. There were extensive failures in the supervision of P-card purchases at all levels, including the P-card holders themselves, their direct supervisors, and the Quality Control Office. Two former district employees were criminally charged based on the misuse of the district P-card. One employee pled guilty and the other was convicted at trial.

Because of the issues and weaknesses cited above, we have concerns about DISD's expenditure of all Department funds.

Recommendations

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education instruct TEA to require DISD to—

1.1 Return to the Department $1,689,685 of Title I, Part A funds expended for unallowable costs;

1.2 Provide adequate documentation supporting the allowability of $1,834,951 in costs identified herein as inadequately documented or return the inadequately documented, unallowable amount to the Department;

1.3 Return to the Department the cost of all items purchased with Department funds that have been in storage for more than one year;

1.4 Strengthen fiscal controls to include written procedures and training for all personnel responsible for the administration of Title I, Part A funds;

1.5 Review a statistically valid sample of the Title I, Part A program funds not specifically tested as part of our audit or the DISD 2005-2006 school year audit performed in accordance with OMB Circular A-133 and provide written assurance that the funds were used to meet grant objectives. Return to the Department any funds that are not adequately documented, reasonable, and allowable; and

1.6 Review a statistically valid sample of Title I, Part A program funds not specifically tested as part of the DISD audits performed in accordance with OMB Circular A-133 received by DISD in subsequent fiscal years and provide written assurance that the funds were used to meet grant objectives. Return to the Department any funds that are not adequately documented, reasonable, and allowable.

TEA Comments and OIG Response

TEA acknowledged the serious weaknesses in DISD's current grants management and concurred, in part, with the finding. As a result, in a letter dated August 26, 2008, TEA designated DISD as a high-risk grantee. TEA stated that it has implemented several special grant conditions for DISD. TEA required DISD to contract with and pay for a grants manager to (1) review DISD's policies, procedures, and practices with regard to expenditures related to grants and (2) monitor grant expenditures. TEA approved two grant managers based on their experience, expertise, and credentials. In addition, each month, TEA is requesting from DISD the supporting documentation for expenditures for one formula grant and one discretionary grant. The selection of the grant is done by the TEA senior director of the respective division. The examination of this documentation will allow TEA funding divisions to determine whether DISD is in compliance with financial management standards and is expending these funds in accordance with the approved grant applications and OMB Circular A-87.

After reviewing supplemental supporting documentation provided by DISD in response to the draft of this report, TEA concluded that $467,112 was still unallowable and $1,246,228 was still inadequately documented. Below are TEA's comments to specific issues identified in the draft audit report.

Cost Incurred without Prior TEA Approval.

TEA Comments. TEA did not concur and stated that, for the 2005-2006 school year, districts were required only to request approval of capital outlay items costing $5,000 or more per unit in the Standard Application System (SAS) budget schedules. TEA did not concur with OIG's interpretation that "net invoice price" applies to a group of items that, in aggregate, costs $5,000 or more but believes the $5,000 applies to individual items. TEA stated it exercised its authority pursuant to OMB Circular A-87, Section 15.b, paragraph (4), that permits the awarding agency to waive the prior approval requirement for equipment of more than $5,000.

OIG Response. Although TEA stated that the $5,000 threshold applies to individual items in a set and not to the set or groups of items, we did not drop this finding and related recommendation. We changed our finding by eliminating the items we could not identify as part of a set. We also clarified why we concluded that the total cost of a group of items should be considered when determining whether the purchase should be subjected to the prior approval rules.

Unreasonable and Unnecessary Costs.

TEA Comments. TEA concurred that the amounts questioned were unreasonable and unnecessary.

Other Unallowable Costs.

TEA Comments. TEA concurred that the following costs were unallowable:

- $142,000 for salaries and related fringe benefits paid to non-Title I employees;
- $17,000 for books disbursed to non-Title I campuses;
- $2,234 and $1,601 for books and calculators that could not be accounted for; and
- Over $10,500 for a message system, DVD player, carrying cases, nursing supplies, maintenance supplies, music and art supplies, collectibles, memorabilia, promotional items, gifts and awards, and sporting and game equipment.

However, TEA did not concur with the $12,243 for seven laptops and $205 for the one hand held device that could not be located, stating that these costs were allowable capital purchases that did not require prior TEA approval.

OIG Response. We did not change our finding or recommendation. TEA did not address the fact that the seven laptops and one hand held device could not be accounted for during our inventory. Pursuant to 34 C.F.R. § 80.20(a) and TEA's *Financial Accounting and Reporting Guide*, districts must be able to account for supplies and equipment purchased with Federal funds.

Lack of Documented Management Approval:

TEA Comments. TEA did not concur with all instances of undocumented management or board approval and submitted additional documentation to support its position.

OIG Response. The additional documentation was not presented to us during our audit. Our draft report identified $1.6 million in purchases that lacked documentation of management or board approval. After reviewing the additional documentation TEA submitted with its comments on the draft report, we modified our report to eliminate the amounts we now consider as having documentation of management or board approval.

Inadequate Evidence of How Costs Were in Line with Program's Purpose.

TEA Comments. TEA stated that it did not observe the $459,000 for contract services transactions for a licensed product agreement in the schedules provided by DISD. TEA did observe $348,000, and, although DISD addressed the OIG comments, TEA did not agree with DISD that the costs pertained to an allowable activity that furthered the statutory purpose of the Title I program. In addition, TEA concurred that the $46,000 in payroll costs did not pertain to allowable activities that furthered the statutory purpose of the Title I program.

OIG Response. We did not change our finding or recommendation. Although TEA addressed the issue concerning what was purchased, it did not provide additional documentation to show how the purchased items pertained to an allowable activity that furthered the statutory purpose of the Title I, Part A program.

No Proof of Cancellation.

TEA Comments. TEA concurred that DISD did not provide sufficient documentation that demonstrated the applicable invoices were in fact cancelled.

No Three-Way Match.

TEA Comments. TEA concurred that DISD did not provide documentary evidence that it complied with its policy and procedure requiring the maintenance of a purchase order form, invoice, and receipt prior to the issuance of payment to the vendor.

OIG Response. While TEA concurred with the questioned costs without evidence of three-way match, DISD provided additional documentation that we considered acceptable. We changed the finding and recommendation to reflect our acceptance of this documentation.

Employee Certification Policy Not Followed.

TEA Comments. TEA agreed that DISD did not provide documentary evidence that the payroll costs charged to the Title I, Part A grant were for work performed by district personnel that pertained to activities documented in the applicable campus improvement plans and that were allowable activities for the Title I, Part A grant.

Recommendations

TEA Comments. After reviewing DISD's response to the draft report, TEA concluded that $467,112 was unallowable. Additionally, TEA concluded that $1,246,228 was inadequately documented. TEA agreed with the questioned amounts and concurred that the purchases made with Department funds remaining in storage for more than one year were unreasonable and unnecessary. TEA has implemented several special grant conditions for DISD addressing internal control.

As a result of findings and questioned costs in the 2005-2006 CAFR, performed in accordance with OMB Circular A-133 by KPMG LLP, TEA requested DISD to either provide documentation to reconcile the questioned costs of $1,343,440 or refund the questioned costs to TEA. DISD provided sufficient documentation to support all but $111,435.92 of the questioned costs which was refunded back to TEA.

As a result of the findings and questioned cost in the 2006-2007 CAFR, performed in accordance with OMB Circular A-133 by Deloitte & Touche LLP, TEA requested DISD submit a refund to TEA for a total of $1,153,814 in questioned costs ($130,430 for the Title I, Part A grant). TEA is currently reviewing DISD's 2007-2008 CAFR performed in accordance with OMB Circular A-133 by Deloitte & Touche LLP. Deloitte & Touche LLP identified approximately $16,809,518 in questioned costs. If DISD does not provide the necessary documentation to support these questioned costs, TEA will request these funds be returned to the agency.

OIG Response. While TEA submitted additional (not presented by DISD during our fieldwork) documentation it claimed supported questioned costs identified in the draft report, some of the documentation still did not include adequate information to change our original determination. However, because we accepted some of the additional documentation, we modified Recommendation 1.1 to request $1,689,685 of unallowable costs to be returned, and we modified Recommendation 1.2 to reflect $1,834,951 as inadequately documented costs for which additional documentation should be provided or the costs returned. We did not modify recommendations 1.3 and 1.4 because the special grant conditions and changes imposed by TEA have not been reviewed.

TEA requested and received $111,436 in refunded questioned costs from DISD based on the CAFR covering the 2005-2006 school year. We have modified our recommendation 1.5 to exclude transactions covered by our audit and KPMG LLP for the 2005-2006 school year. TEA has requested $130,430 Title I, Part A questioned costs from DISD based on the CAFR covering the 2006-2007 school year and is reviewing the CAFR covering the 2007-2008 school year. We have modified our recommendation 1.6 to exclude transactions covered by our audit and Deloitte & Touche LLP for subsequent school years.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the audit was to determine whether DISD had adequate fiscal control over the use of Title I, Part A funds. Our audit covered DISD's system of internal control as of June 30, 2006, and Title I, Part A funds expended for the period July 1, 2005, through June 30, 2006.

To accomplish our objective, we—

- Reviewed the procedures and practices DISD used to account for and spend Title I, Part A funds;
- Examined OMB Circular A-133 Single Audit Reports for the years ended June 30, 2003, through June 30, 2006;
- Requested and obtained an electronic copy of the General Ledger Report of Expenditures that showed all costs charged to the Title I, Part A program for the 2005 – 2006 school year; and
- Requested and reviewed written policies and procedures used in the administration of the Title I, Part A program and interviewed 36 employees at the district office and campus levels to determine how DISD tracked grant expenditures.

To test whether the costs DISD charged to the Title I, Part A program during the 2005 – 2006 school year were allowable under applicable law, regulations, and cost principles, we selected samples of transactions. We separated the transactions recorded in the General Ledger Report of Expenditures by object code[15] and judgmentally selected 5 object codes (6100-Payroll, 6200-Professional and Contracted Services, 6300-Supplies and Materials, 6400-Other Operating Costs, and 6600-Capital Outlay). We stratified 4 object codes' (6200, 6300, 6400, and 6600) universes into four strata: high, medium, low, and negative. For each of these 4 object codes, we reviewed 100 percent of the high strata items and 10 items from each of the remaining 3 strata. For Payroll (object code 6100), we obtained a list of employees paid from Title I, Part A funds during the 2005-2006 school year. We stratified the universe into 4 strata (1) Executive and Administrative staff, (2) one FTE (Full Time Equivalent), (3) 0.9 – 1 FTE, and (4) No FTE identified. We reviewed 100 percent of the Executive and Administrative employees and randomly selected 10 employees from each of the remaining 3 strata. We then randomly selected 2 months, July 2005 and May 2006, of payroll transactions for review. The sample size, universe size, and total dollar amount of transactions for each object code selected for review are summarized in Table 3.

[15] DISD groups expenditures into six major object codes or expenditure categories: 6100-Payroll, 6200-Professional and Contracted Services, 6300-Supplies and Materials, 6400-Other Operating Costs, 6500-Debt Service, and 6600-Capital Outlay.

Table 3. Sample and Universe Summary (Absolute Values)

	Universe Size	Universe Value	Test Size	Test Value
6100-Payroll (employees)[16]	800	$43,351,640	45	$440,073
6200-Professional and Contracted Services	1,019	$15,352,390	54	$7,541,011
6300-Supplies and Materials	9,130	$16,388,858	59	$4,531,326
6400-Other Operating Costs	5,146	$2,644,283	31	$109,717
6600-Capital Outlay	533	$3,963,625	44	$1,944,694
TOTAL	16,628	$81,700,796	233	$14,566,821

We requested and reviewed supporting documentation such as purchase orders, invoices, cancelled checks, and receiving reports, time sheets, and employee certifications. We considered a cost allowable, adequately documented, reasonable, and necessary if we were able to identify the purpose of the cost, proper approval, proof of receipt, and proof of payment or cancellation.

We also randomly selected a sample of 10 P-card holders with charges to Title I, Part A funds during the 2005 – 2006 school year and tested their charges for allowability. We limited our review to 10 of 235 cardholders in light of extensive investigations involving the district's P-card program. (DISD is in negotiation with TEA to self report P-card abuses.) We tested $280,170 from a universe of $5,432,334 P-card transactions.[17]

Additionally, we selected a judgmental sample of 12 supplies and capital purchases to test DISD's receiving and distribution process, from receipt of goods through distribution to the end-users (i.e., individual campuses or district departments). We visited the Central Receiving Warehouse to observe the procedures used in the receiving and disbursing of district shipments. We then requested and reviewed a copy of DISD's asset management inventory listing to verify shipment dates and length of time stored before distribution to campuses/departments.

We also relied, in part, on computer-processed data. DISD officials provided us with an electronic version of DISD's general ledger, which recorded all transactions associated with the Title I, Part A program for the 2005 – 2006 school year. We verified the authenticity of the data by comparing selected fields to source documents. We noted the information on the source documents agreed with the information in the general ledger. We also noted that the general ledger provided included all expenditures related to the Title I, Part A grant for our audit period and did not include any transactions outside our audit period. Therefore, we concluded that the data was sufficiently reliable to be used in meeting the audit's objective.

[16] The Payroll universe value represented is the absolute value of transactions posted to the general ledger. The Test value represented is the absolute value of the annual salaries of the test employees. We tested two months of earnings including stipends, and extra duty pay ($440,073) for the 45 test employees. The absolute value of the annual salaries of the 45 test employees was $1,846,858.

[17] The P-Card Universe and Test Values represented are the net balance of P-card charges by each cardholder.

We conducted our fieldwork at DISD's offices from March 2007 through October 2007. We held an exit conference with DISD officials on February 12, 2008, and an update meeting on June 4, 2008, to discuss the results of the audit. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the audit described above.

ADMINISTRATIVE MATTERS

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 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 official, who will consider them before taking final Departmental action on this audit:

Joseph Conaty
Acting Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Ave., 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

[Graphic Deleted]

TEXAS EDUCATION AGENCY

1701 North Congress Avc.* Austin, Texas 78701 -1494 * 512/463-9734 * FAX: 512/463-9K3K * http://www.tca.statc.tx.us

Robert Scott
Commissioner

February 6, 2009

Gary D. Whitman
Regional Inspector General for Audit
U. S. Department of Education
Office of Inspector General
1999 Bryan Street
Dallas, TX 75201

Dear Mr. Whitman:

On December 30, 2008, the Texas Education Agency (TEA) received the Draft Audit Report, ED-OIG/A06H0011, entitled *Adequacy of Fiscal Controls Over the Use of Title I, Part A Funds at Dallas Independent School District* dated December 23, 2008. The TEA appreciates the opportunity to respond to the Office of Inspector General's (OIG) findings outlined in its draft report. This response was originally due thirty days after the date of the letter. On January 14,2009, the TEA requested an extension to respond to the findings. The OIG granted the agency a two week extension to respond to the findings.

Attached is a copy of the Texas Education Agency's response to the findings. If you have any questions, please contact Rita Chase, Director, Division of Financial Audits, at 512-463-7595.

Thank you for your cooperation.

Sincerely,

/s/

Robert Scott
Commissioner of Education

RS:rc

Enclosures

cc: Michael Hinojosa, Superintendent, Dallas Independent School District
Ray Glynn, Deputy Commissioner for School District Leadership and Educator Quality
Laura Taylor, Associate Commissioner for Accreditation (Acting)
Nora Hancock, Associate Commissioner, Office for Planning, Grants, and Evaluation
Earin Martin, Chief Grants Administrator and Director of Discretionary Grants and eGrants
Cory Green, Director, NCLB Program Coordination

Texas Education Agency
Response to Draft Audit Report: ED-OIG/A06H0011

Submitted to:
Mr. Gary D. Whitman
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
1999 Bryan Street, Suite 2630
Dallas, TX 75201-6817

The Texas Education Agency (TEA) appreciates the opportunity to respond to the Office of Inspector General's (OIG) findings outlined in its draft report dated December 23, 2008, about the use of Title I funds administered by the Dallas Independent School District (ISD). This response was originally due thirty days after the date of the letter. On January 14, 2009, the TEA requested an extension to respond to the findings. The OIG granted the TEA a two week extension to respond to the report.

The TEA acknowledges the seriousness of the issues raised in the draft report and recognizes that there are serious weaknesses in Dallas ISD's current grants management. As a result of ongoing concerns related to Dallas ISD's financial accounting practices and use of grant funds, the agency notified Dallas ISD in a letter dated August 26, 2008, that the agency has identified Dallas ISD as a high-risk grantee.

In accordance with 34 CFR §80.12, TEA implemented several special grant conditions for Dallas ISD. Dallas ISD was required to contract with and pay for a grant manager to review Dallas ISD's policies, procedures, and practices with regard to expenditures related to grants and to monitor grant expenditures. TEA approved 2 grant managers based on their experience, expertise and credentials to monitor and oversee the quality of work performed by a sufficient number of full-time employees (FTE) who will review and approve all grant expenditures and to train those FTEs to build capacity and knowledge related to grant expenditures. In addition to the grant monitors, each month TEA is requesting from the district the supporting documentation for expenditures for one formula grant and one discretionary grant. The selection of the grant is done by the TEA senior director of the respective division. The examination of this documentation will allow TEA funding divisions to determine whether Dallas ISD is in compliance with financial management standards and is expending these funds in accordance with the approved grant applications and OMB Circular A-87, Cost Principles for State and Local Governments and provides monitoring oversight.

Dallas ISD was also required to work with the contracted grant mangers to develop a corrective action plan that identifies specifically the issues to be corrected, the detailed plan for correcting them and a timeline for correcting them. As part of the corrective action, Dallas ISD must identify a sufficient number of FTEs who will be trained by the contracted grant manager to build capacity and knowledge related to grants. Dallas ISD has submitted a corrective action plan to the agency and agency personnel are currently reviewing the plan to determine its adequacy. Dallas ISD is also required to submit quarterly reports to the contracted grant managers that outline the district's progress toward implementing the corrective action plan, and the contracted grant manager will certify to the accuracy and veracity of the quarterly report and submit the report to TEA.

The TEA and Dallas ISD are committed to addressing these weaknesses and to strengthening the District's controls so it can better administer federal funds.

Dallas ISD has taken additional steps to change the management and supervision of the grants department. These changes will specifically impact the supervision of grant management and compliance. Dallas ISD has implemented the following major changes:

- New financial leadership is present in the district. These changes include new management personnel in the following offices: executive chief financial officer, chief financial officer, payroll, purchasing, general ledger accounting, grants accounting and grants management.
- The Grants Management Department has been restructured and realigned to insure adequate oversight and compliance monitoring.
- The District has authorized additional FTEs in the grant compliance and grant accounting areas.
- Written departmental policies to address all findings and material weaknesses are under development in the grants management area.
- The general ledger account numbers are being redesigned to meet TEA standards.
- The District is committed to providing training and support for district personnel as needed through the use of TEA, Texas Association of School Business Officials (TASBO), and other consultants.

TEA and Dallas ISD also recognize the specific issues provided in the draft audit report and provide the following responses to these findings and recommendations.

I. SUBJECT: Response to Finding #1: Dallas ISD's Inadequate Fiscal Controls Resulted in the Misuse of Title I, Part A Funds

The finding concludes that the Dallas Independent School District did not have adequate fiscal controls over the use of Title I, Part A funds. As a result, Dallas ISD did not use Title I, Part A funds in accordance with all applicable regulations, grant terms, and cost principles.

As discussed in their draft report dated December 23, 2008, the Office of Inspector General (OIG) of the United States Department of Education questioned $5,167,060 in costs charged to the Title I, Part A NOGA awarded to the Dallas Independent School District (DISD) for the 2005-2006 school year. TEA auditors concluded their review of the DISD response to the OIG draft report, including the attached schedules and concluded that $1,713,340 in costs were still unallowable or inadequately documented.

Dallas ISD Used Title I, Part A Funds for Unallowable Purposes

<u>Costs Incurred without Prior TEA Approval.</u> Dallas ISD charged the Title I, Part A program over $1.4 million for capital equipment and supplies, with the intent to purchase sets of equipment for a particular group or purpose, without prior approval from TEA.

TEA offers the following response with regard to OIG's finding pertaining to costs incurred without prior approval from TEA.

For the audit year of 2005-2006, school districts were required only to request (i.e., specifically list) capital outlay items costing $5,000 or more per unit in the Standard Application System (SAS) budget schedules. In addition, the instructions for preparing the budget schedule for capital outlay state at the very beginning of the instructions that this schedule is to request items with a unit cost of $5,000 or more.

OMB Circular A-87, Section 15. Equipment, addresses two sections: a) definitions which apply and b) rules of allowability which apply to equipment and other capital expenditures.

The following definitions are provided in OMB Circular A-87, Section 15(a):

(1) "Capital Expenditures" means expenditures for the acquisition cost of capital assets (equipment, building, land), or expenditures to make improvements to capital assets that materially increase their value or useful life. Acquisition cost means the cost of the asset including the cost to put it in place. Acquisition cost for equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it was acquired. Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in, or excluded from the acquisition cost in accordance with the governmental unit's regular accounting practices.
(2) "Equipment" means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the governmental unit for financial statement purposes, or $5,000.

TEA views the interpretation of "net invoice price" somewhat differently than OIG views it. Because these definitions point to "the cost of the asset" and "an article of nonexpendable, tangible personal property" as a single item, TEA does not necessarily interpret that this means the "net invoice price" always applies to a group of items that, in the aggregate, costs $5,000 or more. Dallas ISD would account for these funds in accordance with its regular accounting practices.

OMB Circular A-87, Section 15(b) states "rules of allowability shall apply to equipment and other capital expenditures."

Additionally OMB Circular A-87, Section 15(b) (4) states: "Federal awarding agencies are authorized at their option to waive or delegate the prior approval requirement." And, an awarding agency is defined as follows in OMB Circular A-87: "Awarding agency" means (a) with respect to a grant, cooperative agreement, or cost reimbursement contract, the Federal agency, and (b) with respect to a subaward, the party that awarded the subaward.

TEA exercised this authority in OMB Circular A-87, Section 15(b)(4) that permits the awarding agency to waive the prior approval requirement for equipment more than $5,000 in the No Child Left Behind (NCLB) consolidated grant application, and provided districts with that guidance based on TEA's 2005-2006 NCLB consolidated grant application.

It is therefore the recommendation of TEA that OIG accept TEA's waiver of requiring specific approval for the items costing more than $5,000 as stated in TEA's 2005-2006 NCLB consolidated grant application guidelines, provided that Dallas ISD complied with all other requirements and conditions of the grant. This includes, but is not limited to, obligating funds within the period of availability, complying with their local capitalization policy, and expending funds that are reasonable and necessary to carry out the objectives of the applicable grant projects.

Unreasonable and Unnecessary Costs. Dallas ISD charged the Title I, Part A program over $209,000 for items that were either unreasonable for the value added ($112,487) or unnecessary because the items were never or under used ($96,714).

TEA offers the following response with regard to OIG's finding pertaining to unreasonable and unnecessary costs. Upon review of the documentation provided by the DISD, TEA auditors concurred with the OIG that the amounts questioned were unreasonable and unnecessary.

Other Unallowable Costs. Dallas ISD used Title I, Part A funds to purchase various supplies and equipment without documentation showing how the items related to the purpose of the program. Dallas ISD expended over $173,300 on additional unallowable costs, including costs for (1) non-Title I, Part A activities; (2) books and equipment that could not be accounted for; and (3) various other purchases for non-academic purposes.

TEA offers the following response with regard to OIG's finding pertaining to other unallowable costs. Upon review of the documentation provided by the DISD, TEA auditors concurred with the OIG that the following costs were unallowable.

- DISD did not provide documentation to demonstrate that the $142,000 for salaries and related fringe benefits paid to non-Title I employees pertained to an allowable activity related to its Title I program.
- DISD did not provide documentation to demonstrate that the $17,000 for books disbursed to non-Title I campuses pertained to an allowable activity related to its Title I program.
- DISD did not provide documentary evidence that the 165 books and 14 calculators had been located and accounted for. TEA auditors concurred with the OIG's questioned costs of $2,234 and $1,601, respectively.
- TEA auditors did conclude that the costs for the 7 laptop computers and hand-held devices were allowable because the TEA did not require the DISD to obtain prior approval for purchase of individual items of equipment with a unit cost of less than $5,000.
- TEA auditors concurred that the costs for a message system, DVD player, carrying cases, nursing supplies, maintenance supplies, music and art supplies, collectibles, memorabilia, promotional items, gifts and awards, and sporting and game equipment were not allowable because the DISD did not provide any documentary evidence that the costs pertained to an allowable Title I activity as documented in the applicable Campus Improvement Plan (CIP) and did not further the statutory purpose of the Title I program.

DISD Used Title I, Part A Funds for Costs That Were Inadequately Documented

Lack of Management Approval. Management approval was not sufficiently documented for over $1.6 million in purchases of supplies and contract services.

TEA offers the following response with regard to OIG's finding pertaining lack of management approval. In certain instances, DISD provided adequate documentation to demonstrate that

DISD management approval was obtained for purchases of less than $10,000 from vendors not on the approved vendor list or that the board approved the purchase of $50,000 or more. In other instances, the DISD did not provide documentation or did not provide adequate or sufficient documentation that it complied with its local policy and procedure.

<u>Inadequate Evidence of How Costs Were in Line with the Program's Purpose.</u> Documentation that Dallas ISD provided was insufficient to show either what was purchased or how the costs tied to the Title I, Part A program.

TEA offers the following response with regard to OIG's finding pertaining to inadequate evidence of how costs were in line with the program's purpose. TEA auditors did not observe the $459,000 in contract services transactions for a licensed product agreement in the schedules provided by the DISD. TEA auditors did observe $348,000 for 400 NovaNet ports and the related training. Although the DISD provided documentary evidence that adequately addressed the OIG's comments, TEA auditors did not agree with DISD that this cost pertained to an allowable activity that furthered the statutory purpose of the Title I program.

TEA auditors concurred with the OIG that the payroll costs did not pertain to allowable activities that furthered the statutory purpose of the Title I program. The DISD did not provide documentary evidence, such as the CIP and signed and dated job descriptions that indicated that the work performed by the employees pertained to allowable Title I activities.

<u>No Proof of Cancellation.</u> Auditor's sample included $275, 234 in cancelled invoices as identified by Dallas ISD. The documentation presented for review were screen prints of journal entries marked by hand "Invoice Cancelled" without a copy of the vendor's cancelled invoice or other verification of cancellation.

TEA offers the following response with regard to OIG's finding pertaining to no proof of cancellation. TEA auditors concurred that the DISD did not provide sufficient and adequate documentation that demonstrated that the applicable invoices were in fact cancelled.

<u>No Three-way Match.</u> Invoices totaling $51,187 in supplies and materials were paid without evidence of the necessary three-way match. According to Dallas ISD's Executive Director of Accounts Payable and district policy, a match of purchase order, invoice and receipt is required prior to payment.

TEA offers the following response with regard to OIG's finding pertaining to no three-way match. TEA auditors concurred that the DISD did not provide documentary evidence that it complied with its policy and procedure requiring the maintenance of a purchase order form, invoice and receipt prior to the issuance of payment to the vendor.

<u>Employee Certification Policy Not Followed.</u> The Department's Ed-Flex waiver, granted to all Texas LEAs in 2002, eliminates the employee certification requirement of OMB Circular A-87, Attachment B, Number 11(h) (3) as long as the employee's job description clearly states the employee is assigned 100 percent to the program or single cost objective. However, Dallas ISD's written policy continues to require certifications and personnel activity reports (PAR) for these exempt employees. Dallas ISD violated its own written policy.

TEA offers the following response with regard to OIG's finding pertaining employee certification policy not followed. The DISD did not provide documentary evidence that the payroll costs charged to the Title I, Part A grant were for work performed by district personnel that pertained to activities documented in the applicable campus improvement plans and that were allowable activities for the Title I, Part A grant.

The Office of Inspector General (OIG) recommends that the Assistant Secretary for the Office of Elementary and Secondary Education instruct TEA to require Dallas ISD to:

Recommendation:
1.1 Return to the Department $1,784,758 of Title I, Part A funds expended for unallowable costs.

Response:
Of the $1,784,758 in costs questioned by the OIG because the DISD used the grant funds for unallowable purposes, TEA auditors concluded that $467,112 was unallowable after having reviewed the DISD response to the OIG draft report.

Recommendation:
1.2 Provide adequate documentation supporting the allowability of $3,517,568 or return the inadequately documented amount to the Department.

Response:
Of the $3,517,568 in costs questioned by the OIG because the DISD did not provide sufficient or any documentation to support the costs charged to the grant, TEA auditors concluded that $1,246,228 was unallowable after having reviewed the DISD response to the OIG draft report.

Recommendation:
1.3 Return to the department the cost of all items purchased with Department funds that have been in storage for more than one year.

Response:
Upon review of the documentation provided by the DISD, TEA auditors agree with the questioned amounts and concur that the purchases were unreasonable and unnecessary.

Recommendation:
1.4 Strengthen fiscal controls to include written procedures and training for all personnel responsible for the administration of Title I, Part A, and other Department funds.

Response:
TEA implemented several special grant conditions for Dallas ISD. Dallas ISD was required to contract with and pay for a grant manager to review Dallas ISD's policies, procedures, and practices with regard to expenditures related to grants and to monitor grant expenditures. TEA approved 2 grant managers based on their experience, expertise and credentials to monitor and oversee the quality of work performed by a sufficient number of full-time employees (FTE) who will review and approve all grant expenditures and to train those FTEs to build capacity and knowledge related to grant expenditures.

Dallas ISD has taken steps to change the management and supervision of the grants department. They are developing written departmental policies to address all findings and material weaknesses in the grants management area. The District is committed to providing training and support for district personnel as needed through the use of TEA, Texas Association of School Business Officials (TASBO), and other consultants.

Recommendation:

1.5 Review a statistically valid sample of the $49,190,693 of Title I, Part A program funds and other Department funds received by Dallas ISD in fiscal year 2005-2006 and provide written assurance that the funds were used to meet grant objective. Return to the Department any funds that are not adequately documented, reasonable and allowable.

Response:

As a result of the findings and questioned cost in the 2005-2006 Comprehensive Annual Financial Report conducted in accordance with the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* the Texas Education Agency requested Dallas ISD to either provide documentation to reconcile the questioned cost of $1,343,440 or refund the questioned cost to TEA. Dallas ISD was able to provide sufficient documentation to support all but $111,435.92 of the questioned cost which the district refunded back to TEA. The audit was performed by KPMG LLP.

Recommendation:

1.6 Review a statistically valid sample of Title I, Part A program funds and other Department funds received by Dallas ISD in subsequent fiscal years and provide written assurance that the funds were used to meet grant objective. Return to the Department any funds that are not adequately documented, reasonable and allowable.

Response:

As a result of the findings and questioned cost in the 2006-2007 Comprehensive Annual Financial Report conducted in accordance with the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* the Texas Education Agency (TEA) Office of Planning, Grants, and Evaluation (OPGE) in a letter dated January 30, 2009 is requesting Dallas ISD to submit a refund to TEA for the following questioned costs disclosed in the 2006-2007 audit. The audit was performed by Deloitte & Touche LLP.

Federal Program	**Total Refund Due**
Title I Part A	$130,430
Title II Part A	$149,616
Title III Part A	$1,292
Special Education Cluster	$66,979
Title I School Improvement – Wilmer Hutchins	$9,986
21st Century	$17,361
Reading First	$40,815
Various Formula and possibly Discretionary Grants	$737,335
Total	$1,153,814

The agency is currently reviewing the Dallas ISD's 2007-2008 Comprehensive Annual Financial Report conducted in accordance with the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* The audit firm of Deloitte & Touche LLP has identified approximately $16,809,518 in questioned cost for the 2007-2008 year. If the district cannot provide the necessary documentation to support these questioned costs, the TEA OPGE will be requesting these funds be returned to the agency.

ATTACHMENT

In addition, each month the OPGE is requesting from the district the supporting documentation for expenditures for one formula grant and one discretionary grant. The selection of the grant is done by the TEA senior director of their respective division. The examination of this documentation allows the TEA funding divisions to determine whether Dallas ISD is in compliance with financial management standards and is expending these funds in accordance with the approved grant applications and OMB Circular A-87, Cost Principles for State and Local Governments and provides monitoring oversight.