# Philadelphia School District's Controls Over Federal Expenditures

## FINAL AUDIT REPORT

**ED-OIG/A03H0010**
**January 2010**

Our mission is to promote the efficiency, effectiveness, and integrity of the Department's programs and operations.

U.S Department of Education
Office of Inspector General
Philadelphia, Pennsylvania

# NOTICE

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

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

# UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services
Philadelphia Audit Region

January 15, 2010

Dr. Gerald L. Zahorchak
Secretary of Education
Pennsylvania Department of Education
333 Market Street
Harrisburg, PA 17126-0333

Dr. Arlene Ackerman
Superintendent of Schools
School District of Philadelphia
440 N. Broad Street
Philadelphia, PA 19130

Dear Dr. Zahorchak and Dr. Ackerman,

Enclosed is our **final audit report**, Control Number ED-OIG/A03-H0010, entitled Philadelphia School District's Controls Over Federal Expenditures. This report incorporates the comments you provided in response to the draft report. If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Department of Education officials, who will consider them before taking final Departmental action on this audit:

Thelma Meléndez de Santa Ana, Ph.D.
Assistant Secretary for
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Ave., S.W.
Washington, DC 20202

Alexa E. Posny
Assistant Secretary for
Special Education and Rehabilitative Services
U.S. Department of Education
400 Maryland Ave., S.W.
Washington, DC 20202

Kevin Jennings
Assistant Deputy Secretary for
Office of Safe and Drug Free Schools
550 12th Street, S.W.
10th Floor
Washington, DC 20202

Daniel T. Madzelan
Delegated the Authority to Perform the Functions and Duties
of the Assistant Secretary for
Office of Post Secondary Education
U.S. Department of Education
1990 K Street, N.W.
Washington, DC 20006

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

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

Sincerely,

/s/

Bernard Tadley
Regional Inspector General for Audit

Enclosures

# TABLE OF CONTENTS

## ACRONYMS\ABBREVIATIONS USED IN THIS REPORT

| | |
|---|---|
| AP | Accounts Payable |
| ATIPs | Attendance and Truancy Intervention and Prevention Support |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| C.F.R. | Code of Federal Regulations |
| Controller’s Office | The City of Philadelphia, Office of the Controller |
| CSR | Comprehensive School Reform Demonstration |
| EC | Extracurricular |
| ESEA | Elementary and Secondary Education Act of 1965 |
| ESOL | English for Speakers of Other Languages |
| FIE | Fund for the Improvement of Education |
| GEAR UP | Gaining Early Awareness and Readiness for Undergraduate Programs |
| GL | General Ledger |
| HEA | Higher Education Act of 1965 |
| HR | Human Resources |
| HSSA | State Head Start Grants |
| IDEA | Individuals with Disabilities Education Act |
| IU | Intermediate Unit |
| JVs | Journal Vouchers |
| LEA | Local Educational Agency |
| NCLB | No Child Left Behind |
| OMB | Office of Management and Budget |
| PDE | Pennsylvania Department of Education |
| POMB | PSD Office of Management and Budget |
| PSD | Philadelphia School District |
| PSSA | Pennsylvania System of School Assessment |
| RCS | Reduced Class Size |
| Reading First | Reading First State Grant |
| SEA | State Educational Agency |
| SEFA | Schedule of Expenditures of Federal Awards |

## ACRONYMS\ABBREVIATIONS USED IN THIS REPORT (Continued)

| | |
|---|---|
| SRC | School Reform Commission |
| Special Ed | Special Education Grants to States |
| Title I | Improving Basic Programs Operated by Local Education Agencies |
| Title II, Part A | Improving Teacher Quality |
| Title II, Part D | Enhancing Education through Technology |
| TPER | Time and Attendance Personnel Timesheets |

# EXECUTIVE SUMMARY

The objective of our audit was to determine if the Philadelphia School District (PSD) had adequate fiscal controls in place to account for Federal funds for the period July 1, 2005, through June 30, 2006. PSD, the 8th largest local educational agency (LEA) in the country, had an enrollment of 184,560 students in 291 public schools, with an additional 25,872 students in 55 charter schools.[1] PSD was governed by a five-member School Reform Commission (SRC).

We reviewed PSD's fiscal controls relating to the processing of Federal grant expenditures. To test the fiscal controls, we reviewed expenditures made from the following grants: Improving Basic Programs Operated by Local Education Agencies-Basic Grants, Improving Teacher Quality, Enhancing Education through Technology, Reading First State Grants, Safe and Drug Free Schools, Fund for the Improvement of Education, Comprehensive School Reform Demonstration, Special Education Grants to States, and Gaining Early Awareness and Readiness for Undergraduate Programs.

We determined that PSD did not have adequate fiscal controls in place to account for the Federal grant funds that were expended during the audit period. We also found that expenditures, totaling $138,376,068,[2] from grant funds were either unallowable or inadequately supported. Specifically, we determined that:

- PSD needed stronger controls over personnel expenditures charged to Federal grant funds ($2,912,440 in unallowable costs and $107,005,052 in inadequately supported costs, totaling $109,917,492);
- PSD supplanted state and local funding with Federal funds ($6,979,063 in unallowable costs and $1,293,386 in inadequately supported costs);
- PSD did not have adequate controls in place to ensure non-payroll expenditures met Federal regulations and grant provisions ($411,383 in unallowable costs and $764,241 in inadequately supported costs, totaling $1,175,624);
- PSD's policies and procedures were not adequate and/or enforced ($6,358,792 in unallowable costs and $11,976,434 in inadequately supported costs, totaling $18,335,226); and
- PSD did not have written policies and procedures for various fiscal processes ($622,572 in unallowable costs and $52,705 in inadequately supported costs, totaling $675,277).

We recommend that the Assistant Secretary for Elementary and Secondary Education, in collaboration with the Assistant Secretary for Special Education and Rehabilitative Services, Assistant Secretary for the Office of Post Secondary Education and the Assistant Deputy Secretary of Safe and Drug Free Schools instruct the PSD to:

[1] The enrollment and school data was as of October 2005, which equates to our audit period.
[2] This amount is the unduplicated costs among the findings of $17,284,250 in unallowable costs and $121,091,818 in inadequately supported costs. The unallowable amount does not include the indirect costs of $393,827.

- Return $17,678,079 in unallowable costs to the U.S. Department of Education (the Department);
- Provide adequate documentation to support $121,091,818 in inadequately supported expenditures or return that amount to the Department;
- Develop and implement policies and procedures to ensure that personnel costs are adequately supported;
- Develop and implement policies and procedures to ensure that Federal funds are not supplanted; and
- Develop, implement and enforce policies and procedures to ensure that expenditures paid from grant funds are reasonable, allocable and allowable expenditures of the grant from which they are being paid.

In its response to the draft of this report, PSD did not concur with Findings No. 1, 2, 3, and 5. However, for Finding No. 4, PSD stated that of the 30 Journal Voucher (JV) transactions the response addresses, it concurred with 3 of our conclusions concerning unallowable costs: English for Speakers of Other Languages (ESOL) tutor benefits erroneously transferred, duplication of charges already moved, and late carryover of charges into the Title I grant. PSD asserted that we should revise the draft report to eliminate the vast majority of the findings.

In its response, PSD also raised concerns about the lack of time it had to respond to the report and the level of disclosure concerning the unallowable and inadequately supported expenditures. During the audit, our auditors began providing PSD with potential finding issues on March 16, 2008. This process continued until November 15, 2008. We provided PSD with over 30 updates and held on-site meetings to discuss findings as they developed.

In November 2008, we held an exit conference with PSD. At this time we provided PSD with finding point sheets which detailed all the findings presented in the draft report. Two weeks after the exit conference PSD sent us a formal letter requesting information on specific issues discussed during the exit conference. We sent the requested information to PSD on December 11, 2008, along with an offer to meet to discuss the issues further and provide PSD officials full access to all the documentation we used to develop our findings. This meeting was held, for 2 full days, with PSD in January 2009. Another meeting was held in April 2009 to discuss the additional information provided to us by PSD.

The draft report was issued on May 6, 2009. PSD was provided the standard 30 days to provide its response to the draft report. PSD formally requested and was granted two separate 30-day extensions to provide its response to the draft report. PSD then requested an extra 2 weeks to submit its response due to medical reasons.

PSD’s initial response was submitted on August 17, 2009. This submission was incomplete. Another response was provided on August 24, 2009. We met with PSD officials and PSD’s outside counsel on September 18, 2009, to discuss some of the statements in and exhibits provided with its response. At that time we noted that PSD’s response contained misstatements and that it had submitted one exhibit that was erroneous and another that was incomplete. A corrected exhibit and a complete exhibit were provided at the meeting. PSD resubmitted its response on September 23, 2009. The revisions provided by PSD are included in Enclosure 7.

We received comments from the Pennsylvania Department of Education and it concurred with PSD's response.

We revised Finding No. 2 in our final report to reflect only district based expenditures. Also, amounts in Findings No. 3 and 5 were adjusted to reflect the new documentation provided by PSD with its response. A summary of PSD's response is included after each finding issue. The full text of PSD's response to the draft report is included as Enclosure 7 to the report.

# BACKGROUND

PSD, the 8th largest LEA in the country, had an enrollment of 184,560 students in 291 public schools, with an additional 25,872 students in 55 charter schools.[3] PSD was governed by a five-member SRC. The SRC was responsible for the overall operation, management, educational programs, and budgetary and financial matters of PSD. The SRC was also responsible for the formulation of education policy, adoption of an annual budget, development of a comprehensive capital improvement budget and program, and the incurrence of indebtedness.

Additionally, PSD had a Chief Executive Officer (CEO), who was responsible for the general supervision of all business affairs of the LEA. PSD also had various levels of management that made up the organizational structure. There was a central office and 10 regional offices, which were led under the supervision of Regional Superintendents. The Regional Superintendents were primarily responsible for providing instructional leadership to the region, creating and managing the budget for the region, and monitoring the implementation of grants for systemic recommendations for strategic long-term goals, related to the assigned area of responsibility. PSD also had No Child Left Behind (NCLB) District Liaisons who were responsible for ensuring that program sites received adequate support for the services provided and charged with monitoring the Title I, and the Comprehensive School Reform Demonstration (CSR) programs. The monitoring included conducting on-site visits to schools to verify the school's compliance with the Title I records retention policy, program regulations, ensuring all activities are in compliance with mandated regulations, and preparing the schools for Title I audits and reviews.

Some of the central office departments that managed Federal grant funds included the Office of Grants Development and Support, the PSD Office of Management and Budget (POMB), General Accounting Office, Accounts Payable (AP), Human Resources, and various program offices. POMB worked with the program offices and the Office of Grants Development and Support office to determine a grant's budget. Each grant was assigned a POMB Financial Analyst. The Financial Analyst was charged with managing the daily financial aspects of the grant, along with the grant program office. The General Accounting Office input all grant expenditures for food service, facilities rentals, and central office copier charges, and also prepared the Schedule of Expenditures of Federal Awards (SEFA). The AP department handled all vendor payments as well as travel and imprest fund reimbursements.

PSD used the Advantage System to manage the fiscal process. This system used an account code system, referred to as ABC Codes, to identify the funding source and other account information relating to an expenditure.

PSD was also the servicing agent for Intermediate Unit 26, an entity established to provide special education and Nonpublic school services, as well as related management services.

[3] The enrollment and school data were as of mid-October 2005. As of March 12, 2009, PSD reported a current enrollment of 167,128 students in 281 schools, with an additional 30,516 students in 61 charter schools.

All PSD schools were Title I schools and had school-wide programs but did not consolidate their funds. Forty-nine of the schools were Reading First schools, and 12 Nonpublic schools received Reading First services.

For the year ended June 30, 2006, PSD was awarded[4] $245,328,919 and expended $202,717,711 for the grants we reviewed. We reviewed the following programs authorized by the Elementary and Secondary Education Act (ESEA), of 1965, as amended by the NCLB Act of 2001, the Individuals with Disabilities Education Act (IDEA), as amended, and the Higher Education Act (HEA) of 1965, as amended:

**Table 1-Grant Programs and Expenditures**

| Program | Purpose | Types of Allowable Expenditures | Funds Awarded[5] | Funds Expended |
|---|---|---|---|---|
| **Improving Basic Programs Operated by Local Education Agencies (Title I, Part A)** | **Provide financial assistance through state educational agencies (SEAs) to LEAs and public schools with high numbers or percentages of poor children to help ensure that all children meet challenging state academic content and student academic achievement standards.** | **Student assessments, parental involvement, professional development and supplemental educational services or items that absent of Federal funding would not be funded.** | **$141,732,173**<br><br>**Grant period** ***07/01/05-09/30/07*** | **$117,388,617** |
| **Improving Teacher Quality State Grants (Title II, Part A)** | **To increase academic achievement by improving teacher and principal quality.** | **Recruiting and retaining highly qualified teachers, professional development activities and professional development related expenses.** | **$22,858,010**<br><br>**Grant period** ***07/01/05-09/30/07*** | **$22,086,264** |
| **Enhancing Education through Technology Program (Title II, Part D)** | **Improve student achievement through the use of technology by helping all students become technologically literate by the end of the eighth grade and through the integration of technology with both teacher training and curriculum development.** | **Initiatives to increase access to technology, to integrate technology into curricula, enhancement of ongoing professional development in teaching through electronic means, and support of the development and use of electronic networks.** | **$5,015,240**<br><br>**Grant period** ***07/01/05-09/30/07*** | **$3,679,113** |

[4] As indicated in Table 1, the funds awarded crossed more than 1 fiscal year (FY); therefore, there is a difference between the funds awarded and expended.
[5] The amounts were taken from PSD's SEFA for the period reviewed.

| Program | Purpose | Types of Allowable Expenditures | Funds Awarded[5] | Funds Expended |
|---|---|---|---|---|
| **Reading First State Grants (Reading First)** | **Establish scientifically based reading programs for students enrolled in kindergarten through grade three.** | **Activities include selecting, administering screening, diagnostic, and classroom-based instructional reading assessments, and implementing a learning system or program of reading instruction based on scientifically based reading research.** | **$8,904,676**<br><br>**Grant period** ***07/01/04-06/30/06*** | **$8,396,241** |
| **Safe and Drug-Free Schools and Communities: State Grants** | **The program provides support to SEAs for a variety of drug-abuse and violence-prevention activities focused primarily on school-age youths.** | **Educational programs for drug and violence-prevention, including professional development.** | **$2,819,258**<br><br>**Grant period** ***09/06/05-03/31/07*** | **$1,959,403** |
| **Fund for the Improvement of Education (FIE)** | **To improve the quality of elementary and secondary education at the state and local levels and help all students meet challenging state academic content standards and student achievement standards.** | **Activities designed to improve student academic achievement, strategies for effective parent and community involvement, support for Scholar-Athlete Games, and voter participation programs.** | **$11,989,924**<br><br>**Grant period** ***10/01/04-12/31/06*** | **$3,032,973** |
| **Comprehensive School Reform Demonstration Program** | **To raise student achievement by employing proven methods and strategies to produce comprehensive school reform.** | **Activities to enable the schools to implement a comprehensive school reform program, teacher and staff professional development, and parental involvement activities.** | **$599,005**<br><br>**Grant period** ***08/26/05-09/30/07*** | **$332,758** |
| **Special Education Grants to States (Special Ed)** | **Assist in meeting the costs of providing special education and related services to children with disabilities.** | **Supplemental staff, professional development and supplemental support.** | **$44,066,633**<br><br>**Grant period** ***07/01/05-06/30/06*** | **43,972,562** |

| Program | Purpose | Types of Allowable Expenditures | Funds Awarded[5] | Funds Expended |
|---|---|---|---|---|
| **Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)** | **Increase the number of low-income students who are prepared to enter and succeed in postsecondary education.** | **Comprehensive mentoring, counseling, outreach and supportive services. Including after school and summer tutoring, assistance in obtaining summer jobs, career mentoring and academic counseling.** | **$7,344,000**<br><br>**Grant period** ***09/01/04-08/31/06*** | **$1,869,780** |
| **Totals** | | | **$245,328,919** | **$202,717,711** |

The NCLB Act of 2001 is a Federal education act that increases accountability for states and school districts, school choice for parents and students, flexibility for states' and school districts' use of Federal education funds, and also places an emphasis on reading.

All grant programs reviewed, except for Special Ed and GEAR UP, were administered by the Department's Office of Elementary and Secondary Education. The GEAR UP program was administered by the Office of Postsecondary Education and the Special Ed program was administered by the Office of Special Education and Rehabilitative Services.

# AUDIT RESULTS

We determined that PSD did not have adequate fiscal controls in place to account for the Federal grant funds expended during the period July 1, 2005, through June 30, 2006. Specifically, we found that:

- PSD needed stronger controls over personnel expenditures charged to Federal grants including:
  - Adequate controls to ensure salary costs charged to grant funds were adequately supported ($123,772,665 in inadequately supported costs),
  - Monitoring of personnel costs paid by the Title I, Part A grant to ensure costs charged were allocable ($2,910,940 in unallowable costs), and
  - Adequate payroll policies and procedures ($1,500 in unallowable and $2,669 in inadequately supported costs).
- PSD supplanted state and local funding with Federal funds ($6,979,063 in unallowable and $1,293,386 in inadequately supported costs).
- PSD did not have adequate controls in place to ensure that non-payroll expenditures met Federal regulations and grant provisions ($411,383 in unallowable and $764,241 in inadequately supported costs).
- PSD's policies and procedures were not adequate and/or enforced for:
  - JV processing ($6,349,260 in unallowable and $11,928,352 in inadequately supported costs),
  - Travel ($9,532 in unallowable and $2,275 in inadequately supported costs),
  - Imprest fund reimbursements ($10,593 in unallowable and $20,084 in inadequately supported costs),
  - Inventory tracking ($45,808 in unaccounted for equipment), and
  - Contracts (contract provisions were not followed and contract services were rendered prior to approval).
- PSD did not have written policies and procedures for various fiscal processes including:
  - Monitoring of budgets ($2,443,885 in unallowable and $2,331,043 in inadequately supported costs),
  - Using Nonpublic Title II, Part A grant funds ($422,956 in unallowable and $10,050 inadequately supported costs),
  - Purchasing from the Office Depot vendor ($66,252 in unallowable costs),
  - Charging of transportation costs ($13,885 in unallowable and $42,655 in inadequately supported costs),
  - Allocating single audit costs, and
  - Charging of indirect costs ($11,063 in unallowable costs).[6]

[6] Bulleted amounts include duplications across the findings.

The lack of adequate fiscal controls resulted in a total of $138,376,068 (unduplicated among the findings) in unallowable ($17,284,250) and inadequately supported costs ($121,091,818).

In its response to the draft report, PSD did not concur with our findings as a whole. The response is summarized after each finding issue. The full text of PSD's response to the draft report is included as Enclosure 7 to the report. The Pennsylvania Department of Education concurred with PSD's response.

## FINDING NO. 1 – PSD Needed Stronger Controls Over Personnel Expenditures Charged to Federal Grants

PSD did not have written policies and procedures for certifying personnel costs charged to Federal grants. PSD also did not have time and effort certifications for all personnel, and personnel activity reports were not adequate. In addition, unallocable personnel costs were charged to the Title I grant. Lastly, PSD's payroll policies and procedures were not adequate because record retention and documentation requirements were not addressed. These deficiencies resulted in inadequately supported and unallowable costs charged to the grants we reviewed.

### A. PSD Lacked Adequate Controls to Ensure Salary Costs Charged to Grant Funds Were Adequately Supported

PSD charged personnel expenditures that were inadequately supported to Federal grant funds, resulting in unsupported salary and fringe benefit costs of $123,772,665. Specifically, PSD could not adequately support the compensation of employees: (1) for all types of remuneration paid from grant funds ($53,021,174); (2) whose salaries were included in adjusting journal entries ($33,474,626); and (3) who worked on multiple cost activities ($37,276,865).

Code of Federal Regulations (C.F.R.) Part 225 (Office of Management and Budget (OMB) Circular A-87) Appendix B, 8., Compensation for Personal Services, a. provides that compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that the total compensation for individual employees is determined and supported as provided in OMB Circular A-87, subsection h (see below).

#### I. Time and Effort Certifications Were Not Maintained for All Grants

Time and effort certifications were not prepared for employees who worked solely on or received compensation for extra work activities for the following grants, resulting in inadequately supported salary costs of: [7]

[7] The amounts for the Title I and CSR grants were for employees who were paid per diem, overtime, extracurricular pay, professional development, and summer pay. We could not determine if the employees worked solely on the grant programs that the funds were charged against or if they were funded by multiple sources.

- Special Ed: $22,536,407
- Improving Teacher Quality (Title II, Part A): $11,793,430
- Reading First: $6,048,002
- Title I: $6,972,080
- ED Technology (Title II, Part D): $2,440,237
- Fund for Improvement of Education (FIE): $1,323,929
- Safe and Drug Free: $862,786
- GEAR UP: $531,995
- CSR: $404,022
- Title II, paid through Intermediate Unit 26: $108,287

Federal regulations require the certifications as support for the personnel costs charged to Federal grant funds. The certifications are required to verify the time and effort spent by an employee that worked on a grant program. OMB Circular A-87, Appendix B, 8. Compensation for Personal Services, h. Support of Salaries and Wages, (3) states,

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

According to PSD's Comptroller, some program managers were not aware of the 100 percent time and effort certification requirements. They thought the employee daily sign-in sheets were sufficient documentation for the personnel costs charged to the grant funds.[8]

**II. Time and Effort Certifications Were Not Prepared for Employees Whose Salaries Were Transferred by Adjusting Journal Vouchers**

PSD did not have a procedure in place to ensure that adequate supporting documentation was maintained before salary costs were transferred and grant funds charged. Using adjusting journal vouchers, PSD transferred salary costs between the grant funds. PSD could not provide time and effort certifications for those individuals whose salaries were transferred, resulting in inadequately supported salary costs of:

- Title I: $11,272,852
- Title II, Part A: $9,768,527

[8] 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." However, PSD did not consolidate Federal, State and local funds in its schoolwide program. Furthermore, the Department's guidance became effective after our audit period.

- FIE: $5,027,598
- Special Ed: $3,771,258
- CSR: $1,910,009
- Reading First: $1,387,462
- Safe and Drug Free: $238,635
- Title II, Part D: $82,868
- GEAR UP: $15,132
- Title II, paid through Intermediate Unit 26: $286

According to OMB Circular A-87 Appendix A, C. Basic Guidelines, 1. Factors Affecting Allowability of Costs, a., b., and j., to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards, be allocable to Federal awards, and be adequately documented. We could not determine whether the salary and fringe benefit costs transferred were allocable and allowable to the grants charged because the costs were not adequately supported.

PSD policy did not require the POMB to notify the program offices that salaries would be transferred to their grants by an adjusting JV entry and that certifications would be required for the individuals whose salaries were transferred. Furthermore, there appeared to have been a lack of communication between the POMB and the program offices. Although the Director of Budget, who oversaw the POMB (the office performing the transfers), was aware of the certification requirements, he did not inform the grant analysts (the individuals performing the JV transfers) that certifications were required and should be obtained as support for the salary transfers.

**PSD Response to Time and Effort Certifications Not Being Maintained for All Grants (I) and Prepared for Employees Whose Salaries Were Transferred by Adjusting JV (II):**

PSD did not concur with the finding.

In its response, PSD stated that the inadequately supported amount for Finding No. 1 differs from the amounts in spreadsheets provided by the OIG, and that its response relies on the spreadsheet amounts.

**Time and Effort Certifications**
In its response to the draft audit report, PSD stated that it maintains “alternative forms of corroborating evidence” of sufficient weight and credibility to satisfy the obligation to document personnel costs. PSD’s Time and Attendance Personnel Timesheets (TPERs) require employees to document the time that they work each day and personally initial the record each day. PSD further stated that when a TPER is combined with an employee’s job description or an employee’s classroom assignment, this is credible alternative documentation that provides the same corroboration as the twice-yearly certifications.

PSD selected a sample of 6 of its 267 schools and provided documentation for employees paid from grant funds at the 6 schools as evidence of a representative sample of the records generally maintained at all PSD schools. The documentation provided included TPERs, staff listings, classroom assignments, job titles, and other related documents. Specifically, PSD provided the following with its response:

**IDEA Salaries**

- A Human Resources (HR) document showing that all 25 employees were coded in the Advantage system as being funded by the IDEA grant, school staff listings for 9 employees, and school schedules for 2 employees.

**Title II, Part A Salaries**

- For 19 employee salaries, school enrollment data to show that the 11 Reduced Class Size (RCS) teachers taught at schools eligible to receive RCS teachers, school schedules, and training logs for 6 employees, and a school staff list for 1 employee to show the employee's job title.

- PSD also noted that all of the employees in its sample representing the Title II, Part A grant's salary charges had been reversed, as shown on OIG's supporting spreadsheets.

**Reading First Salaries**

- A spreadsheet containing the Reading First grant charges for 37 employees, with the Reading First purpose associated with each charge, references to exhibits containing the relevant sign-in sheets and other corroborating evidence. For 36 of the employees, these charges related to either professional development activities or extracurricular (EC) work. The remaining employee's total compensation was funded by Reading First. To support this PSD provided a "Request for Extracurricular, Staff Development or Summer Activities" form and TPERs for the period November 2005 through June 2006.

PSD also stated that, in order to simplify its process and ease the administrative burden it implemented procedures in January 2009 to assure that all Federal grant awards with salary costs complete semiannual time and effort certifications.

**Title I and CSR JVs**

PSD asserted that because all PSD schools were operated under school-wide plans for the purpose of school reforms, all of the salary charges and associated benefits for a teacher, part-time teacher, librarian, counselor, or "other paraprofessional" are eligible Title I grant costs simply by the fact that these staff members are working in a school-wide program. PSD believes this fact, combined with the employee's TPERs are sufficient supporting documentation to show that these employees worked on the grants. PSD used the following portion of 20 U.S.C. § 6314 (a)(2)(A) to support this statement: "No school participating in a school-wide program shall be required…to identify particular children…as eligible to participate in a school-wide program; or to provide services to such children that are supplementary, as otherwise required by section 6321 (b) of this title."

**Title I and CSR Per Diem, Extracurricular and Professional Development Charges**
PSD stated that for the expenditures that were for pay above regular salaries, such as per diem, EC activities, professional/staff development, or object codes 1211, 1511 and 1611,[9] it maintains sign-in sheets as supporting documentation for the salary charges to the Title I and CSR grants.

**OIG Response to PSD Response to Time and Effort Certifications Not Being Maintained for All Grants (I) and Prepared for Employees Whose Salaries Were Transferred by Adjusting JV (II):**

We provided PSD's Comptroller and principal analyst for grants spreadsheets with the preliminary questioned amounts a week prior to the issuance of the draft report. The day after the issuance of the draft report we provided, via email, PSD's Comptroller with spreadsheets that contained the final questioned amounts included in the draft report.

**Time and Effort Certifications**
We disagree that the TPERs combined with either a staff listing, classroom assignment, or job description provides accurate and adequate supporting documentation of an employee's activities. TPERs document the hours an employee works and show only the amount of time worked, not the actual activity/activities performed. Furthermore, we could not rely on the TPERs because during our audit we noted that PSD did not enforce its own TPER sign-out policy. Therefore, it could not be determined how much time the employee actually worked. Another issue we noted with the TPERs was that they are not regularly approved by managers. As stated in the report (see Finding No. 1, C), we reviewed 26 TPERs and found that 23 did not have an employee sign-out time for all employees listed on the TPER and 14 were not manually approved by the appropriate supervisor. Also, PSD was not able to locate all the TPERs needed for our salary sample. Therefore, TPERs may not be an accurate reflection of actual time worked, verified by appropriate personnel or properly maintained.

Job descriptions would not be adequate supporting documentation for salary costs because they include only the tasks that an employee is to perform and may not include the amount of time that is to be devoted to particular grant related activities. During the year, the employee may not have performed any or all of the tasks listed in the job description. OMB Circular A-87 requires an after-the-fact certification for time and effort documentation, and job descriptions would not fit this purpose. Furthermore, most job descriptions are not grant specific and would, therefore, not show which grant an employee's salary is to be funded from. For example, a Title II, Part A RCS teacher would have the same job description as a teacher paid from the general fund. Even if the job description did include grant funding information, it may not be accurate, as we found during our review. We reviewed 2 JVs transferring 25 percent of 5 PSD attorneys' salaries from the general fund into the IDEA grant fund. The movement of the salaries was to represent the amount of time the attorneys spent providing IDEA professional development to schools. However, the attorneys' job descriptions showed that only 10 percent of their time was to be devoted to this task.

[9] The object codes 1211, 1511 and 1611 respectively are per diem, extracurricular activities, and professional development.

Also, PSD has not been consistent in preparing job descriptions for employees (see Other Matters, A Lack of Position Descriptions for Personnel in Senior Management). There is a strong possibility that job descriptions may not exist for all positions paid by grant funds.

Staff listings and classroom assignments show only the rooms the employees are to work in. They do not show what tasks were completed while working in these rooms.

The purpose of the TPER is to document the hours worked. The purpose of the other documentation PSD discussed is to document activities planned to be worked on or assigned to be worked on or a planned funding source, not what actually occurred. The purpose of the personnel activity report is to certify and verify that the employee's salary paid from grant funds is commensurate with his\her percent of effort worked on the grant. The TPER along with the alternative documentation does not provide this certification or verification.

In addition, PSD did require time and effort certifications to be completed by employees who worked on some grants (Title I and CSR); therefore, it is reasonable to expect that PSD would require it for employees being funded by all applicable grants.

**Review of PSD Sample**

We have two major concerns with the sample provided by PSD. The first concern is that PSD was not able to provide complete supporting documentation or rationale for the sampling methods used to select the six schools.[10] In a September 2009 meeting with PSD, it was disclosed that PSD selected the 6 schools from the 40 schools in the district having both Title I and IDEA funding streams. When we requested documentation showing how the six schools were selected, the principal analyst for grants, who selected the sample, stated the rationale was in his head.

This calls into question PSD's statement that the documentation gathered from the six schools is representative of the records generally maintained at all PSD schools. This statement cannot be supported if the sample was not randomly selected.

Our second concern is the lack of verification concerning the accuracy of the funding codes for the employees and the supporting documentation provided for the sample. PSD did not verify the accuracy of all the supporting documents provided to us for the transactions in the sample it selected. We inquired whether the spreadsheet data and other employee funding codes had been verified to the underlying supporting documentation. The principal analyst for position control stated that she verified only the funding codes to the Advantage system for the first employee in each exhibit. To support this we were given Advantage printouts dated the day prior to our meeting.

We also found that PSD did not verify the funding codes to a source other than the Advantage system, such as personnel files, that would show the position the employee held. In our review we found numerous employees coded to certain positions in the Advantage system that PSD was not able to show had actually worked in that position. For example, PSD transferred the salaries

[10] During the audit period PSD had 291 schools operating.

of 156 employees stating they were Transition Support Tutors; however, 32 of the 156 were not on any Transition Support Tutor list supplied by PSD (see Finding No. 4, A). Without the appropriate and complete verification of the PSD sample, it cannot be considered reliable.

**IDEA Salaries**

The document that PSD referred to as an "HR document" was an Excel spreadsheet that had employee names, funding codes that the employees were to be paid from, and employee position titles. The documentation did not show what work was actually performed. As stated above, PSD did not provide supporting documentation showing that the funding codes or the position titles for the employees listed on the spreadsheet had been properly verified.

The school staff lists showed only where the teachers were assigned within the school, not the work the employee performed. The two school schedules provided showed the rooms where the teachers were working but did not provide any information to show the tasks performed while in these rooms that we could relate to grant functions. For example, the schedule for one teacher showed that the employee was assigned to "Room 28," under this is written "Learning Support."

**Title II, Part A Salaries**

PSD actually identified 18 employees paid from the Title II, Part A grant in its 6-school sample. For the 11 employees that PSD used to illustrate the schools' need for a RCS teacher, it failed to show that the employees paid from Title II, Part A funds were actually the employees used as RCS teachers. We reviewed a JV transfer from the general fund into Title II, Part A grant funds for salary costs for 66 RCS teachers. We reviewed supporting documentation for 31 of the 66 teachers and found of the 31, 8 of which PSD agreed with, were not RCS teachers (see Finding No. 4, A). Furthermore, PSD also provided the same type of school enrollment data during our audit as it did with its response for the remaining 35 teachers, and those teacher's salaries were also inadequately supported.[11]

PSD provided only schedules for three of the six employees included in its response. For two of the three employees, PSD provided only schedules for one semester during the 2005-2006 school year. According to OMB Circular A-87, Appendix B, 8, h, (3), PSD would be required to provide a schedule for both semesters during the school year, so providing only one semester did not fulfill the time and effort certification requirements. The schedules also did not show what tasks the employee actually performed. In fact, the schedules further call into question whether the employees actually worked on activities relating to the Title II, Part A grant. For example, the schedules for all three employees showed that a period of their day was spent providing prep time to teachers.[12] Prep time is not a Title II, Part A activity. Also, one employee worked part of her day performing entrance and exit duties at the school. These tasks, by title alone, do not appear to be activities related to Title II, Part A grant activities.

---

[11] In a July 7, 2008, email PSD's Comptroller and principal analyst for grants were apprised that the documentation provided to support the JV was insufficient and did not show that the teachers transferred as RCS teachers actually were used by the school as RCS teachers.

[12] Prep time is a free period given to teachers through their union bargaining agreement. This time is to allow the teacher time to prepare class lessons.

Although PSD indicated in its response that it provided the training logs for six employees, it actually provided training logs for only one employee. The training logs provided do not show how the activity met the goals for the Title II, Part A grant. For example, an activity was listed on a log titled “Title I Professional Development” as only, “Presented information about the End of Grade Testing. Discuss school requirements for retention and promotion.” There was no further explanation of these activities.

PSD has not been able to show that teachers coded as RCS teachers were teachers hired for the purpose of reducing class size. The sample data submitted were not complete and the information provided did not show whether work was performed for the grant.

In addition, PSD’s response also illustrated that there may have been coding errors involving two employees in its sample. Footnotes 4 and 5 in its response state that a teacher was coded in the accounting system to the wrong school, and that in another situation, the Title II grant paid for a second grade teacher when the grant should have funded a fifth grade teacher.

Furthermore, PSD’s statement is incorrect that the salaries had been reversed for all of the employees in its sample that were paid from Title II, Part A grant funds. During the September 2009 meeting we held with PSD, we were informed by PSD’s counsel that a match was performed using the salary amounts transferred and those paid in the sample to determine whether the employees’ salaries had been reversed. We were provided supporting documentation for this statement the following week, which showed only that five employees’ salaries had been reversed and not all of those in the sample. The reversals had already been incorporated into our work and the spreadsheets we provided to PSD.

**Reading First Salaries**

The spreadsheets provided for the Reading First grant expenditures are nothing more than Salary History Reports for the three schools. The reports show the Reading First expenditures for each employee; however, PSD failed to provide all of the other information it stated in the text of the response would be included on this exhibit, such as the Reading First purpose for each expenditure and a reference to more detailed information. PSD did not provide the TPERs for the one employee (the hiring information was provided twice, each time in separate exhibits); however, if the TPERs were provided they would have showed only the hours worked. The “Request for Extracurricular, Staff Development or Summer Activities” form provided for the employee showed only why the employee was hired, not what the employee actually did while working. This information is incomplete and does not provide adequate supporting documentation for the personnel costs charged to the Reading First grant.

PSD’s statement that it created policies and procedures to implement time and effort certifications supports our position that its process was not adequate. This is further shown by the inconsistent information provided by PSD as supporting personnel expenditure documentation for the three grants in its sample. The inconsistent information provided makes it apparent that PSD had no uniform process in place to support the personnel costs charged to Federal grants.

PSD did not provide its new policies and procedures nor did it provide supporting documentation to show the procedures had been implemented.

**Title I and CSR JVs**
PSD failed to show how the criteria cited applied to the appropriate certification of those salary expenditures transferred into the Title I and CSR grants. We are not requesting that PSD identify particular children or the supplemental services. The time and effort certifications are to certify and verify personnel charges to the Title I and CSR grants. Furthermore, using the object code and the employee's TPER is not reliable supporting documentation. During our audit, along with the issues found concerning the TPERs, we found that PSD's use of the ABC codes needs improvement (see Other Matters, ABC Code Usage Needs Improvement). For example, we found invoices from bowling alleys and invoices for portable toilet rentals that were coded to a salary object code.

**Per Diem, Extracurricular Activities and Professional Development Charges**
As stated in the report, OMB Circular A-87 Appendix B, 8, a. provides that compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards including but not limited to wages, salaries, and fringe benefits. Therefore, PSD must certify all types of personnel charges to Federal grants, not just salaries.

We reviewed JVs for salary transfers coded to object codes, 1211, 1511, and 1611 (see footnote 9 for code descriptions) that PSD stated in its response it was able to support with documentation already maintained, such as sign-in sheets. However, PSD did not provide us with adequate documentation. For example, the RCS teacher and principal training salary transfers that were coded as object code 1211 and 1611, respectively, were not adequately supported (see Finding No. 4, A). In addition, ESOL tutoring expenses were transferred and coded to object code 1511, along with the corresponding fringe benefits for these salaries using the same object code. Fringe benefit costs for ESOL tutors are not an allowable expense, as stated in the finding (see Finding No. 4, A). Our review found that salary costs using these object codes were inadequately supported and involved unallowable costs. Our work does not support PSD's statement that salary costs associated with those object codes are adequately supported by the documentation it currently keeps.

**A. PSD Lacked Adequate Controls to Ensure Salary Costs Charged to Grant Funds Were Adequately Supported (Continued)**

**III. Time and Effort Certification Process for Title I and CSR Positions Paid from Multiple Funding Sources Was Not Adequate**
The personnel activity reports that were prepared by PSD for positions funded by multiple funding sources did not meet Federal regulations. The activity reports were completed semiannually, not monthly, and did not coincide with a pay period, as required by OMB Circular A-87, Appendix B, 8. Compensation for Personal Services, h. Support for Salaries and Wages, (4), which states,

> Where employees work on multiple activities or costs objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5)…Such documentary support will be required where employees work on:
> (a) More than one Federal award,
> (b) A Federal award and a non-Federal award….
>
> Subsection (5) (c) states, Personnel activity reports or equivalent documentation must meet the following standards: …
> (c) They must be prepared at least monthly and must coincide with one or more pay periods.

We could not determine the exact amount of the inadequately supported costs because PSD could not determine the number of positions that were multiple funded for the audit period. The only information provided was the budgeted amounts for those positions that were to be split between the Title I and CSR grants and/or another funding source. The total salary and fringe benefits costs budgeted for these positions for the audit period for the Title I and CSR grants was $36,785,218 and $491,647, respectively.

As a result of PSD not certifying all personnel costs charged by the payroll system or by adjusting JV transfer to the Federal programs in our review, Federal grant funds might have been used to pay PSD employees who did not perform any work for the programs. Also, PSD did not have the information needed to correctly allocate personnel costs for employees working on multiple programs.

**PSD Response to Time and Effort Certification Process for Title I and CSR Positions Paid from Multiple Funding Sources Was Not Adequate (III):**

**Lack of Personnel Activity Reports**
PSD presented three factors that called the OIG's reasoning into question. First, PSD stated that the OIG's methodology was fundamentally unsound. PSD stated that the OIG cannot reasonably find that PSD had expended funds in an improper manner or without sufficient supporting documentation strictly on the basis of budgeted figures. Also, to rely on budgeted numbers when actual expenditures were provided is contrary to accepted audit practice. PSD then referred to spreadsheets previously provided to the OIG.

The second factor PSD noted was that all of the budgeted positions listed on the spreadsheets were not split funded. PSD stated that it appeared the OIG used any non-whole number position shown on a school's Title I budget. When a school's budget contains a non-whole number of Title I positions that is greater than one, only the amount to the right of the decimal represents a split salary. The OIG used 408.36 positions for the basis of the finding when 206 of those positions were funded 100 percent by Title I. PSD also provided an exhibit that showed the breakdown of whole number and non-whole number positions.

PSD's third factor that it stated called the OIG's reasoning into question related to the budgeting of a salary as a "split salary," even though the position was devoted exclusively to the Title I grant. PSD stated that the documentation previously provided to the OIG showed that employees split between the Title I or CSR grants and another Federal or non-Federal funding source still worked 100 percent on activities properly allocable to the Title I or CSR grant.

**OIG Response to PSD Response to Time and Effort Certification Process for Title I and CSR Positions Paid from Multiple Funding Sources Was Not Adequate (III):**

We used budgeted amounts because, as stated in the finding, PSD only provided us with the budgeted amounts for the audit period (July 2005 through June 2006). Also, PSD charged salaries and benefits based solely on budgeted amounts to the grant funds. For example, during our audit period, PSD charged salaries and benefits ($6,943,833) for prep time and salaries ($94,432) for school police officers to Title I grant funds based on budgeted amounts.

In March 2009, PSD provided the spreadsheet that it refers to in the response. On April 3, 2009, we met with PSD concerning the spreadsheet. At this meeting it was disclosed that the spreadsheet contained only a portion of the year's split salaries and may have excluded some salaries as well. The principal analyst for position control stated that all the salaries on the spreadsheet were for employees who were entered into the Advantage system as split funded and that it is a common practice for the principals, who have employees with split funded positions that total a whole position, not to enter the split funded positions as such in the Advantage system. Also, it was disclosed that the amounts were from mid-year JVs that were done to move all the split funded salaries entered into the Advantage system. The principal analyst for position control stated that this JV occurred in approximately February 2006. No other documentation was provided to us. Also disclosed at this meeting, by the principal analyst for grants, was that the information provided does not in any way support that the employees worked solely on a single cost activity.

The auditor in charge informed PSD that this information was not complete or sufficient in an April 17, 2009, email sent to PSD's Comptroller, principal analysts for grants and position control, the Title I Director, the Budget Director, the Deputy Budget Director, and outside counsel. During the September 18, 2009, meeting with PSD, it was disclosed that the information provided with its response was the same information from the April 3, 2009, meeting and it had not been updated since that meeting.

Furthermore, if the employees worked 100 percent on the Title I or CSR grant, as stated by PSD, then they should have completed the appropriate time and effort certifications.

We reiterate that PSD should ensure that its personnel activity reports for employees that work on multiple grant activities are completed at least monthly and coincide with at least one pay period.

## B. PSD Did Not Monitor Personnel Costs Paid by the Title I, Part A Grant to Ensure Costs Charged Were Allocable

PSD charged personnel costs for Head Start teachers and school police officers to Title I, Part A grant funds that were not allocable to the grant.

**I. Head Start Employees**
PSD inappropriately charged $2,888,140 for the salaries and fringe benefits for 64 Head Start teachers and classroom assistants to Title I, Part A grant funds. Although Title I grant funds may be used to pay for such costs, PSD did not perform certain actions that must be taken or have certain required factors in place for this to be an allowable grant expense.

First, Head Start is not a Title I, Part A program. Secondly, payment of Head Start personnel costs should have been included in PSD's 2006 Title I, Part A consolidated application, approved by the Pennsylvania Department of Education (PDE), as required by Title I, Part A- Section 1112 (b)(1)(E), which provides that each local education agency plan shall include a description of how the local education agency will coordinate and integrate services under Title I with other educational services at the local educational agency or individual school level. PSD did not include such a description relating to the payment of personnel costs in its application. Third, *U.S. Department of Education Non-Regulatory Guidance (March 2004), Serving Preschool Children Under Title I, Part A, Section G .3.,* stated that Title I funds may be used to provide services to complement or extend Head Start programs for children who are also eligible for Title I services; however, the teachers and classroom assistants did not provide additional services to PSD's Head Start program. The personnel costs were for Head Start teachers and assistants. Therefore, the services they provided did not complement or extend the Head Start program. Lastly, these costs also should have been adequately supported, but were not. None of the 64 teachers and assistants completed the required time and effort certifications.

PSD considered the Title I grant to be a "contingency source" of funds for Head Start salaries. In an email dated September 17, 2008, that was from the current Program Director of Pre-kindergarten Head Start, provided to us by the current principal analyst for grants, it was stated that, "the 243 teachers would have been funded presumably through a combination of the State Head Start (HSSA) grant and the Federal pair of Head Start (primary source) & Title I (contingency source)." Title I funds should not be used as a contingency source to pay for Head Start program personnel costs.

OMB Circular A-87, Appendix A, C., Basic Guidelines, 1., Factors Affecting Allowability of Costs, a.-j., provides that for a cost to be allowable, it must be necessary and reasonable for efficient performance of Federal awards, be allocable, authorized, or not be prohibited under State or local laws, be accorded consistent treatment, be in accordance with generally accepted accounting principles, be net of all applicable credits, and be adequately documented. The salary and fringe benefit costs were not allocable to the grant or adequately supported, and therefore, were unallowable grant expenses.

**PSD Response to Head Start Salaries Paid from the Title I Grant (I):**

PSD stated that it was incorrect to determine paying Head Start teachers from Title I funds was unallowable. PSD also stated that although Head Start Performance Standards do not require that grantees employ certified teachers, all of PSD's Head Start teachers have Commonwealth of Pennsylvania teaching certificates. For this reason, PSD must compensate its Head Start teachers at a higher level.

**OIG Response to PSD Response to Head Start Salaries Paid from the Title I Grant (I):**

PSD did not provide any argument, explanation, or supporting documentation to show why the Head Start salaries are allowable Title I grant expenditures. Additionally, paying for the Head Start teachers' salaries was not in-line with PDE requirements. PDE's 2005-2006 program review instrument[13] for the Title I, Part A program (Fiscal Requirements, 3) stated that one of the items PDE required of an LEA was that the LEA expend Title I funds on activities that correspond with what was outlined in the Title I application. As stated in the finding, PSD did not include the payment of Head Start teacher salaries in its application.

**II. School Police Paid from Title I Funds**

In May 2006, PSD transferred $94,432,[14] for the partial salaries of school police officers, from the general fund into the Title I grant fund. In an email dated March 7, 2006, a PDE Division of Federal Programs official stated that PDE would approve PSD paying for school police officers from Title I funds if the affected schools revised their school-wide plans and PSD stated why Safe and Drug Free funds were not being used. In an undated letter responding to the official, PSD's Budget Director stated that the school-wide plans would be revised and that Safe and Drug Free funds were being used in other areas.[15] In March and April 2006, school-wide plans were revised; however, PSD did not revise the school-wide plans of all 15 schools affected. The school-wide plans of Gillespie Middle, Potter Thomas, Penn Treaty, and Pepper Middle schools were not revised.

The POMB and the Title I program office did not adequately communicate concerning which schools were affected by the transfer of funds since PSD did not revise all the appropriate school-wide plans. Because the school-wide plans were not revised, as required by PDE, and the costs were not necessary and reasonable for the efficient performance of the Title I program, as required by OMB Circular A-87, Appendix A, C. Basic Guidelines 1. Factors Affecting Allowability of Costs, unallowable costs of $22,800 were charged to the Title I grant for the four schools.

[13] Program review instruments are the guides PDE uses to monitor the Department grants that it passes through to the LEAs.
[14] The $94,432 is included in the salary transfer amount in subpart A, II of this finding.
[15] On June 5, 2006, PSD corresponded with a different official within the PDE, concerning another issue, and stated that there were $558,437 in unexpended funds in the Safe and Drug Free Schools grant.

**PSD Response to Head Start Salaries Paid from the Title I Grant (I):**

PSD stated that there is no legal authority that required schools to amend their school-wide plans for the salaries to be allowable if paid from Title I grant funds. In addition, the four schools cited did amend their budgets.

**OIG Response to PSD Response to School Police Paid from Title I Grant Funds (II):**

PSD was instructed by PDE to revise its school-wide plans. The schools that did not revise their school-wide plans expended funds in violation of a State required procedure. Federal regulation 34 C.F.R. § 80.20 (a) requires that grant funds be expended according to state procedures. PSD did not provide any supporting documentation showing that the schools in question had amended budgets to account for the school police officer salary transfers.

## C. Payroll Policies and Procedures Were Not Adequate

PSD's payroll policies and procedures did not address TPER retention, documentation requirements for overtime and bonus payments, or provide an adequate definition of the sign-in and sign-out process. As a result, we found inadequately supported salary costs as a result of missing TPERs, inadequately supported overtime costs, TPERs that did not support salary amounts paid, and a bonus that was paid to an individual who did not meet the time requirements for bonus payment.

We reviewed payroll transactions, totaling $57,921 (included salary, bonus, and overtime transactions), and found $2,669 in unsupported costs and $1,500 in unallowable costs paid by Title I grant funds during the audit period. PSD processed payroll through the Advantage Payroll System. Employees were required to sign in and sign out daily on bi-weekly sign-in sheets (hardcopy TPER). The principal, assistant principal, or manager was required to approve the TPER.

**Unsupported Costs**

We reviewed $29,400 in salary costs and found that $1,795 could not be supported because of two missing TPERs. We also reviewed $2,009 in overtime payments and found that $874 could not be supported because of missing TPERs or the lack of time being recorded on the TPER for two separate pay periods for one employee. In addition, the employee was paid the same amount of overtime for both pay periods, even though one of the pay periods included the Thanksgiving holiday break. Personnel costs must be supported by source documentation, as required by 34 C.F.R. § 80.20 (b)(6) Standards for Financial Management System, which provides that local educational agencies must support accounting records by source documentation such as cancelled checks, paid bills, time and attendance records, and other documents of the like kind. In addition, OMB Circular A-87, Appendix A, C., Basic Guidelines, 1. Factors Affecting Allowability of Costs, j., provides that for a cost to be allowable it must be adequately documented.

Also, we found instances where employees did not enter a sign-out time onto the hardcopy TPER as required by PSD's payroll policies and procedures. All employees listed on the TPER did not sign out for the workday on 23 of the 26 TPERs we reviewed.[16] For example, on one TPER from William Penn High School, all 9 employees listed on the TPER did not sign out at all during the 2-week pay period, resulting in 90 instances of missing sign-out times for the pay period. In addition, we noted 14 instances, out of the 26 TPERs reviewed, where supervisors did not manually approve the TPERs, as required by PSD policy. PSD's payroll policy "614. Payroll Authorization" stated, "Daily sign-in and sign-out procedures adequate to meet wage and hour requirements and Board policy are required of all employees" and that "The payroll shall be certified by the building principals or appropriate directors"; however, this was not done. In addition, although the policy required daily sign-in and sign-out procedures, it did not delineate what the sign-in and sign-out procedures required. Additionally, the policy did not address TPER retention requirements.

**PSD Response to Payroll Policies and Procedures Were Not Adequate (Unsupported Costs):**

PSD stated that the OIG misunderstands PSD's policies and procedures concerning TPER sign-outs. The policy states that sign-outs are only required as necessary "to meet wage and hour requirements." The OIG did not identify any case where wage and hour laws would call for employees to sign out and an employee failed to do so.

**OIG Response to PSD Response to Payroll Policies and Procedures Were Not Adequate (Unsupported Costs):**

PSD's payroll policy actually stated, "Daily sign-in and sign-out procedures adequate to meet wage and hour requirements and Board policy are required of all employees." If PSD's policy requires employees to document the time worked each day, as stated by PSD in its response, then a sign-out time should be included on the TPER. Also, PSD did not address the missing TPER issue.

**Unallowable Costs**

We reviewed $26,125 in bonus payments and found that a $1,500 bonus was paid in error. The bonus was paid to a teacher who did not complete the amount of service time required to receive the bonus. The teacher left before completion of the 150-day requirement that qualified her to receive the initial $1,500 new hire bonus payment. PSD's *Bonus Payment Guidelines for New Hire, Critical Subjects and Critical Schools* required that bonuses be paid to certified teachers receiving a satisfactory rating who met the new hire bonus requirements. The requirements were that the initial bonus payment was paid after the first 150 calendar days of service and the balance was received at the end of the 37th month. PSD did not determine whether the teacher met all the requirements for bonus payment, nor did its payroll policy or bonus payment guidance include a process to be used to ensure that teachers met all the requirements before they were paid a bonus.

PSD management did not maintain an adequate internal control environment by ensuring that payroll policies and procedures included adequate controls and that processes were clearly

[16] We are not questioning any costs for these employees because they were salaried employees.

defined. For those policies and procedures that were in place, PSD did not enforce them. Therefore, grant funds may have been used for salary, overtime, and bonus payments that should not have been paid. PSD did not use fiscal controls and fund accounting procedures that insured proper disbursement of and accounting for Federal funds, as required by 34 C.F.R. § 75.702.

**PSD's Response to Payroll Policies and Procedures Were Not Adequate (Unallowable Costs):**

PSD did not provide a response to this portion of the finding.

**Recommendations:**

We recommend that the Assistant Secretary for Elementary and Secondary Education, in collaboration with the Assistant Secretary for Special Education and Rehabilitative Services, Assistant Secretary for the Office of Post Secondary Education and the Assistant Deputy Secretary of Safe and Drug Free Schools instruct the PDE to require PSD to:

1.1 Return the $2,978,844 [17] in unallowable salaries, benefits, and related indirect costs to the Department.

1.2 Provide adequate documentation to support $107,005,052[18] in inadequately documented personnel expenditures or return any portion of that amount the Department determines is not adequately supported.

1.3 Implement and enforce policies and procedures requiring all employees who work on a single program to complete semiannual time and effort certifications and monthly personnel activity reports for employees funded from multiple funding sources, whose salaries are paid from grant funds, either directly or by JV transfer, and revise the process for preparing personnel activity reports to meet Federal regulations.

1.4 Develop and implement policies and procedures that will ensure that expenditures charged to grant funds are reasonable, allocable, and allowable expenditures of the grant from which they are being paid.

1.5 Revise policies to ensure TPERs are retained for a minimum of 3 years, overtime is properly documented and is verified before payment is made, and bonus payments are paid properly. Additionally, revise the payroll policy to delineate the daily sign-in and sign-out requirement. Also develop a process to ensure that the payroll authorization policy is followed.

[17] This amount includes all unduplicated unallowable expenditures and related indirect costs at a rate of 2.28 percent of the unallowable costs. See Enclosure 1 for a calculation of this amount.
[18] See Enclosure 2 for a table detailing the unduplicated costs.

**FINDING NO. 2 – Supplanting of Federal Funds**

PSD used Federal grant funds to supplant state and local funding. The types of expenditures made that supplanted the funds included expenditures for contracted services, teacher training, computer equipment, and software. All of the expenditures were made at the district level. PSD also may have supplanted local funding by charging a portion of the school choice transportation costs to the Title I grant.

We reviewed 110 JV transactions, totaling $47,668,116, and found that $6,979,063 was charged to grant funds that supplanted state and local funding. We also reviewed another JV, totaling $1,293,386, relating to school choice transportation costs, that was not part of the sample above. The following amounts, by grant, were supplanted:

- Title I: consulting contracts with university partnerships ($2,848,988), consulting contracts entered into by PSD's High School Reform office ($2,400,000), and school choice student transportation costs (undetermined amount-see below); totaling $5,248,988.
- Title II, Part A: salaries and benefits related to the new teacher training program, totaling $1,395,685.
- Title II, Part D: computer equipment ($267,979) and software ($66,411), totaling $334,390.

According to Department Non-Regulatory Guidance on Title I Fiscal Issues (2006) [19] and the OMB Circular A-133 Compliance Supplement, Section III (G) (2.2) b, dated March 2006, supplanting occurs when a state or local education agency uses Federal funds to provide services they provided with state or local funds in the prior year. Although this criterion did not apply to school level expenditures in a school-wide program, it did apply to district level expenditures.

Under the Federal "supplement not supplant" requirement,[20] PSD may use Department funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the Federal funds, be made available from non-Federal sources (State and local) for the education of participating students. In no case should PSD have used Federal program funds to supplant funds from non-Federal sources. PSD did not supplement the non-Federal funds but replaced the state and local funds with Federal funds. The majority of the expenditures were expensed from state or local funds and then were transferred at year-end from the general fund or state funds into Department grant funds. [21]

---

[19] In February 2008 the Department released updated guidance, *Non-Regulatory Guidance on Title I Fiscal Issues; Maintenance of Effort; Comparability; Supplement, not Supplant; Carryover; Consolidating Funds in Schoolwide Programs; and Grantback Requirements,* illustrating how LEAs should consolidate school funds. Had this guidance been in effect during the audit period, PSD's school based Title I expenditures, totaling $6,327,025, found during our review would have supplanted local funding. This includes salaries and contracts for Transition Support Tutors ($4,555,099), ESOL tutor salaries and benefits ($1,666,981), school police officer salaries ($94,432), and general education expenses ($10,513).

[20] Provided by NCLB Title I, Part A, Section 1120A(b), Title II Part A, Sections 2113(f) and 2123(b), and Title II, Part D, Section 2413(b)(6).

[21] The transfers for the Title I, Part A contracting expenses and the Title II, Part D computer expenses (totaling $5,583,378) were year-end adjusting entries.

**Contracts**
Contracted services, totaling $2,400,000, included payments to a moving company and a company that created custom banners. There were also contracting expenses, totaling $2,848,988, for PSD's university partnerships that included payments for Federal Express shipping charges, a payment to a local deli for catering and payment to a management consulting firm. Supplanting occurred because these contracts were paid from non-Federal funding sources in prior years. Also, they were budgeted to be funded from non-Federal sources during the audit period.

**Teacher Training Program**
In three separate JV transfers PSD moved $1,803,713 in expenses, including salaries, benefits, contract services and materials, associated with the new teacher training program from state funding into Title II, Part A. Portions of two of the JVs, totaling $1,395,685, supplanted state funding since in the prior year these items were funded by the Empowerment Grant (State funding).[22]

**Computer Equipment and Software**
PSD transferred $320,452 and $66,411 in expenditures coded to computer equipment and software. Of the $320,452 in computer equipment, $267,979 supplanted local funds spent in the prior year while all of the $66,411 in computer software supplanted local funds.

**School Choice Transportation**
PSD transferred $1,293,386 paid from the general fund for school choice student transportation costs into the Title I grant.[23] According to the supplement not supplant requirement in Title I, Part A, Section 1120A (b), if an LEA uses local funds to transport students to their school of residence, the LEA may only use Title I, Part A funds to pay the incremental costs of transporting students to their school of choice. PSD provided us with only the costs of transporting the students to their school of choice; therefore, we could not determine whether the amount transferred represented the incremental cost of transporting the students.[24] We requested supporting documentation showing how PSD determined the amount transferred was for incremental costs or the costs above those it would have incurred transporting the students to their home school; adequate support was not provided.[25]

NCLB Title I, Part A, Section 1114, School Wide Plans (a)-(b) provides that funds must be used to address the educational needs of a school identified by the needs assessment and articulated in the comprehensive plan and may not be used for non-educational activities.

---

[22] The total amounts of the two JV transfers were not supplanted. As stated the supplanted amounts only represents the costs funded by State funding in the prior year.
[23] See Finding No. 5, subpart C for more information on the movement of costs for school choice student transportation. We are questioning a portion of these costs in Finding No. 5.
[24] PSD provided us with supporting documentation and confirmation that costs for 546 of the 728 students were for the full cost of the students being transported to school not the incremental costs. We were not provided with adequate supporting documentation to determine the amount of the supplanted costs for those 546 students.
[25] In the prior year PSD only used $726,361 in Title I funds for school choice student transportation and had an entirely different method for determining the costs to allocate to the Title I grant. Neither the difference nor change in allocation method was explained to us.

PSD could not demonstrate that it would not have received or provided the services or equipment in question with non-Federal funds had the Federal funds not been available. PSD would have had to have a reduction in or lack of state or local funds available to pay for these expenditures from Federal funds. However, PSD did not have a reduction in or lack of state and local funding; it overspent its local funds, as shown by the deficit incurred in the general fund.

During the 2005-2006 school year PSD incurred a deficit in its general fund. The former Chief Financial Officer (CFO) stated that PSD first identified that it was headed for a deficit in the fall of 2005. The balance in the general fund on June 30, 2006, was negative $66.1 million. The former CFO stated that the deficit was partially a result of PSD's inadequate controls and controls that were not being followed. PSD transferred charges to grant funds to absorb costs already incurred by the general fund, which caused the supplanting of Federal funds. The former CFO and former principal analyst for grants both stated that transfers to move charges from the general fund into state and Federal grants were done at the direction of the Budget Director. The Budget Director stated he had meetings with the former Chief Executive Officer (CEO) to discuss movement of charges. Spreadsheets prepared by the Budget Director, for his meetings with the former CEO, show a projection of the "deficit relief" if the charges were transferred into state and Federal grant funds. PSD did not determine whether the movement of these charges would be supplanting of Federal funds.

PSD did modify its controls, to be effective in FY 2008, as a result of the deficit in the general fund. These controls included the requirement that program offices submit an operating (general fund expenditures) plan of contracted service expenditures prior to the start of the fiscal year to better assess proposed resolutions and to provide a check against program managers over committing their resources. PSD was not proactive in creating additional controls and only enhanced its controls as a reaction to this major financial crisis. Had additional controls been enacted prior to the audit period, the excessive spending in the general fund may have been curtailed.

**Recommendations:**

We recommend that the Assistant Secretary for Elementary and Secondary Education require PDE to instruct PSD to:

2.1 Return the $7,138,185[26] in unallowable supplanted charges and related indirect costs to the Department.

2.2 Provide adequate documentation to support that the $1,293,386 paid from the Title I grant were the incremental costs for transporting the school choice students or return any portion of that amount the Department determines is not adequately supported.

2.3 Enforce the modified controls and develop and implement any additional policies and procedures necessary to ensure that Federal funds are not supplanted.

[26] This amount includes all unallowable expenditures and related indirect costs at a rate of 2.28 percent. See Enclosure 1 for a calculation of this amount.

**PSD Response:**

PSD did not concur with the finding.

PSD stated that the OIG used the wrong method of testing for supplanting. Whereas a presumption of supplanting typically arises if Federal funds provide services that it provided with non-Federal funds in the prior year, this is not the case in the context of a school-wide program. The U.S. Department of Education has issued guidance indicating that, "[a] school operating a school-wide program does not have to: (1) show that Federal funds used with the school are paying for additional services that would not otherwise be provided; (2) demonstrate that Federal funds are used only for specific target populations; or (3) separately track Federal program funds once they reach the school." *See* U.S. Dep't of Educ., "Non-Regulatory Guidance, Title I Fiscal Issues: Maintenance of Effort; Comparability; Supplement, Not Supplant; Carryover; Consolidating Funds in Schoolwide Programs; Grantback Requirements," at 37 (2008) [*sic*].

PSD stated schools not consolidating state, local, and Federal funding is irrelevant. Consolidation relieves school-wide program schools from various programmatic, accounting, and reporting requirements. A school that consolidates its Federal and non-Federal assistance need not maintain separate books and records demonstrating that it has expended its Federal funds exclusively for award purposes so long as it can show that its school-wide plan as a whole serves the intents and purposes of the award. 20 U.S.C. § 6314(a)(3)(A)-(B).

PSD also stated that the presumption of the supplanting of Federal funds can be rebutted through evidence that it was not able to provide the services in the absence of the Federal funds. PSD points to the draft report statements concerning its deficit acquired during the audit period. PSD believes that the existence of such a "shortfall of non-Federal dollars should eliminate any presumption of supplanting."

**OIG Response:**

We revised our finding to include only the district level expenditures that were supplanted. PSD did not take into account that it supplanted funds on a district level. Administrative offices, such as the Title I program office, the High School Reform office, and the Office of Secondary Education made expenditures that were charged to Federal grants and that supplanted state and local funds.

PSD's statement that it incurred such a large deficit alone is not enough to refute the finding of supplanting of state and local funds. PSD would have to provide documentation, such as budgets, minutes from director's meetings or supporting documentation of a reduction in state and local funding, from the time period of the supplanting to show these services would not have been provided without Federal funds. The supplanting occurred after PSD had already paid for the services or equipment from the general fund and then at year-end, when it was discovered that funds were overspent, transferred the expenses into Federal grant funds. Therefore, PSD did provide or receive the services or equipment without the Federal funds and used the Federal funds to help reduce its deficit.

PDE currently requires LEAs to keep the documentation needed to rebut supplanting.[27] This documentation includes local board of education actions, budget histories, and fiscal and programmatic documentation that in the absence of Federal funding, staff and services in question would have been eliminated.

**FINDING NO. 3 – PSD Did Not Have Adequate Controls in Place to Ensure Non-Payroll Expenditures Met Federal Regulations and Grant Provisions**

We determined that PSD's accounts payable process was not adequate. The process was not adequate because it did not include a review of expenditures for allowability or require that proper supporting documentation be obtained prior to payment from grant funds. Also, PSD did not have written accounts payable policies and procedures. The written guidance that was available, entitled "Managing Your Grant" and "Pre-Audit of Payment of Vouchers," was not adequate because it did not address expenditure allowability and reasonableness or documentation requirements.

Consequently, PSD charged $1,175,623 in non-payroll expenditures to grant funds that did not follow Federal cost regulations or grant provisions, resulting in expenditures that were not reasonable, allocable, or adequately supported. We found unallowable expenditures, totaling $411,383, that were processed through the AP Department that included finance charges and late fees, indemnity insurance for a Nonpublic school, tips for alcoholic beverages, iPods, pool tables, two 11-inch crystal vases, a crystal wine bucket,[28] newspaper subscriptions for the Title I program office, and the purchase of two copier/printers; one that was never used and one that was not being used for its intended purpose (to assist in processing assessment instruments).[29] These expenditures were not allowable based on Federal grant criteria (OMB Circular A-87) and/or the grant provisions relating to the types of allowable grant expenditures.[30] Inadequately supported expenditures,[31] totaling $764,241, included food, training materials, computers, Palm Pilots, and class trips. Specifically,[32]

[27] PDE, Division of Federal Programs, 2009-2010 Administrative Manual for Consolidated Federal Programs. Section 1: Program General Guidelines, Supplementing State and Local Funds.
[28] The vases and the wine bucket were purchased by the GEAR UP program office.
[29] The equipment was located at University City High School. PSD never purchased the service agreement from the distributor that would have set up the items to work for the intended purpose. In the summer of 2008, the principal of the school confirmed that one of the copiers was not being used for its intended purpose and the other copier was still packaged in the box that it was received in and never used. This person was not the principal at the time the questioned items were purchased.
[30] Refer to table in Background section for the types of allowable expenditures that can be made from grant funds.
[31] Expenditures were considered to be inadequately supported if adequate documentation was not provided that showed that the expenditure as actually incurred or that fully supported the expenditure. For example, no documentation at all was provided; there was no invoice, bill, or receipt to support an expense; expenditures for computers were not located, and were not entered into to PSD's property management system; no contracts were provided; or a list of students that attended the field trips could not be provided.
[32] See Enclosure 3 for expenditure details and a summary of unallowable and inadequately supported amounts.

- We reviewed 735 expenditures, totaling $3,206,023, charged to the Title I grant. We found 67 expenditures, totaling $62,761, were unallowable and 126 expenditures, totaling $281,010, were inadequately supported. Of those that were inadequately supported, 62 expenditures, totaling $41,178, were also questionable.[33] (See Enclosure 3a for detailed examples of the unallowable and inadequately supported expenditures.)
- We reviewed 99 expenditures, totaling $435,706, charged to the CSR grant. We found 17 expenditures, totaling $4,554, were unallowable and 4 expenditures, totaling $47,662, were inadequately supported. (See Enclosure 3b for details of the unallowable and inadequately supported expenditures.)
- We reviewed 424 expenditures, totaling $2,527,483, charged to the GEAR UP grant. We found 59 expenditures, totaling $138,512, were unallowable and 81 expenditures, totaling $203,181, were inadequately supported. Of those that were inadequately supported, seven expenditures, totaling $14,200, were also questionable. (See Enclosure 3c for detailed examples of the unallowable and inadequately supported expenditures.)
- We reviewed 76 expenditures, totaling $46,716, charged to the Title II, Part A grant. We found 68 expenditures, totaling $45,000, were unallowable. All of the unallowable expenditures were for purchases of textbooks or instructional aids that were purchased without the related professional development for instructional staff that is required by Title II, Part A, Section 1123(a).
- We reviewed 665 expenditures, totaling $871,323, charged to the Reading First grant. We found 96 expenditures, totaling $160,016, were unallowable and 8 expenditures, totaling $44,080, were inadequately supported. Of those that were inadequately supported, four expenditures, totaling $12,764, were also questionable. The unallowable expenditures included those items purchased that were a violation of grant guidelines, such as the purchases of non-reading text books, study materials for the Pennsylvania System of School Assessment (PPSA) test, graphing calculators, and school safety support services. The unallowable expenditures also included the purchase of items that were in violation of OMB Circular A-87,[34] such as incidental items for staff training.
- We reviewed 43 expenditures, totaling $530,159, charged to the Safe and Drug Free Schools grant. We found one unallowable $540 expenditure, and 10 expenditures, totaling $53,119, were inadequately supported. Of those that were inadequately supported, two expenditures, totaling $654, were also questionable. (See Enclosure 3d for details of the unallowable and inadequately supported expenditures.)
- We reviewed 55 expenditures, totaling $1,603,002, charged to the Title II, Part D grant. We found 10 expenditures, totaling $117,162, were inadequately supported. (See Enclosure 3e for details of the unallowable and inadequately supported expenditures.)
- We reviewed 37 expenditures, totaling $168,662, charged to the Title II, Part D grant for Nonpublic schools. We found that 4 expenditures, totaling $18,026, were inadequately supported. All of the inadequately supported expenditures were also questionable. All

[33] Because of the expenditures being inadequately supported, we could not determine the exact nature or purpose of the expense, and based on the accounting codes and line descriptions for the expenditures contained in the general ledger, the allowability of these expenditures appeared questionable.
[34] OMB Circular A-87, Appendix A, C. Basic Guidelines, 1., Factors Affecting Allowability of Costs , a-j., provides that for a cost to be allowable it must be necessary and reasonable for efficient performance of Federal awards and be allocable.

four expenditures were for the purchase of computer equipment and software for archdiocesan schools.

PSD did not meet the Federal financial management system standards contained in 34 C.F.R. § 80.20 (b)(3) and (b)(6):

- (b)(3) provides that grantees and sub-grantees must maintain effective control and accountability for all grant and sub-grant assets (including cash) and assure that such assets are used solely for authorized purposes.

- (b)(6) provides that grantee and sub-grantee accounting records must be supported by such source documentation as cancelled checks, paid bills, time and attendance records, and subgrant award documents, etc.

Additionally, according to OMB Circular A-87, Appendix A, C., Basic Guidelines, 1., Factors Affecting Allowability of Costs, a. and j., costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards, be allocable to Federal awards, and be adequately documented. The unallowable costs were not necessary and reasonable to the grants charged and the inadequately supported costs were not adequately documented.

We recognize that the SRC mandated new internal controls concerning expenditures paid through the AP Department (effective in FY 2008). These controls provided that all payments over $350 either go through PSD's procurement process or be encumbered. Also added were controls requiring that all resolutions be fully encumbered and that no changes to encumbrances or encumbrance overrides were to be authorized without proper reason and documentation. Although PSD appeared to have taken steps to reduce overspending, it still has not addressed the issue of unallowable and inadequately supported expenditures.

**Recommendations:**

We recommend that the Assistant Secretary for Elementary and Secondary Education in collaboration with the Assistant Secretary for the Office of Post Secondary Education and the Assistant Deputy Secretary of Safe and Drug Free Schools require PDE to instruct PSD to:

3.1 Return the $420,762[35] in unallowable and related indirect costs to the Department.

3.2 Provide adequate documentation to support $764,241 in inadequately supported non-personnel expenditures or return any portion of that amount the Department determines is not adequately supported.

3.3 Develop and implement written accounts payable policies and procedures that provide reasonable assurance that Federal expenditures are necessary, reasonable, allocable, and adequately documented. We suggest the policies and procedures require that (1) adequate supporting documentation (invoices, receipts, etc.) is obtained and maintained for all expenditures, (2) sign-in sheets for professional

[35] This amount includes all unallowable expenditures and related indirect costs at a rate of 2.28 percent of the unallowable cost. See Enclosure 1 for a calculation of this amount.

development activities are prepared and maintained, (3) sign-in sheets along with agendas for parental involvement activities are prepared and maintained, and (4) expenditures are reviewed for allowability before payment is made from grant funds.

3.4 Develop and implement a process to ensure employees are made aware of the types of items that are and are not allowed to be purchased with Federal grant funds.

**PSD Response:**

PSD did not concur with the finding.

PSD acknowledged that the OIG staff reviewed more than 2,000 transactions processed through its AP department. PSD stated that because of the number of line items at issue in the finding, it limited its response to addressing those transactions valued at $1,000 or greater.

In addition, PSD noted that in many circumstances the OIG staff's description of the grounds for recommending a transaction to be unallowable or questioned is at odds with the documentation that it presented. For example, the OIG claims that PSD could not support Palm PDA devices because PSD was unable to provide the names of those using them. PSD stated that they in fact provided the documentation to the OIG.

PSD further stated, "As to the costs listed as 'questionable' in the OIG's spreadsheets, it appears that the OIG does not dispute that the particular costs were allowable or adequately documented. Instead, the OIG poses general questions regarding the relationship between a specific expenditure and a federal award purpose. Each 'questionable' line item commentary from the auditors agrees that the cost was necessary, allocable, and adequately supported, and in many cases there is acknowledgement that the finding has no dollar value finding attached. Although the SDP does not understand these 'questionable' findings to require a response, we have endeavored to provide responses where possible."

PSD also provided the results of the review of its records relating to the AP transactions in a spreadsheet included as an exhibit to its response to the draft report.

**OIG Response:**

We disagree with PSD's statement that the OIG's determination that items were unallowable is "at odds with the documentation PSD presented" because PSD did not provide adequate supporting documentation to us. Regarding the PDA devices PSD used as an example, PSD did not provide the information stated until it provided its response to the draft report.[36]

Furthermore, PSD's documentation for this item was inconsistent, and it did not fully provide the requested information. PSD provided two different serial numbers for one of the Palm Pilots and for another one provided two user names and two different serial numbers. Also, PSD never

[36] This item was part of the Office Depot sample in Finding No.5 of the report. PSD chose to use it as an example in its response to Finding No. 3. The Office Depot issue is discussed further in Finding No. 5.

provided the form used by the Title I Program office, as stated by its Director, which was supposed to be used to monitor who received such items as we requested.

In the draft report, we clearly stated that the questionable costs were not adequately documented, as still stated in the finding. We stated the number of expenditures that were inadequately supported and the amount of those that were questionable. We also included a footnote in the draft report to explain why items were questionable. Footnote 33, (29 in the draft report) read, "Because of the expenditures being inadequately supported, we could not determine the exact nature or purpose of the expense, and based on the accounting codes and line descriptions for the expenditures contained in the general ledger, the allowability of these expenditures appeared questionable." Also, the numerous spreadsheets provided to PSD showed that the questionable items were not considered adequately supported and the allowability of the items was in question. Furthermore, we held several meetings with PSD to discuss the finding issues and explained the reasoning for the unallowable, inadequately supported, and questionable costs. PSD had ample opportunity to seek clarification on any questioned expenditure.

Regarding PSD's spreadsheet exhibit, it addressed only the Title I, CSR and Reading First grant expenditures; three of the seven grants for which we reviewed AP expenditures. Much of the information provided by PSD did not reverse our position on the expenditures, because the documentation provided was not reliable or adequate. For example, the information provided by PSD concerning the purchase of 21 iPods (15 Shuffles and 6 Nanos), with CSR grant funds was not reliable. In May 2008, we received a written statement from the Title I Director stating that the 15 iPod Shuffles and 6 iPod Nanos did not support the CSR program; however, PSD's draft response included an undated, handwritten statement signed by an individual (no position title indicated) that the 15 iPod Shuffles ($1,035) were used to enhance the school's literacy program since stories were added onto the Shuffles. No additional information was provided to show which students received them or which teachers used them. Also, nothing was provided to explain the purchase of the 6 iPod Nanos (totaling $1,074). For these and similar items, inconsistent statements and the lack of adequate documentation made it impossible for us to form a conclusion that the expenditures were allowable.

Adequate supporting documentation was provided for some of the expenditures and we revised our finding accordingly.

## FINDING NO. 4 – Policies and Procedures Were Not Adequate and/or Enforced

PSD did not enforce its policies and procedures for processing JV transactions, travel reimbursement, imprest fund usage, and contracting. In addition, PSD's JV processing and imprest fund policies and procedures were not adequate. As a result, unallowable and inadequately supported costs were charged to grant funds.

### A. Policies and Procedures for Processing JVs Were Not Adequate or Enforced

PSD's written policies and procedures relating to JV transfers were not adequate because they did not include adequate controls and processes. As a result, we found JV transactions that were not allowable or adequately supported. We reviewed 110 JV transactions, totaling $47,668,116 (excluding transportation and indirect costs transactions) and found that 18 transactions, totaling $6,349,261, were unallowable and 42 transactions, totaling $11,928,352, were inadequately supported. (See Enclosure 4 for a table detailing the unallowable and inadequately supported costs.)

**Unallowable Costs**

Examples of the types of unallowable JV transactions included transfers of salaries and benefits, totaling $576,596, for nine teachers[37] purported to be RCS teachers that were not, transfers of salaries and benefits ($55,837 and $51,344 respectively, totaling $107,181) for two individuals into the Safe and Drug Free Schools grant who were not working on the grant,[38] duplication of charges in a JV,[39] and the transfer of fringe benefits from the general fund for ESOL tutors, a position that was not eligible to earn benefits. The expenditures were unallowable because they were not reasonable or allocable to the grant they were charged to as stated in OMB Circular A-87, Appendix A, C., Basic Guidelines, 1., Factors Affecting Allowability of Costs, a.-j.

We also noted unallowable expenditures that were transferred into Title I grant funds by carrying over Title I grant charges that were expended after the grant period had expired. We reviewed three separate JV transactions, totaling $830,184, where PSD carried over grant funds. One $691,586 transaction was a Title I grant expenditure and two transactions were Reading First grant expenditures, totaling $138,598. In December 2005, PSD transferred Title I grant expenditures, totaling $691,586, from the 2004 Title I grant fund into the 2003 Title I grant fund, 15 months after the grant period expired. Department grants have a 15-month grant funding period, with an additional 12-month extension that can be granted if unobligated funds are still available for grant use. Grant funds must be expended during this 27-month period if the extension is granted. PSD generally was granted the extension for Department grants. It was common practice for PSD to "carry over" grant funds to fully expend the grants (i.e., JV transfers were performed to move charges from later grant periods into earlier grant periods.) The grant period for the 2003 grant was from July 2002 to September 2003, with an extension until September 2004. We found that $112,383 of the $691,586 JV transfer was for expenditures incurred by the Title I program after September 2004.

[37] We sampled 31 RCS teacher's salaries, totaling $1,667,806, from a universe of 66, totaling $3,142,915.

[38] The transfer was from the Steps to a Healthier Philadelphia grant and a clearing fund for grants. One salary transferred was for an administrative assistant from the Office of Health, Safety, Physical Education and Sports Administration. This employee stated she was in that position during the audit period and did not work on the Safe and Drug Free Schools grant.

[39] The duplications involved two JVs relating to charges for prep time for teachers. On one JV PSD moved $1,403,071 in prep time charges from the general fund into the Title I fund. On another JV PSD transferred $5,543,762, moving the same type of charges from the general fund into the Title I fund. This JV also included duplication of the $1,403,071 in charges already transferred.

PSD's policies and procedures did not require the analyst to determine that the grant funds were from the appropriate grant period when performing a carryover to fully expend grant funds. In fact, the policies and procedures were silent on guidance relating to JV transfers of carryover grant funds. When preparing the JV to transfer the charges, the analyst reviewed only a screen print from the Advantage system which showed the total amount of funds available for transfer by funding code and not the detailed report of the general ledger that showed the actual dates the charges were incurred. According to 34 C.F.R. § 80.23, Period of Availability of Funds, where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period. The $112,383 should not have been charged to the FY 2003 grant because the expenditures were incurred after the end of the grant's period of eligibility and the subsequent funding period.

**Inadequately Supported Costs**

Inadequately supported JV transactions included salary transfers[40] (from state and local funding), professional development expenses for principals and assistant principals,[41] and salaries for personnel purported to be in a position that they were not. For example, 37 ($12,690) of the 442 separate salary payments ($920,915) for training of principals that were transferred into Department grants were for personnel other than principals. Also, there were 156 transfers for employee salaries into Department grants under the ABC code for Transition Support Tutors. However, 32 ($272,205) of the 156 ($2,179,581) employees whose salaries (excluding benefits) were transferred did not appear on the list of Transition Support Tutors provided by PSD's HR department. In addition, routine JVs used to record copier charges, facilities rentals, and food service expenditures were not supported.

PSD did not meet the basic guidelines in OMB Circular A-87, Appendix A, C. Basic Guidelines 1. Factors Affecting Allowability of Costs, j. which states that to be allowable under Federal awards cost must be adequately documented. PSD also did not meet the Federal financial management system standards contained in 34 C.F.R. § 80.20 (b)(2) and (b)(6) that provides that local educational agencies accounting records must be supported by such source documentation as cancelled checks, paid bills, time and attendance records, and subgrant award documents, etc.

**Policies and Procedures**

PSD management did not ensure that the policies and procedures included adequate internal controls and that processes were clearly defined. PSD's JV processing policies and procedures were not adequate because they did not clearly define or provide detailed examples of what documentation should be used to support JV transactions. Also, the policies and procedures did not require analysts or others to determine that expenditures transferred to a grant were allowable. Our review disclosed JV Approval Request forms submitted by analysts and

[40] These transfers included salaries for the new teacher training program, transition support tutors, RCS teachers, and teachers transferred as literacy interns.

[41] These costs were for the summer 2005 professional development training for principals. For the transfer from the Title II grant to the Title I grant, PSD changed the ABC code from 2272, "Professional Development" to 2274, "Instructional Development." PSD did have a specific ABC code for principal and assistant principal professional development (2277). Using the wrong ABC code could create a misrepresentation of the costs.

approved by principal analysts that did not clearly show the purpose of the transfer and did not include sufficient supporting documentation to clearly identify the authority and purpose of the JV transaction, as required by PSD policy.

For all JV transactions performed, PSD policy required that an analyst input the JV into the Advantage system, and then complete and submit a JV Approval Request form to the principal analyst for grants. Once submitted, the principal analyst for grants approved the JV on-line and initialed the JV Approval Request form to show manual approval of the transaction and to indicate review of the supporting documents.

Although PSD's POMB and Accounting Department policies on JV management stated the following, PSD did not enforce its policies and procedures for processing JV transactions. The policy stated that:

- …it is essential that the purpose of JVs are clearly documented and centrally maintained to serve as a reference....
- Sufficient backup is required behind each JV Approval Request Form to clearly identify the authority and purpose of the JV for auditing purposes. Such backup may be an e-mail, letter, memo, or the like, but in no case can it only be a screen print of the JV from Advantage.
- No single employee may both prepare and approve transactions.
- First level approval must be obtained prior to second level approval. Senior or Principal Financial Analysts may not initiate a JV and approve at the second level and then direct the Financial Analyst to approve at the first level.

PSD management bypassed the policies and procedures for the entry of JV transactions. On numerous transfers grant analysts were allowed or directed by the principal analyst for grants[42] to transfer charges from the general fund or other grants into Department grants with insufficient documentation to show that the charges supported the grant's purpose or were allowable grant expenditures.

We also noted an instance where there was a lack of segregation of duties in the processing of one JV (the preparer of the JV also approved it). Segregation of duties is a basic accounting control procedure that strengthens internal control by not allowing an individual to initiate, process, and record transactions without the review and approval of other individuals. The lack of segregation of duties occurred because the principal analyst for grants prepared a JV and had a subordinate enter it into the accounting system. The principal analyst for grants then approved the JV in the system, which allowed him to circumvent the controls in the accounting system. PSD's JV process did not prevent one person from preparing and approving a JV, as illustrated above. Improper segregation of duties may allow internal controls to be circumvented for operational convenience or conceal unintentional errors and irregularities, as shown. Proper segregation of duties should reduce the potential risk resulting from the intentional or inadvertent actions of any one individual.

[42] The Budget Director directed the principal analyst for grants to make the transfers.

Although PSD's POMB and Accounting JV policies and procedures discussed a "second level" of approval, the policies and procedures did not define or require a second level of approval. The policies and procedures also did not require large dollar JVs to receive a second or higher level of approval. Because of the instances noted above, and to strengthen its internal controls relating to JV transactions, PSD should require a second level of review and approval (such as the Deputy Budget Director or the Comptroller) for all JV transfers, especially large dollar transfers. In addition, for large dollar transfers into Federal grants, the grant program manager should be required to approve the transfer. This will assist PSD in maintaining effective control and accountability as required by 34 C.F.R. § 80.20 (b)(3), Standards for Financial Management System, Internal Controls.

Additionally, we found that PSD did not have a basic training program in place for grant analysts concerning JV preparation, grant expenditure allowability, or basic grant accounting. Analysts were not provided formal training and had to train themselves on basic grant accounting and allowability of items expended by Federal grant funds. During an interview, a grant analyst stated that most of what was received in the form of training "was on-the-job training that was learned from the Advantage system on my own."

The management control environment was weak because PSD did not maintain effective internal control over the JV process, as required by 34 C.F.R. § 75.702, Fiscal Control and Fund Accounting Procedures, and 34 C.F.R. § 80.20 (b)(3), Standards for Financial Management System, Internal Controls. In fact, when questioned about the financial state of PSD, the former CFO stated that there was a lack of appreciation of financial protocols.

**PSD Response to Policies and Procedures for Processing JVs Were Not Adequate or Enforced (A):**

PSD did not concur with this finding as a whole. PSD did state that it concurred with three of our conclusions, relating to Title I, Part A grant costs (ESOL tutor benefits erroneously transferred, duplication of charges already moved, and late carryover of charges on the 30 JV transactions that it chose to address in its response to the draft report).

PSD also stated that in the vast majority of the JVs determined to be unallowable, the draft report does not provide reference to criteria underlying its finding; therefore, this caused difficulty in discerning the basis for a particular unallowable or unsupported expenditure. Without reference to specific criteria for disallowance of items, PSD stated it cannot understand the OIG's rationale and formulate a response to the finding.

Additionally, PSD stated that because of the volume of the transactions involved it addressed only the grants with the greatest dollar amounts in its response. PSD stated the following regarding the unallowable and inadequately supported transactions.

**Unallowable JV Transactions**

1. The transaction that transferred charges from the Empowerment Grant into the FIE grant that the OIG determined unallowable due to supplanting is allowable. To support this statement PSD referred to its response to Finding No. 2.

2. Regarding the JV transactions that transferred charges into Department grants that represented programs or expenditures that were not contained in the grant award agreement (FIE), budget, or a school's school-wide plan (Title I), PSD stated that not being contained in award agreements, budgets, or school-wide plans did not warrant the JVs to be determined to be unallowable. Also, PSD stated that the movement of teachers to reduce class size and prevent a split class for elementary grades actually is included in its FIE application since the application details the purposes and goals of its school reform efforts including reducing class sizes in grades 3-11.
3. Food service expenditures for staff meetings are not prohibited under OMB Circular A-87 (JV transfers).
4. Title I grant expenditures for food service items or facilities rental were eligible to be funded by the Title I grant because they attempted to upgrade a school's entire educational program by creating a safer learning environment (concert by Peter Yarrow of Peter, Paul and Mary) and\or the activity (health fair) included parent involvement.
5. One of the eight RCS teacher's salaries being questioned as unallowable is allowable because the teacher is RCS eligible.

**Unsupported JV Transactions**

1. For the JV transactions that were unsupported because of a lack of time and effort certifications, PSD referred to the portion of its response for Finding No. 1 that addressed this issue. (See page 11.)
2. Regarding the JV transactions that concerned professional development, PSD stated it customarily keeps sign-in sheets for professional development. It would locate and provide them on request.
3. Adequate supporting documentation had been provided for the JV transactions for district food services charging the items to the Title I grant. PSD's position is that sign-in sheets are not necessary and enough supporting documentation had been supplied that showed a) PSD incurred the obligation and b) the obligation related to a Title I grant activity.
4. Enough supporting documentation was provided to show that teachers charged to the Title II, Part A grant were RCS teachers. The information provided showed a) teachers regularly signed in at their assigned schools, b) the schools were allotted at least one RCS position, and c) the positions were filled.
5. The OIG used a list of Transition Support Tutors that did not coincide with the audit period to determine whether the employees whose salaries were transferred were Transition Support Tutors.
6. Enough information (dates of training, agendas, list of participants and costs) was provided to support the transfer of principal training charges into Federal funds. Also, the second movement of the charges into a Federal grant should be removed.
7. PSD stated that one JV, per the OIG's statement, was a duplicate and should be removed.
8. PSD stated that because of a lack of clear indication by the OIG, it could not determine why certain JVs were considered to be unsupported. Also, it was not able to completely search for needed items because of time constraints.

**OIG Response to PSD Response to Policies and Procedures for Processing JVs Were Not Adequate or Enforced (A):**

PSD did not address the issue of the JV policies and procedures being inadequate and not enforced.

The OIG consistently provided criteria for this portion of the finding in the draft report. OMB Circular A-87, Appendix A, C, Basic Guidelines, 1., Factors Affecting Allowability of Costs, a-j and 34 C.F.R. § 80.23, Period of Availability of Funds was provided as criteria for unallowable costs. Criteria for the unsupported items was OMB Circular A-87, Appendix A, C, Basic Guidelines, 1., Factors Affecting Allowability of Costs, j, 34 C.F.R. § 80.20 (b)(2), (b)(3) and (b)(6) and 34 C.F.R. § 75.702. As stated in the Executive Summary, if PSD believed it needed clarification on any expenditure and/or criterion, it was provided many opportunities to seek clarification.

**Unallowable JV Transactions**

1. The transaction at issue involved a district level expenditure made by the Office of High School Reform, and therefore, the school-wide plan criteria mentioned in Finding No. 2 did not apply. (See Finding No. 2 and our portion of the response.)

2. PSD did not provide additional supporting documentation to show how the transactions in question met the objectives of the grant. Furthermore, FIE grant regulations, Title V, Part D, Subpart 3- Partnerships in Character Education, (e) Application, (2)(C) provides that the grant application must describe the activities carried out by the program. PSD's FIE application did not include school reform for grades 3-11; it included high school reform efforts.

   According to PDE's Title I, Part A; Title II, Part A; and Reading First grant review instruments for the audit period (third requirement under Fiscal Requirements) that PDE also expected the LEAs to expend grant funds on activities that correspond with what was outlined in the grant applications.

   If an expenditure for an item was not in a grant's budget, it was noted but not used to determine the item's allowability. Allowability was determined if the charges moved into a grant were for a program in the grant's application or if the movement of the charges caused Federal funds to be supplanted.

   PSD also did not provide additional supporting documentation to show how the expenditures in question support the related school-wide plan. For 1 of the 2 JVs in question, we requested that the Title I Director show us the portion of the school-wide plan that the expenditures involved in the transfer supported. On May 30, 2008 we were provided a written statement that the reading literacy portion of the school's plan does not directly address the reading/literacy materials purchased.

3. Although OMB Circular A-87, Attachment B, 27. Meetings and Conferences, states that meals provided for meetings and conferences, where the primary purpose is

dissemination of technical information are allowable, PSD provided no additional supporting documentation to show that these were more than just staff meetings and that technical information was disseminated.

4. PSD provided no additional supporting documentation with its response for its statement that the unallowable food items and facilities rental expenditures charged to the Title I grant served the purpose of the grant and upgraded the school's entire educational program.

5. PSD provided no additional supporting documentation or further explanation with its response to show that the teacher in question was in fact an RCS teacher (during our audit fieldwork PSD stated that the teacher was charged in error as an RCS teacher). Furthermore, PSD only stated that the teacher was "RCS eligible" and not actually an RCS teacher.

**Unsupported JV Transactions**

1. As stated in our response to Finding No. 1 concerning the alternative documentation kept by PSD, it is not adequate to certify and verify personnel charges.

2. PSD did not provide the sign-in sheets to support the professional development JV transactions in question as stated in its response.

3. The unsupported JV transactions for food service expenditures were for items that PSD provided no supporting documentation for or the documentation was inadequate (for example, the documentation did not show the activity conducted or the documentation that was provided did not match the dates of the expenditures). In one instance PSD provided a photocopy of a January 2006 desk calendar with a hand written note on the date in question that said, "9 AM Meeting Room 9" (this expenditure was for coffee and tea for 60 people charged to the Title I grant). In another instance where coffee and tea for 100 people was charged to the Title I grant, PSD only provided an email from a Title I Community Builder that stated the locations of where she would be the week of January 9, 2006, and January 13, 2006.

4. PSD did not show that the RCS position filled at the school was actually filled by the teacher whose salary was transferred. PSD was made aware of this in a July 7, 2007, email to its Comptroller and principal analysts for grants. We requested additional information; however, PSD provided no additional supporting documentation after the email was sent.

5. During the audit, the OIG was provided a list of Transition Support Tutors by PSD's HR Executive Director of Business Processes and Systems as supporting documentation for the transaction. The dates of the audit period (2005-2006 School Year) were on the header of the document. In the September 18, 2009, meeting, we presented the list used and requested a correct list. In a September 23, 2009, email, PSD responded with the following statement:

> Numbered paragraph 17 on page 27 of the SDP's [PSD] response erroneously states that "the cited print-out on which the report apparently relies contains a list of transition support tutors for the 2004-2005 school year, not the 2005-2006 school year in which the questioned charges were made." The SDP instead intended to indicate that the questioned compensation charges in JV OMBG0002980 relate to pay during the summer months of 2005 for Transition Support Tutors during the 2004-2005 school year. That is, the individuals listed in the salary history reports but who are not on the Human Resources listing of 2005-2006 Transition Support Tutors were Transition Support Tutors in the prior year. Attached is a Human Resources report (TST 2005-06noSSN9-21-09.xls) showing the Transition Support Tutors employed as of May 2005. The names missing from the 2005-2006 listing appear on the May 2005 report. We apologize for any confusion that our earlier error may have caused.

Using the second list provided by PSD there were still 32 employees (whose transferred salaries totaled $272,205) that could not be found on either list of Transition Support Tutors.

6. PSD provided a copy of a report prepared for the former Chief Financial Officer. This report included principal names, class title, and hours. The report did not include class agendas, class dates, or training costs. During our audit we reviewed 106 of the 442 employee salaries transferred. The total salaries for the 106 employees was $388,776, and of that amount $88,114 was for training hours that could not be found on the report provided by PSD. This JV was not a duplicated cost but two separate JV transfers of the same charges. The salaries were transferred from state funds into the Title II grant and then transferred into the Title I grant (as stated in the finding).

7. The JV PSD discussed was not a duplicate but was for two separate JV transfers including a portion of the same charges. The items were transferred from state funds into the Title II grant and then into the Title I grant. PSD asked for clarification on this issue in a letter to us in November 2008. Clarification was provided in December 2008.

8. We provided PSD with numerous updates regarding the potential findings and issues. PSD had ample opportunities to ask questions and had an extended amount of time to provide its response to the draft report. (See the Executive Summary for meetings held with PSD and updates provided to it.)

## B. Travel Policies and Procedures Were Not Followed

PSD did not adhere to its travel policies and procedures, resulting in unallowable, unsupported, and unreasonable travel costs charged to the grants we reviewed. PSD policy required employees to submit a travel voucher (Form SEH-195) to claim reimbursement for their travel expenses. After the employee prepared the travel voucher, it was reviewed and approved by the employee's supervisor (administrators at the level of Director, Principal, or above), and then submitted to the AP Department for review before payment. However, the AP Department did not adequately review travel vouchers for unallowable, unsupported, or unreasonable travel costs.

We reviewed 75 travel reimbursements, totaling $51,651. We determined that $9,532 of the travel expenditures were unallowable. The majority of the unallowable expenditures ($8,433) were caused by PSD employees not using government rate lodging. PSD charged lodging expenditures to Department grants for amounts over the government rate, with some amounts over $300 per night. PSD's travel policy, section 3.1 stated that "effective March 1, 2003, employees traveling out-of-town on official school district business will be required to use the School District of Philadelphia's official travel agency when booking transportation and accommodations," and section 3.10 stated that "Lodging will be booked by the travel agent at government rates...." Although PSD's travel policy stated that its travel agency should reserve rooms for PSD employees at the government rate, PSD did not include a clause in its travel agency contracts that required the agency to book its lodging; therefore, the travel agency was not required to reserve employee lodging, resulting in lodging costs incurred at a rate different from what PSD's policy allowed. There was no control to ensure that lodging costs were incurred at the government rate. According to OMB Circular A-87, Appendix B, 43., Travel Costs, b. Lodging and Subsistence, lodging costs are not to exceed charges normally allowed by the governmental unit in its regular operations as a result of the governmental unit's written travel policy. Therefore, per PSD policy and OMB Circular A-87, the costs over the government rate were not allowable. Other unallowable expenditures included $264 for business class rail fare and $279 paid for tips for food, taxicab fare, and hotel maid service on 12 different reimbursements.

In addition, PSD could not locate four travel reimbursement forms, totaling $2,275. We also noted one instance where a lodging expenditure for $278 was reimbursed without a receipt.

Additionally, three travel reimbursement forms were not properly approved; there was no approval signature on the forms. Furthermore, we noted an instance of a lack of segregation of duties. The traveler signed and approved her own travel reimbursement form. These expenditures[43] were not properly approved according to PSD's travel policy and should not have been paid until a proper approval was obtained.

We also noted an instance in which three employees traveling on the same trip all claimed and were reimbursed for taxicabs to the same hotel from the same airport.[44] There were also many instances of taxicabs being used instead of public transportation, as required by PSD's travel policy. These expenditures should not have been claimed, and furthermore, should have been

[43] These expenditures were not questioned in their entirety (the portion of the expenditures relating to lodging costs over the GSA rate are questioned) because the purpose of the trips were allowable and the supporting documentation was adequate.
[44] PSD did not provide documentation to show the individuals took separate flights or arrived separately.

disallowed according to PSD's policies and procedures on reimbursable travel expenditures which stated:

> 2.2.2 - An Administrator at the Director/Principal level or above may not authorize his/her own travel or approve expenditures therefore, but must obtain approval of his/her supervisor.
>
> 2.6.1 - Employees will be reimbursed for approved expenditures within the policies and limitations established herein.
> Form SHE-195 properly executed and signed, will be used to request reimbursement for routine or out-of-state travel. Receipts for transportation, hotel accommodations, taxi fares, tolls, etc., must be obtained and attached to the form.
>
> 2.6.2 - All requests for reimbursement of travel expenses are subject to review by the Office of Accounting Services to determine the official nature of the expenditure and the propriety and reasonableness of the charges. Expenditures not deemed necessary or reasonable will not be reimbursed.
>
> 2.8.5 - Transportation to a terminal for the purpose of beginning a trip, transportation to and from the destination terminal and transportation home from the terminal must always be made at the lowest possible cost. Public transportation, shuttle service or private automobile, if less costly, must be used in preference to taxi service.
>
> 2.10.3 - Reasonable tips for carrying luggage will be allowed.

We recognize that the SRC mandated new internal controls, effective in FY 2008, that included the restriction of travel, as well as some other expenses;[45] however, the policies and procedures need to be followed.

**PSD Response to Travel Polices and Procedures Were Not Followed (B):**

PSD stated that the OIG cannot reasonably conclude that lodging costs are unallowable simply because they were not at the government rate. At most the OIG should question lodging costs in excess of the government lodging rate and not the entire amount.

[45] The other expenses included catered food, cell phones, credit cards, and laptop computers.

**OIG Response to PSD's Response to Travel Policies and Procedures Were Not Followed (B):**

The draft report stated that the unallowable lodging expenditures were for the amounts over the government rate. This information was provided to PSD during a meeting we held with PSD's Comptroller on April 16, 2008, in which we specifically discussed the travel issues.

### C. Imprest Fund Policies and Procedures Were Not Adequate or Enforced

PSD's imprest fund policies and procedures were not adequate or enforced. The policies and procedures in effect during the audit period (issued in September 1978) did not provide examples of prohibited expenditures, other than prohibiting temporary loans, personal advances, or cashing of personal or other checks. The policy also did not require a review of expenditures to ensure compliance with the funding source (grants).

We found that school imprest funds were reimbursed without receipts, the fund expenditure spending limit was not adhered to, and there was a lack of adequate segregation of duties in the handling of the fund (we found instances where the fund custodian signed and approved the Imprest Fund Reimbursement Requests). As a result, grant funds were used for unallowable and inadequately supported expenditures. For example, funds were used to pay a school's telephone bill ($922), to purchase two computers ($998), for an unallowable school trip ($329), and to pay for a back-to-school breakfast for school staff ($326).

We reviewed 287 imprest fund transactions totaling $135,162.[46] The total unallowable amount expended through school imprest funds was $10,593, and the inadequately supported amount was $20,084. Of the inadequately supported amount, $7,124 was found to be questionable (see Table 2 below).

[46] We did not select a separate sample of imprest fund expenditures; we reviewed all imprest fund expenditures included in our AP sample (Finding No. 3).

**Table 2- Imprest Fund Expenditures**[47]

| | **Services** (i.e., phone bills, training materials, print services) | **No.** | **Entertainment and Awards** (i.e., food, field trips, subscriptions, plaques, gift cards) | **No.** | **Electronics** (i.e., printers, cameras, Palm Pilots, etc.) | **No.** | **Office Supplies** (i.e., stationery supplies, printer ink, general desk items) | **No.** | **Total** | **No.** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Title I** | | | | | | | | | | |
| Unallowable | $0 | | $1,985 | 6 | $448 | 1 | $994 | 2 | $3,427 | 9 |
| Inadequately Supported | $2,974 | 12 | $13,460 | 31 | $0 | 0 | $3,650 | 5 | $20,084 | 48 |
| **CSR** | | | | | | | | | | |
| Unallowable | $997 | 2 | $326 | 1 | $0 | | $0 | | $1,323 | 3 |
| **GEAR UP** | | | | | | | | | | |
| Unallowable | $0 | | $4,298 | 9 | $500 | 1 | $0 | | $4,798 | 10 |
| **Reading First** | | | | | | | | | | |
| Unallowable | $1,000 | 2 | $0 | | $0 | | $45 | 1 | $1,045 | 3 |
| **All Grants** | | | | | | | | | | |
| Unallowable | **$1,997** | **4** | **$6,609** | **16** | **$948** | **2** | **$1,039** | **3** | **$10,593** | **25** |
| Inadequately Supported | **$2,974** | **12** | **$13,460** | **31** | **$0** | **0** | **$3,650** | **5** | **$20,084** | **48** |
| **Total** | **$4,971** | **16** | **$20,069** | **47** | **$948** | **2** | **$4,689** | **8** | **$38,075** | **73** |

Imprest funds were to be used by schools and program offices to pay for low cost purchases. PSD's imprest fund policies and procedures limited purchases from any one vendor to $50, required fund custodians to bank at banks that did not charge service fees, and required the maintaining of receipts. Fund custodians were also to advise users as to what may or may not be purchased with the funds. The fund custodian completed the reimbursement request, which included the funding code (ABC code) for each expenditure. By signing the reimbursement request, the fund custodian was certifying that: "The enclosed imprest fund vouchers support the expenditures for low cost items, not available from the warehouse, summarized above. These expenditures have been made in accordance with the 'imprest fund (petty cash) procedures.'" By signing the reimbursement request, the principal or administrator was certifying that the request was true and correct and was properly chargeable to the stated accounts. PSD's imprest policy stated that the reimbursement requests were to be submitted to the AP Department and reviewed by Audit Services, and that all reimbursement requests would be reviewed and examined for propriety and compliance by the Accounting department. Although the imprest fund policy stated that reimbursement requests would be reviewed for propriety and compliance, it did not state compliance criteria.

[47] Amounts are included in Finding No. 3 and Enclosures 3, 3a, 3b, and 3c.

In addition, expenditures were not being reviewed for appropriate ABC coding, reasonableness, allowability, or allocability with the funding source. The AP Department entered the expenditures into the Advantage system but did not review them for allowability. Audit Services, which received the reimbursement request after the AP Department had entered the information into the Advantage system, only reviewed the reimbursement request to determine whether the amounts paid were correct. They did not determine whether the correct ABC codes were used, whether the amounts were under the required spending limits, or whether the items\services purchased were allowable.

Furthermore, based on the types of unallowable expenditures found, it does not appear that the fund custodians advised others on what could or could not be purchased with the fund. The imprest fund policies and procedures need to be revised to include the information discussed above. This will help to ensure that items purchased with grant funds through school imprest funds will meet the OMB Circular A-87, Appendix A, C., Basic Guidelines, 1, Factors Affecting Allowability of Costs, requirement that costs are necessary and reasonable for the proper and efficient performance and administration of Federal awards, are allocable to Federal awards, and are adequately documented. PSD also needs to ensure that its policies and procedures are followed by all employees. Properly implemented internal controls provide reasonable assurance that only appropriate transactions are authorized, executed, and recorded and that any errors in execution and recording are detected in a timely manner.

In September 2007 PSD revised its imprest fund policies and procedures, although, as of September 2008, these policies were not on PSD's Policy and Procedures Web site. The revised policy increased the expenditure limit to $200 and prohibited its use for telephone bills, food, transportation, travel, and other types of expenditures.

**PSD Response to Imprest Fund Policies and Procedures Were Not Adequate or Enforced (C):**

PSD did not provide specific written comments in its response about the finding issue, instead it provided its response on the expenditures through a spreadsheet exhibit and the supporting documentation that was provided with Finding No 3.

**OIG Response to PSD Response to Imprest Fund Policies and Procedures Were Not Adequate or Enforced (C):**

Contrary to statements made in its response, PSD did not provide any additional supporting documentation for any imprest fund expenditures, nor did it discuss the internal control issues in its response.

### D. Inventory Controls Were Not Enforced

PSD did not comply with its property inventory procedures. As a result, we found that $45,808[48] in equipment was unaccounted for in PSD's records. Although PSD's policies stated that a complete inventory should be maintained, PSD was not strenuous in the enforcement of its policy that required items over $500 receive property codes. Additionally, the transfer of inventoried property from closed schools to new locations was not performed. PSD also did not require items purchased for under $500 to be inventoried.

PSD Property Records, Policy 706 required that:

> 1. *Purpose,…*adequate property records and inventory records be maintained on land, buildings, and physical property under the control of the district,
> 2. *Authority,* provides that the Board directs that a complete inventory be maintained by physical count of all district-owned equipment. It further directs that property records be maintained of all buildings and grounds under the control of the district. Such records shall be updated annually, and
> 3. *Definition,* provides that for the purposes of this policy, "equipment" shall mean a unit of furniture, an instrument, a machine, an apparatus, or a set of articles which retains its shape and appearance with use, is nonexpendable, and does not lose its identity when incorporated into a more complex unit.

Also, PSD's 2006 Personnel Property Inventory Procedures (3) *Additions* provided that items with an acquisition cost of $500 or more should be recorded on the 2006 Personal Property Inventory "Additions Form."

We noted that computers from a closed school could not be located. In our CSR grant sample we found that 21 computers, totaling $29,379, and three televisions, totaling $1,014, purchased during the audit period by Pickett Middle School could not be immediately located. These computers were left in the school when it closed in June 2007. In April 2008, the Title I Director informed us that she was having trouble locating any of the computers and televisions. In May 2008, the Title I Director informed us that PSD could not locate seven of these computers. The Title I Director later informed us that 14 of the computers and televisions had been relocated to Roosevelt Middle School. PSD did not provide adequate supporting documentation to show that the items had been transferred to Roosevelt Middle School's inventory property list. PSD provided us with an unsigned and undated copy of its T-31-"Personal Property Inventory System Transaction Form" requesting a transfer of the computers. We were also provided with a letter dated May 19, 2008, from the principal at Roosevelt Middle School stating that the televisions

[48] Includes $12,715 charged to Reading First grant funds and $30,393 charged to CSR grant funds that were reviewed with our AP sample (see Finding No. 3), and $2,700 reviewed with our Office Depot expenditure sample (see Finding No. 5, subpart B).

were also transferred to Roosevelt Middle School. No other documentation was provided by PSD to actually show the items had been located or transferred.

PSD also did not adequately use equipment property codes. For example, we reviewed 61 computer purchases, totaling $78,635, charged to Reading First grant funds. PSD stated that 7 computers, totaling $8,593, did not have property codes and that it could not locate 3 of the 61 computers noted above, totaling $4,122.

Since the adoption of PSD's property policies in 1981, there has been significant advancement in technology and many significant technological items are available for under $500. These are pilferable items that may easily be lost or stolen. During our review we noted several instances where items purchased for less than $500 could not be located. For example, in our Office Depot sample (discussed in Finding No. 5, subpart B) we noted that for 7 of the 10 PDAs purchased, PSD was unable to provide user information, and therefore, it could not determine the status of the equipment. Three of the PDAs cost $250 each and four cost $300 each (total cost of $1,950). In the same sample, five digital cameras a school purchased, costing $150 each (total cost of $750), could not be located.

Not performing an inventory, not using property codes, and not accounting for equipment purchased with grant funds could result in equipment being unaccounted for, as noted above, or lost or stolen.

**PSD Response to Inventory Controls Were Not Enforced (D):**

PSD did not provide specific written comments in its response about the finding issue, instead it provided its response on the expenditures through a spreadsheet exhibit and the supporting documentation that was provided with Finding No 3.

**OIG Response to PSD's Response to Inventory Controls Were Not Enforced (D):**

The spreadsheet exhibit and supporting documentation provided by PSD did not specifically address inventory controls. PSD provided additional supporting documentation, such as property reports, for selected expenditures. We revised the amounts questioned in the inventory control portion of the finding to reflect the personal property reports provided.

In addition, PDE required LEAs to maintain an up-to-date inventory record. According to PDE's monitoring instruments (Data Collection/Documentation and Federal Reports sections) PDE expected LEAs to maintain an updated equipment list indicating model number, date of purchase, funding source, serial number, and purchase price for the Title I, Part A, Title II, Parts A and D and Reading First grants.[49] Not only was PSD required by the Department to maintain effective controls over inventory, PDE also had set forth requirements that PSD had not met.

[49] For the Title I, Part A grant this is the seventh requirement in this section. For all other mentioned grants it is the first requirement.

## E. Contract Provisions Were Not Adhered to and Contract Services Were Rendered Prior to Approval

PSD did not always adhere to the requirements set forth in its contracts with vendors. Specifically, contract provisions regarding invoice requirements were not followed. PSD also did not follow the required protocol to obtain the SRC's approval of the contract through resolution before entering into a contract with a vendor.

**Contract Provisions**
We found that invoices were paid that did not include an itemization of charges and a description of the work performed. We reviewed nine invoices (relating to seven contracts totaling $9,158,950), totaling $2,309,200, and found that six, totaling $1,683,161,[50] were reimbursed without an itemization of charges or a description of the work performed. The invoices only included a statement certifying that work was performed. For example, the following statement was found on a $24,000 invoice that was paid from Title I grant funds: "I certify that I served as a consultant for the School District of Philadelphia in the Title I Improvement of Reading Project during the following period: September 2005 to February 2006."

PSD's Agreement for Services (standard clause included in all contracts), Section 5, Invoices, Standard Terms and Conditions for contracts provides that "invoices shall include an itemization of charges and, at a minimum, a description of work performed. No payment shall be due before receipt of a properly prepared invoice." PSD's account payable process did not include a review of invoices to determine whether they adhered to all contract provisions, such as detailed invoices.

Without an itemization of costs and a description of work performed, PSD had no documentation to determine what work was performed and may have paid for services it did not request or receive.

**Contract Not Approved**
During our review we also noted that PSD entered into a contract 2 months before receiving the approval of the SRC. Work had begun on the contract prior to the approval as well. This contract was to operate the National School and Community Corps in nine schools. The contract, totaling $540,000, began on September 22, 2005. The resolution for the contract's approval that was provided to the SRC was dated November 16, 2005. PSD incurred $108,000 of the $540,000 before the SRC approved the contract's resolution in November 2005. PSD began to incur costs on the contract in September 2005. By the time PSD made the first payment,[51] it was invoiced $216,000 from September through December 2005. Pennsylvania School Code PS 5-508 states in part that "The affirmative vote of a majority of all members of the board of school directors in every school district duly recorded, showing how each member voted, shall be required in order to take action on the following subjects: Entering into contracts of any kind…." Furthermore, SRC policy required approval of resolutions in order to enter into contracts of $25,000 or more.

[50] These costs are not being questioned because they were allowable grant expenditures.
[51] PSD made the first payments on this contract in January 2006.

PSD had no process to determine whether all contract resolutions had been approved prior to the contract being entered into and costs being incurred.

We recognize that the SRC mandated new internal controls, effective in FY 2008, which included reducing the threshold requirement for SRC approval of contracts from $25,000 to $15,000. Although this new control is helpful, it does not address the issue of not requiring vendors to comply with contract provisions or contracts being entered into and costs incurred before receiving SRC approval.

**PSD Response to Contract Provisions Were Not Adhered to and Contract Services Were Rendered Prior to Approval (E):**

PSD stated that its contract approval and invoice review procedures ensure that all contracts are properly authorized and vendor invoices contain adequate documentation for payment.

**OIG Response to PSD Response to Contract Provisions Were Not Adhered to and Contract Services Were Rendered Prior to Approval (E):**

We disagree that PSD's policies and procedures ensure that all contracts are properly authorized and vendor's invoices contain adequate documentation for payment based on the examples discussed in the finding. PSD's contract provisions Section 5 state that invoices shall include an itemization of charges and, at a minimum, a description of work performed and that no payment shall be due before receipt of a properly prepared invoice. PSD paid invoices without this provision requirement being fulfilled. PSD provided no supporting documentation for its statements concerning contract approval nor did it provide the invoice review procedures to which it refers.

**Recommendations:**

We recommend that the Assistant Secretary for Elementary and Secondary Education require PDE to instruct PSD to:

4.1 Return the $6,503,773[52] in unallowable costs and related indirect costs to the Department.

4.2 Provide adequate documentation to support $11,976,435[53] in inadequately documented non-personnel expenditures or return any portion of that amount the Department determines is not adequately supported.

4.3 Revise its POMB and Accounting JV preparation policies and procedures to include a process to determine that expenditures are allowable and supported, and establish a second level of review and approval for all JV transfers. For large dollar transfers, controls should be strengthened by requiring review and approval

[52] Amount includes unduplicated unallowable and related indirect costs at a rate of 2.28 percent of the unallowable costs. See Enclosure 1 for a calculation of this amount.

[53] This amount includes the inadequately supported JV transactions, (see Enclosure 4) totaling $11,928,352; inadequately supported travel reimbursements totaling $2,275; and unaccounted inventory in subpart D of this Finding, totaling $45,808.

of the transfer by the grant program office. We also suggest training be provided to the grant analysts and senior management.

4.4 Enforce its travel policies and procedures.

4.5 Revise its imprest fund policies and procedures to include an adequate review and approval process that would prohibit the same person from preparing and authorizing the reimbursement request, and place the revised policies and procedures on PSD's Web site.

4.6 Revise its inventory policies and procedures to include items, such as cell phones, PDA's, and digital cameras, which are easily pilfered and sought after, and develop a process to ensure that all items receive a property code and that property transfers are properly recorded.

4.7 Establish a process to ensure that it adheres to its own contract provisions and does not reimburse vendors without properly documented invoices and develop a process to ensure that it only enters into a contract and it incurs costs after the SRC has approved the contract's resolution.

## FINDING NO. 5 – PSD Did Not Have Written Policies and Procedures for Various Fiscal Processes

PSD did not have written policies and procedures relating to budget monitoring, ordering of items from the Office Depot Web site, bus transportation costs, and the allocation of single audit and indirect costs charged to Federal grants. The lack of the written policies and procedures may have led to the unallowable (including supplanting) and unsupported expenditures charged to the grant funds we reviewed.

Policies and procedures are a part of effective internal controls. Management sets the objectives, puts the control mechanisms and activities in place, and monitors and evaluates the control. PSD management had not created an adequate control environment.

### A. Monitoring of Budgets

PSD did not have written policies and procedures relating to the monitoring of grant budgets during the audit period. As a result, budget to actual reconciliations were not required and appeared to not have been performed on a periodic basis. One analyst we interviewed stated that she performed any budget to actual expenditure reconciliations on her own without a request or requirement. Federal regulation, 34 C.F.R. § 80.20 (b)(4), requires that actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. It is important for analysts to monitor budget to actual expenditures because they move funds and expenditures within the grant fund and need to determine the amounts that can be expended.

We reviewed 110 JV transactions, totaling $47,668,116, (excluding transportation and indirect costs transactions) and found seven transactions, totaling 1,504,101,[54] were unallowable and two

[54] Amount includes five transactions, totaling $108,416, two separate transactions, totaling $1,395,685, were transfers of charges for the new teacher training program into the Title II grant.

transactions,[55] totaling $2,331,044, were inadequately supported.[56] We found that expenditures were transferred between grants that had over-expended budgets and grants that had budgets with funds remaining to be spent. For example, the Nonpublic school portion of the Title V, Innovative Education, went over budget by at least $108,416 and PSD transferred this expenditure amount from the grant into the Nonpublic school portion of the Title II, Part A grant (represents five transactions).

Two of the expenditure transfers included at least three instances where the object codes of the expenditures were changed. For example in one transfer, expenditures originally coded as textbooks and library books, in the Title V grant were transferred to the Title II grant and coded as "general education" supplies. In another transfer, school computer equipment was charged to the Title II grant as consulting contracts. The analyst that performed these transfers told us that this was done to transfer the amount necessary to complete the objective of closing out the funds. The analyst also stated that those grants overspent had "excessive expenditures." In all instances these transfers were approved by the principal grant analyst. OMB Circular A-87, Appendix A, C., Basic Guidelines, 3., Allocable Costs, a. provides that any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies. Accordingly, these transferred expenditures were not allocable to the grants charged. If the budgets were being monitored and reconciliations were performed periodically, the excessive spending and transfers should have been curtailed.

Furthermore, some of the expenditures that were transferred between the funds were unsupported. For example, expenditures, totaling $1,165,522, that were not in the grant budget were transferred from PSD's Empowerment Grant to the Title II, Part A grant then later transferred to the Title I grant (two transactions).[57] Funds were budgeted in the FY 2006 Empowerment grant to pay for these costs, as they had been in the prior year. Additionally, PSD could not provide adequate support for the expenditures that related to principal training. The only data provided were generated from a payment spreadsheet that showed what training sessions each principal participated in and the number of training hours taken. No documentation from the training attended was provided.

In addition, grant analysts consistently overrode grant budgets to complete JV transactions. We found 55 instances in our samples where the budgets were overridden to complete JV transactions. For example, the Special Ed grant had budgeted salary costs of $99,183 for professional development to be provided by PSD's legal counsel to instructors in the schools; however, $175,104 in salary costs for the professional development expense was transferred into the grant fund. Although these expenditures appeared allowable, the budget was overridden in order to transfer these costs into the grant fund. If periodic reviews of the budget had been

[55] The two transactions were for $1,165,522 each. These were for the transfer of principal training expenditures from state funding into the Title II grant and then from the Title II grant into the Title I grant.
[56] Of the 9 questioned transactions, $1,395,685 of the unallowable amount is included in Finding No. 2 and the entire inadequately supported amount is included in Finding No. 4. The total unduplicated unallowable amount is $108,416.
[57] These costs were for PSD's New Teacher Training program and principal training. They included salaries, fringe benefits, materials, and contract services incurred by the grant programs.

performed, funds could have been moved between line items (budget transfers) so that the unbudgeted expenditures could be properly accounted and paid for. Therefore, transfers of the charges after expenditures had occurred could have been reduced.

Furthermore, PSD's JV policies and procedures required only senior or principal analysts to approve JV transactions (see Finding No. 4, subpart A for additional details). No additional approval was required to override grant budgets. To strengthen PSD's internal controls and to assist in ensuring that only allowable and allocable expenditures are charged to grant funds, PSD should require a second level of approval for budget overrides. PSD's applicable grant program office should also be required to review and approve override transactions.

The POMB prepared a budget to actual report, about which the Deputy Budget Director stated, "activity managers, agency managers, and program chiefs receive the reports monthly." The Deputy Budget Director, who oversaw the grants area of POMB, also stated that this report was made available to the analysts. However, PSD did not provide any documentation to show that the grant analysts had a written requirement to access or use this report in any way. [58] Furthermore, the report provided to us as an example[59] appeared to include only three agency groups at PSD[60] and did not include a detailed comparison for any Federal grants. For example, there was no budget to actual information for the Title I and Reading First grants.

Although the Deputy Budget Director stated that managers have always been responsible for the fiscal management of their program, it did not appear that grant analysts who work with the grant managers to establish budgets for the grants had a direct requirement to review the grant expenditures and report on them even periodically. Analysts should assist the grant manager with monitoring the grant budget and expenditures. It is also important that reconciliations be performed since not all grants have a grant manager outside of POMB. For example, the Title II, Part A, and FIE program were managed within POMB.

Because there was no policy to require monitoring to be performed and no monitoring occurred, budgets were allowed to be over-expended and overridden and costs were moved across grants to overcome deficiencies. Policies and procedures are a part of effective internal controls. Management sets the objectives, puts the control mechanisms and activities in place, and monitors and evaluates the control.

PSD management had not created an adequate control environment. PSD did not meet the Federal financial management system standards contained in 34 C.F.R. § 80.20(b)(3), that provides that local educational agencies must maintain effective internal controls and accountability for all grant and sub-grant assets (including cash) and assure that such assets are used solely for authorized purposes. PSD also did not meet 34 C.F.R. § 75.702, which provides

[58] When requested, management at PSD offered signed affidavits by the analysts that would state they perform the actions. When we told PSD these signed affidavits may contradict information already provided by the analysts themselves, PSD decided not to offer the affidavits as support.

[59] PSD provided us with a report for fiscal year 2009 showing year-to-date activity through July 2008. PSD's fiscal year is from July to June.

[60] The three agency groups in the report were Accountability and Assessment, Executive Management, and Charter Schools.

that grantees are required to have financial management systems that enable the grantee to maintain effective internal control and fund accountability procedures.

PSD believed that the overriding of budgets was an issue because it enacted enhanced controls, effective in FY 2008, concerning the overriding of budgets. Control was to be vested in the POMB to prevent the automatic overriding of budgets and to ensure POMB review and resolution, along with concurrence by the program office or school involved, so that the budget deficiency would be addressed immediately. However, we noted that PSD's enhanced controls did not require at least two individuals (a second level of approval) to approve budget overrides. Furthermore, to aid in preventing circumvention of the control, these persons should not be in the same chain of command. Although PSD was taking steps to eliminate the issue of overriding budgets to perform JV transfers, there was still no written requirement that reconciliations of actual expenditures to budgeted amounts be performed periodically.

**PSD Response to Monitoring of Budgets (A):**

PSD stated it addressed the issue of the policies and procedures in its response to Findings No. 3 and 4. PSD stated that it addressed the transfer of principal training and new teacher costs in its response to Finding No. 4.

**OIG Response PSD Response to Monitoring of Budgets (A):**

PSD's statement that it addressed this issue in Finding Nos. 3 and 4 is not correct. PSD made no specific mention of its budget review process or controls in any portion of its response.

PSD did not address the JV transfers performed to move excessive costs from the Title V grant into the Title II grant or the movement of the transfer of attorney salaries into the IDEA grant.

Although PSD did state the transfers mentioned should be considered supported, it offered no supporting documentation or explanation of how they relate to this portion of Finding No. 5. PSD did not address why the transferring of these expenditures in and out of grants is an acceptable business practice and does not show a lack of adequate controls.

**B. Use of Title II, Part A Grant Funds**

PSD's Intermediate Unit 26 (IU 26) did not have policies and procedures in place to ensure Title II, Part A grant funds[61] were expended in accordance with Federal regulations and guidance. PSD directly paid private schools[62] and other vendors for professional development services with Title II, Part A grant funds. Direct reimbursement to private schools is not allowable under Federal regulations. Section 1120 (d) (1) of the ESEA, Public Control of Funds, states in general, the control of funds provided under this part, and title to materials,

---

[61] Under *Title II, Part A*, LEAs are required to provide equitable services for private school teachers and other educational personnel only to the extent that they use the funds for professional development.

[62] A private school is a nonprofit institutional day or residential school that is not under Federal or public supervision or control and that provides elementary and/or secondary education as determined under State law, except that the term does not include any education beyond grade 12.

equipment, and property purchased with such funds, shall be in a public agency, and a public agency shall administer such funds, materials, equipment, and property.

We reviewed 39 Title II Part A expenditures, totaling $436,756, for services to Nonpublic schools paid for by IU 26 Office of Nonpublic Programs. We found that 23 of those expenditures, totaling $422,956, were unallowable because they were direct reimbursements to private school organizations (for example, the Archdiocese of Philadelphia, and the Philadelphia Association of Christian Schools) and\or on behalf of their affiliated private schools and other private schools (for example, the Politz Hebrew Academy, Muhammad's Islamic Academy, Green Tree School, and Chestnut Hill Academy).

Federal regulations at 34 C.F.R. § 76.651 (a)(3) requires that the LEA maintain continuing administrative direction and control over funds and property that benefit students enrolled in private schools. Furthermore, guidance from the Department, *Improving Teacher Quality State Grants, ESEA Title II, Part A, Non-Regulatory Guidance, Section G, Private School Participation, (Revised October 5, 2006), (Title II, Part A, Non-Regulatory Guidance) G-23*, states that "The LEAs must administer and retain control over the funds and, therefore, may not provide program funds directly to private schools." Therefore, PSD should have paid vendors or third party contractors directly and not the Nonpublic schools or other organizations.

**Guidance to Nonpublic Schools**

PSD also did not provide guidance to Nonpublic schools on the use of Title II, Part A funds. The Nonpublic schools were requesting reimbursement for expenditures that should not have been paid with Title II, Part A funds, and the schools did not provide adequate supporting documentation along with the reimbursement requests.

The majority of the expenditures ($248,572) paid to the Nonpublic schools would also be unallowable because many of these expenditures were for the incidental costs (i.e., travel, food, and lodging) of the professional development activity. [63] For the incidental costs to be allowable Title II, Part A expenditures, the actual professional development itself must be funded by the grant as well. OMB Circular A-87, Appendix A, C., Basic Guidelines, 1., Factors Affecting Allowability of Costs, a.-j., provides that for a cost to be allowable it must be necessary and reasonable for efficient performance of Federal awards and be allocable. To be allocable the expenditure must be clearly related to the grant's goals and objectives. When the funding of the actual training is not provided by Title II, Part A funds, the grant's goal and objectives which are to provide training–not support it–have not been met. Also unallowable were payments made for a non-pubic school's indemnity insurance ($1,173) and tips related to the purchase of alcoholic beverages ($762).

Additionally, we noted expenditures, such as the training on the use of 50 Palm Pilots that were purchased[64] ($9,538), and a training class titled "Promoting Proper Health and Nutrition" ($880)

[63] Generally expenditures were requested for reimbursement in bunches. For example, the Archdiocese of Philadelphia submitted a request for reimbursement on October 27, 2005, that was for five separate items totaling $43,332.

[64] The $9,538 was for the purchase of the Palm Pilots and training on how to use them.

that did not fulfill the professional development requirements of Title II, Part A, and also were unallowable.

**Inadequately Supported Costs**
Furthermore, PSD paid the Title II, Part A expenditures without obtaining adequate supporting documentation from the private schools. We determined that nine expenditures, totaling $10,050, were unsupported due to lack of adequate supporting documentation. These were for payments to private school personnel who attended professional development activities as either an instructor or participant. We requested class outlines to support the participant's attendance, but none were provided. Without the outlines we could not determine if the professional development activity was allowable and if the participant actually attended.

Furthermore, due to the lack of adequate documentation provided, we were not able to determine if all of the professional development expenditures were for allowable activities under Title II, Part A grant provisions. Examples of the activities include expenditures for attendance at the National Catholic Education Association National Conference and the Archdiocesan Curriculum Committee Weekend Conference. We could not determine if any part of these conferences were religiously oriented, which would be unallowable. Title II, Part A, Non-Regulatory Guidance, Section G, Private School Participation, G-13, states that Title II, Part A funds may be expended to pay for the portion of the costs of the conference that represents the secular professional development in which the teacher participated. Without adequate documentation, this determination could not be made. We also found expenditures for attendance at conferences that did not appear to be professional development based on subject content or the art, science, or profession of teaching. Examples include, classes titled "A Framework for Understanding Poverty," and "Promoting Proper Health and Nutrition." Another example was a workshop for middle school girls that had teachers in attendance that was titled "A Young Woman's Journey." Title II, Part A, Section 2123, Local Use of Funds, (a)(3) Providing Professional Development Activities, states that professional development provides training in one or more of the core academic subjects taught by the teachers and improves teaching practices and student academic achievement. Examples of expenditures for other conferences or classes that we could not determine allowability included attendance at the National Association of the Education of Young Children Conference, the Reading First and Jump Start Weekend Conference, and Learning 24/7-The Community is a Classroom.

**PSD Response to the Use of Title II, Part A Grant Funds (B):**

PSD did not concur with this finding. PSD stated that it addressed the policies and procedures issues in its response to Finding Nos. 3 and 4. Therefore, PSD chose to address portion B of the finding, "Use of Title II, Part A Grant Funds."

PSD stated that it only made a direct payment to a Nonpublic school after the school had already made a payment to a vendor for eligible costs and then the school sought reimbursement from PSD. This allowed PSD to retain greater "administrative direction and control" over Title II funds than had it directly incurred an obligation to pay a vendor itself. This structure allowed PSD to determine after the fact whether a particular expenditure was eligible under the Title II grant, then exercise its discretion to pay for the activity with no obligation to the vendor.

PSD further stated that the draft report's contention that the majority of the Title II, Part A expenditures would be unallowable because the expenditures were incidental professional development costs has little substance and is contrary to Department guidance. The auditors were not correct in adopting this position to disallow costs. (See U.S. Dep't of Educ., "Improving Teacher Quality State Grants – Non-regulatory Guidance," at 32 (2006) [*sic*] "Provided that an LEA maintains records of the amount of Title I and Title II, Part A funds used for these professional development activities, and the Title I funds are used as permitted in the Title I statute and regulations, Title I and Title II, Part A funds may be used jointly for this purpose."

PSD asserted that the draft report assumed that other dollars paid for the vendors conducting the training simply because the Title II grant was not charged. The vendors/presenters provided services free of charge. The auditor's conclusions are incorrect.

**OIG Response to PSD Response to the Use of Title II, Part A Grant Funds (B):**

PSD's statement that its current system of reimbursement allowed it to maintain greater administrative control is contrary to the issues found during our review. Along with the examples of indemnity insurance and tips for alcoholic beverages discussed in the text of the finding, we found that PSD reimbursed Nonpublic schools for floral arrangements, rental of a piano and piano player, valet parking, and entertainment expenses. Furthermore, 13 of the 39 expenditures we reviewed were reimbursed with only a request for reimbursement submitted by the Nonpublic school that did not include receipts to show that the costs were actually incurred. PSD has not shown that it had "administrative direction and control" over the Nonpublic Title II, Part A funds. Approving potential expenditures before they are incurred provides greater administrative direction and control because you can ensure that the expense is reasonable and allowable. In addition, paying expenses without the proper receipts also does not provide for adequate direction and control over the funds.

In January 2009, PDE's Division of Federal Programs released an Administrative Manual for Consolidated Federal Programs. Section 1, General Guidelines, Participation of Nonpublic School Children, clearly states that the public LEA controls funds, employment, and contracts used to provide services to nonpublic students and teachers. The public LEA makes the final decisions with respect to the services provided to Nonpublic children with Federal funds from the consolidated Federal programs. The manual further states that, "No funds may go directly to the nonpublic schools-only services." The manual also states that these requirements must be met or the "district's program would not be in compliance." If PSD continues to carry out this process of reimbursement for Title II, Part A nonpublic school expenditures, it will be in violation of both state and Federal requirements.

Our position that Title II, Part A funds were not allowed to purchase incidental expenditures for training if the training itself is not funded by Title II, Part A funds was based on our discussions with the Department's Title II, Part A program office and was developed by its attorneys. The actual guidance provided by the program office was provided to PSD on October 10, 2008.[65]

Although the Department's guidance does allow Title I and Title II, Part A grant funds to be used jointly to fund training and professional development, PSD provided no supporting documentation to show that the Title I grant funded the actual costs of the professional development when the Title II, Part A grant funded the incidental costs.

Also, PSD did not provide sufficient documentation to support the statement, "…the draft report assumed that other dollars paid for the vendors conducting the training simply because Title II was not charged. The vendors/presenters provided their services free of charge." No agreements or contracts with any of the vendors or presenters showing that the services were provided "free of charge" or as part of the purchase of materials were provided.

### C. Use of Office Depot Web site

PSD did not have documented policies and procedures defining the process to be used for ordering items from the Office Depot vendor. Employees ordered items directly from Office Depot's Web site on a daily basis. Daily order activity was collected weekly by Office Depot and a bill was transmitted electronically to PSD for payment. This direct submission by Office Depot started the invoice payment process in the Advantage system. The items ordered were received directly by the department or school that ordered them. All expenditures were charged to the ABC activity funding code 6121 "office supplies." Therefore, if a mini refrigerator was ordered, the same activity code would be used as if pens were ordered.

We reviewed 779 Office Depot expenditures, totaling $97,953. We found that 584 expenditures, totaling $66,252, were unallowable.[66] (See Table 3 and Enclosure 5 for more detail on the unallowable expenditures.)

PSD did not have controls in place to ensure that items ordered from Office Depot were appropriate grant expenditures, and there was a lack of oversight of items purchased. Unallowable Office Depot expenditures that were charged to grant funds included the purchase of a mini fridge, hand trucks, a microwave oven, greeting cards (all purchased by the Title I program office), cordless phones, cherry wood office furniture, hand soap, facial tissue, cleaning supplies, and many other basic office and education supplies.[67] Based on the types of items ordered, it appeared that PSD employees did not receive guidance on what could and could not be ordered using grant funds.

[65] An email was sent to the Chief Financial Officer, Comptroller, and principal analysts for grants.
[66] See the Background section of the report for the types of expenditures that grant funds should be used for according to the grant provisions.
[67] These expenditures were determined to be unallowable because they do not support the grant's purpose.

**Table 3-Office Depot Expenditures**

| | **Miscellaneous** (i.e., break room supplies, coffee, cups, plates, napkins, Tylenol, Advil, cleaning supplies, and candy) | **Electronics** (i.e., printers, cameras, Palm Pilots, calculators, refrigerators, microwaves, cordless phones, and batteries) | **Office Supplies** (i.e., stationery supplies, printer ink, general desk items) | **Total** |
|---|---|---|---|---|
| Title I | | | | |
| *Unallowable* | $6,524 | $14,837 | $33,116 | **$54,477** |
| CSR | | | | |
| *Unallowable* | $289 | $1,505 | $2,091 | **$3,885** |
| GEAR UP | | | | |
| *Unallowable* | $198 | $584 | $6,388 | **$7,169** |
| Reading First | | | | |
| *Unallowable* | $99 | $11 | $611 | **$721** |
| **Total** | **$7,109** | **$16,937** | **$42,206** | **$66,252** |

In addition, PSD did not follow OMB Circular A-87 concerning the refund of items paid from grant funds. OMB Circular A-87, Appendix A, C, Basic Guidelines, 4. Applicable Credits, provides that rebates are considered to be an applicable credit, and they should be credited to the Federal award either as a cost reduction or cash refund. A PSD official from the Procurement Services department informed us that PSD received a $74,740 rebate check[68] from Office Depot in FY 2007 for items purchased in FY 2006. The entire rebate was deposited into the general fund.[69] Based on the OMB Circular A-87 criteria, PSD should have pro-rated the rebate and credited the funds among the Federal grants that were used to purchase items from Office Depot during the period the rebate applied to.

**PSD Response to the Use of Office Depot Web site (C):**

In its response to Finding No. 3, PSD provided additional supporting documentation for the Office Depot expenditures.

PSD did not address having inadequate controls in place for using the Office Depot Web site for ordering items.

**OIG Response to PSD Response to the Use of Office Depot Web site (C):**

Of the 584 expenditures that were unallowable, PSD provided additional documentation for only 10 expenditures with its response. Based on the information provided for two of the expenditures, we removed the associated costs from our exceptions.

[68] The Procurement Services department official stated that currently the rebate was 1 percent of the total purchases, but the rate would increase to 3 percent within the next year (2009).
[69] PSD also received a $42,390 rebate check that was deposited into the general fund on June 27, 2006.

The other information provided was not adequate. For example, for the purchase of a shredder by an elementary school using Title I funds, PSD provided an email from the principal stating that she was not the principal at the time of the purchase but did know there were two shredders at the school. This information is not adequate to support the shedder being purchased from the grant funds because PSD did not know why the shedder in question was purchased or where it was located.

Also, PSD provided conflicting information. For example, PSD's first response included a statement that 30 packages of toner were purchased for 2 printers to be used by the MERIT staff. As part of its final response submission, PSD stated that the toner was used for 30 printers at Archdiocesan schools. As stated in our response for Finding No. 3, the inconsistent statements made it impossible for us to form a conclusion that the expenditures were allowable.

### D. Bus and School Choice Transportation Costs Charged to Grant Funds

PSD did not have written policies and procedures regarding the use of PSD's bus service, and no review of the costs was being performed. PSD's Fiscal Coordinator for Transportation Services informed us that schools were to submit Form S-175 "Request for School District-Operated Off-Peak Bus Service" to Transportation Services to request the use of a bus. Bus drivers were required to complete Form TO-68 "Trip Assignment Slip" for each bus driven on a trip. However, Transportation Services did not keep track of the bus usage information but obtained it from the schools. The fiscal coordinator stated that he emailed requests to schools for information on their bus usage at the end of the month and compiled his billing information from the replies, which would include trip date and ABC billing code. Once the information was received, a spreadsheet was created and sent to the POMB as support for a JV transferring costs from the general fund into the grant funds. No reconciliation or cross check of the billing information received from the schools and the S-175 or the TO-68 forms was performed. Additionally, no review of the ABC code used was performed either, which allowed trips to be charged to the grants that were not grant eligible. As a result of no reconciliations being performed and no review of the ABC code, bus transportation costs charged to the grants were unallowable, inadequately supported, and overstated.

We reviewed nine JV transfers, which included 69 transportation expenditures, totaling $1,380,266. We found three unallowable expenditures, totaling $13,885. This included $13,145 ($12,064 for token usage and $1,081for busing) for transportation costs for public school choice students.[70] We also found 22 expenditures (that included costs for buses for afterschool tutoring and field trips to PSD's educational center), totaling $42,655, were inadequately supported ($30,880 of this was also questionable).

**School Choice**

We found that costs for the transportation of public school choice[71] students charged to the Title I grant were overstated. Title I was charged for all the 2006 school choice students' transportation costs, totaling $1,293,386. PSD provided transportation to school choice students

[70] This item is also discussed in Finding No. 2.
[71] Title I, Section 1116 (b) (1) (e) allowed for students enrolled in a school identified for improvement to transfer to another public school serviced by PSD.

by bus, tokens, or taxicab. Transportation Services charged the Title I grant $86,768 for tokens for 187 school choice students to take public transportation to school.[72] The supporting documentation provided by PSD showed that only 161 students ($74,704) using tokens were actually public school choice students. Therefore, PSD overcharged the Title I grant for 26 students, totaling $12,064.

PSD also overcharged the grant $1,081 for the busing of other school choice students. According to the JV used to record the bus route costs to the Title I grant, the total cost per bus route was $45,044. The amount charged per bus route to the Title I grant was based on the percentage of school choice students per bus route. PSD charged the Title I grant for the use of this bus route under the assumption that 16.7 percent of the students were public school choice students ($7,522). However, only 5 students on the bus were school choice students, and the supporting documentation provided by PSD showed that the total number of students on the bus was 35. Therefore, only 14.3 percent (5 divided by 35) of the students on the bus route were choice students ($6,441).

**Buses Charged for Pepper Middle School's After School Program**

The majority of the inadequately supported questionable costs related to busing costs charged to the Title I grant for an after-school program. The charges for the use of the buses did not correspond with the dates provided by PSD personnel and the supporting documentation did not support the number of buses charged. A memo from the school's principal indicated that three buses were needed each day to provide the students with transportation home; however, the number of buses charged per month did not correspond with this. For example, in February 2006, costs for 76 buses were charged to the Title I grant for transporting students from the extracurricular program at Pepper Middle School. The number of buses appeared to be excessive since the program only ran 4 days a week. There would only have been a need for 48 buses if there were 3 buses for 4 days (Monday through Thursday) for 4 weeks.

In addition, PSD was unable to clearly provide the actual start and end dates for the after school program. We initially were told that the program ran from January 2006 through March 2006. In May 2008 PSD stated that the program started in November 2005. We then received a memo, dated June 26, 2008, from the Title I Director to the Comptroller that stated the program ran from November 2005 through May 2006. Although we were told that the program ran from November 2005 until May 2006, the Title I grant was first charged for bus usage in October 2005 and the grant was not charged for bus usage for the months of April and May 2006 (see Table 4 below).

[72] The Title I grant was charged $464 per student for the year.

**Table 4-Bus Usage**

| Month Buses Were Used [73] | Date Buses Were Charged to Title I by JV Transaction | Number of Buses | Amount Charged[74] |
|---|---|---|---|
| October 2005 | November 15, 2005 | 22 | $3,520 |
| November 2005 | February 2, 2006 | 42 | $6,720 |
| December 2005 | February 28, 2006 | 22 | $3,520 |
| January 2006 | March 24, 2006 | 29 | $4,640 |
| February 2006 | May, 16, 2006 | 76 | $12,160 |
| March 2006 | May 22, 2006 | 71 | $11,360 |
| April 2006 | June 19, 2006 | 0 | $0 |
| May 2006 | June 27, 2006 | 0 | $0 |
| **TOTAL** | | **262** | **$41,920** |

Pepper Middle School provided supporting documentation for the program in the form of student sign-in sheets from January through March 2006 only. However, in a July 7, 2008, letter, the principal stated "Sign-in sheets were kept for the entire program."

PSD's inability to show when the program actually started, to provide adequate supporting documentation, and to show that the bus usage was not excessive resulted in the costs for 193 buses,[75] totaling $30,880, paid from Title I grant funds being questionable. These costs were not in line with OMB Circular A-87 because they were not necessary and reasonable or adequately documented. OMB Circular A-87, Appendix A, C. Basic Guidelines 1. Factors Affecting Allowability of Costs, requires that costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards, be allocable to Federal awards, and be adequately documented.

### E. Allocation of Single Audit Costs

PSD did not have written policies and procedures regarding the allocation of single audit costs and did not allocate these costs appropriately. Therefore, grantors may not have been allocated their appropriate share of the audit costs. Additionally, PSD did not allocate the entire cost of the single audit. Although` PSD received a bill from the City of Philadelphia, Office of the Controller (Controller's Office), there was no actual monetary payment made by PSD to the City for this service. This was a non-monetary expense for the district.

During the audit period, PSD allocated $183,220 in single audit costs to Federal grants. Department grants absorbed more than 89 percent of the 2006 audit costs allocated. The Title I

[73] This information was obtained from JV documents provided by Transportation Services and the Trip Assignment Slips prepared by the bus drivers.
[74] Bus usage was not charged under the same method as those used for field trips or other non-peak bus activities. Buses were charged $160 each.
[75] This number was arrived at by taking the total number of buses (262) minus the number of buses that were supported by student sign-in sheets (69). PSD provided supporting documentation for 4 days in January, 9 days in February and 10 days in March 2006, for a total of 23 days. Three buses were required for the 23 days, which equals 69 buses that were supported.

grant alone absorbed 27 percent of the costs for the audit period, while the Vocational Education grant absorbed over 17 percent.

The Controller's Office performed the single audit and provided a bill to PSD detailing the audit cost and the programs audited. For example, the Controller's Office billed PSD $283,533 for the cost of the FY 2006 single audit. Eleven major grant programs were audited: six Department grants, three U.S. Department of Agriculture grants, and two U.S. Department of Health and Human Services grants. Department grants were allocated a total of $163,443 of the audit costs.

We were informed by the principal analyst for grants that PSD's rule was to allocate 0.25 percent (.0025) of a grant's administrative costs to audit costs and cap Title I grant audit costs at $50,000. When asked why PSD used the percentage amounts selected, he stated that the percentage amounts were decided on years ago and have always been "a good amount to gauge the expense." However, PSD was not uniform in applying this method. We found that not all the grants with administrative costs were allocated audit costs. Of the 25 grants[76] allocated audit costs, during the audit period, three were allocated .005 percent of the administrative costs and three others (excluding Title I) were allocated a "flat" amount. In addition, 17 of the 25 grants were allocated audit costs based on budgeted direct costs and another 7 of the 25 grants were allocated audit costs based on the grant award amount.[77]

Furthermore, PSD did not provide supporting documentation to show the basis for the amounts allocated or why a grant that was not audited was allocated audit costs. PSD also did not state why the entire audit cost was not allocated. OMB Circular A-87, Appendix A, C. Basic Guidelines 3. Allocable Costs, a. provides that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. As shown above, this did not appear to be the case with the single audit costs.

We also found that there was no consistency in the manner in which PSD determined which grant period would be allocated the audit costs. For example, the 2004 Title I grant was allocated FY 2006 audit expenses while the FY 2005 Reading First grant was allocated audit expenses incurred during FY 2006. In addition, we noted an instance where multiple grant periods for one program were allocated audit costs. The Department's 21st Century Community Learning Centers program grants for FY 2005 and 2006 were allocated FY 2006 single audit costs even though this program was not audited.

PSD should either allocate all audit costs to the grants (by way of an indirect cost rate) or maintain documentation to support another fair and equitable method of allocating the costs.

PSD management did not create an adequate control environment. Documented policies and procedures are part of good internal controls. Documentation of policies and procedures facilitates the training for new employees and ensures continuity of operations in the event of prolonged employee absences or turnover. With established policies and procedures, audit costs could be allocated consistently and correctly.

[76] Of the 25, 17 were Department grants.
[77] See Enclosure No. 5 for a table detailing the allocated audit costs.

### F. Charging of Indirect Costs

PSD did not have written policies and procedures relating to the calculation and recording of indirect cost expenditures. We reviewed $2,659,237 in indirect costs charged to the grants and found that the indirect costs were overstated by $11,063 (the Title I grant by $8,055, the Safe and Drug Free Schools grant by $2,312 and the Title II grant by $696).

We found that indirect costs were also not calculated correctly. PSD calculated indirect costs by multiplying total expenditures (minus equipment and state retirement revenue) by 2.28 percent, the rate set forth by Commonwealth of Pennsylvania Comptroller's Office. Because there were no policies and procedures, indirect costs were recorded at the analyst's discretion. Some analysts recorded the costs only once during the grant period and others more than once. When calculating the amount of indirect costs to record for any time period other than the first time, PSD did not reduce the total expenditure amount by the amount of the previously recorded indirect costs. For example, the FY 2006 Title I grant was charged $353,283 in indirect costs via a JV performed in September 2005. In a September 2006 JV to record indirect costs, the analyst calculated the indirect cost base of $92,627,219 (the amount by which the indirect rate was multiplied) using the total FY 2006 grant expenditures ($96,090,954 less equipment costs of $2,101,980 and state retirement revenue of $1,361,755). The prior booking of the indirect costs ($353,283) was not deducted from the total expenditures to determine the indirect cost base. The indirect cost base should have been $92,273,936, resulting in indirect costs of $2,103,846. The previously recorded indirect costs should have been deducted from the total expenditures because total expenditures included that amount. As a result, the Title I grant was overcharged $8,055 for indirect costs.

As previously stated, PSD management did not create an adequate control environment. Documented policies and procedures are part of good internal controls. Documentation of policies and procedures facilitates the training for new employees and ensures continuity of operations in the event of prolonged employee absences or turnover. With established policies and procedures, analysts would be consistent in the recording of the indirect costs and would be aware of how to correctly calculate the costs.

**PSD Response to Transportation Costs Charged to Grants, Allocation of Single Audit Costs, and Charging of Indirect Costs (D., E., F.):**

In its response PSD stated that the omission of a discussion of finding issues in the response, such as the transportation charges, allocation of single audit costs, and the charging of indirect costs, is not an agreement with the findings but are a result of resource and time limitations.

**OIG Response to PSD Response to Transportation Costs Charged to Grants, Allocation of Single Audit Costs, and Charging of Indirect Costs (D., E., F.):**

Finding issues D, E, and F remain unchanged from the draft report.

**Recommendations:**

We recommend that the Assistant Secretary for Elementary and Secondary Education in collaboration with the Assistant Secretary for the Office of Post Secondary Education require PDE to instruct PSD to:

5.1 Return the $636,515[78] in unallowable costs and related indirect costs to the Department.
5.2 Provide adequate documentation to support $52,705 in inadequately documented non-personnel expenditures or return any portion of that amount the Department determines is not adequately supported.
5.3 Develop and implement budgetary monitoring policies and procedures.
5.4 Develop and implement policies and procedures to properly administer Title II, Part A grant funds.
5.5 Provide appropriate guidance to the Nonpublic schools that are eligible to receive Title II, Part A services.
5.6 Develop and implement policies and procedures to ensure that expenditures purchased from the Office Depot Web site are reasonable and allowable and grants are refunded any rebate or the rebate is returned to the Department.
5.7 Develop and implement policies and procedures to ensure transportation costs billed to the grants are allowable and adequately supported and school choice costs charged to Title I are incremental.[79]
5.8 Develop and implement policies and procedures for allocating single audit and indirect costs to ensure that the charges are reasonable, allocable, and allowable, and adequately supported.

[78] This amount includes all unallowable expenditures and related indirect costs for all the subparts of the finding except for the charging of indirect costs. The indirect cost rate used was 2.28 percent. See Enclosure 1 for a calculation of this amount.
[79] See Finding No. 2 for school choice transportation charges and supplanting.

# OTHER MATTERS

**A Lack of Position Descriptions for Personnel in Senior Management**

PSD could not provide job descriptions that were in effect during the audit period for the positions of Comptroller, Deputy Budget Director, and the Safe and Drug-Free Schools Director.

In creating an adequate control environment, management needs to identify appropriate knowledge and skills needed for all positions. Appropriate human capital policies and procedures, which include requiring resumes and providing professional development, are a critical factor in creating an adequate control environment. We requested personnel documents (resumes, applications, job descriptions, and training documentation) for the Interim CFO, the Comptroller, Budget Director, Deputy Budget Director, Principal Financial Analyst, and Directors of the grant programs in our review.[80] This information was requested to determine whether these positions had a clear definition of the required duties and responsibilities. Also resumes or applications were requested to help determine whether those in the positions were qualified.

Although PSD did provide us with all of the job descriptions, the Comptroller, Deputy Budget Director, and the Safe and Drug-Free Schools Director grant job descriptions did not appear to have been prepared prior to or during our audit period. For example, the job description for the Comptroller was written in April 2008. We requested information concerning how the job description was created and were provided with the job announcement for the position. The job announcement did not include job responsibilities or duties. Therefore, we were unable to determine that the Comptroller's position had defined responsibilities and duties during the audit period. The job descriptions for the Deputy Budget Director and the Safe and Drug-Free Schools Director program were created in April 2008. We suggest PSD ensure all positions, especially those in senior management, have written job descriptions that define the position's responsibilities and duties.

**Ordering of Excessive Amounts of Food**

During the audit period, PSD ordered excessive amounts of food for parental and other activities. We noted many instances where PSD could not fully support the amount of food ordered; too much food was ordered for the number of activity participants. We also noted that school personnel were the main attendees at many functions where food was ordered. Examples of food ordered by PSD included:

- Lunches at $14 per plate for an honor roll recognition luncheon. No documentation of attendees could be provided by PSD.

[80] PSD provided us with all requested items except for two resumes.

- 100 continental breakfasts were ordered for a “kick-off celebration” at Bayard Taylor Elementary. There was no agenda or any other type of information to determine what the activity actually was. It also appeared that only 22 parents attended the event.

- A breakfast at $8 per plate was held at Widener Memorial School for a Positive Post School Outcome event. The sign-in sheets provided indicated that 40 percent of the attendees were school personnel.

- Food totaling $4,000 was ordered for an event held in the West Region that was being promoted as “A Thousand Parent Breakfast with the (Regional) Superintendent.” PSD stated that there were 400 attendees, however, supporting documentation for only 162 attendees was provided.

- An Even Start staff breakfast meeting, which cost $685, was held at PSD’s central office. This was not for a professional development activity but for a staff meeting. The ordering of food is unallowable according to OMB Circular A-87, Attachment B, 27. Meetings and Conferences, because it was for a staff meeting concerning administrative issues and not a training session where technical or training information would have been disseminated.

- The Title I program office order of six cases of water, totaling $90, for staff meetings with PSD Title I employees. This item was not allowable because, as stated above, this was for staff meetings.

The excessive amount of food ordered was not a prudent use of grant funds. The funds could have been put to use in other areas supporting the grants.

We recognize that the SRC mandated new internal controls, effective in FY 2008, that included the restriction on the use of catered food; however, we suggest PSD develop a better way to estimate the number of participants that will attend. Furthermore, limits should be set on the amount that can be spent on food and what can be ordered. PSD should ensure that food is not ordered when a large percentage of those fed will be PSD employees and for events such as staff meetings.

**ABC Code Usage Needs Improvement**

During our review we found that ABC codes were not clearly defined and were used improperly to code expenditures charged to grant funds. For example, in our review of the FIE grant we noted that payments to the Philadelphia Public League, totaling $52,877; trips to bowling alleys, totaling $7,570; and charges for portable toilets, totaling $2,805, were coded to an ABC code that represented part-time extra-curricular salaries.

We also found purchases of what appeared to be 2-way radios and accessories, totaling $3,725, and food service orders, totaling $2,763, that were coded to the ABC code for Title I, classroom instruction materials. In addition, we noted two instances, totaling $54,632, where the ABC code for classroom instruction was used for contractual services involving school safety.

During the exit conference a PSD official stated that the ABC codes were based on codes provided by the Commonwealth of Pennsylvania and may not correspond to how PSD uses them. The state does not provide definitions for the usage of the codes. This is part of the reason why PSD should develop a document that more clearly defines when each code should be used and train employees on the appropriate use of the ABC codes. We also suggest that PSD monitor expenditures more closely to ensure that the correct ABC codes are being used. The use of the wrong ABC code leads to a misrepresentation of the expenditure, which can lead to unallowable expenditures being charged to Federal funds and misrepresentation of PSD's expenditures in reports to grantor agencies.

**Lack of Supporting Documentation for Training and Professional Development Expenditures**

PSD did not require sign-in sheets, course agendas, or training certificates to be maintained as supporting documentation for the reimbursement of professional development costs. Without these items, PSD cannot be certain that those registered actually attended the professional development activity. In the travel sample we reviewed in Finding No. 4, $46,574 was reimbursement for travel associated with training. PSD did not require employees to submit training certificates or even a course agenda from the training activity as support for reimbursement. Without these items, the traveler can show only that they traveled but not that they fulfilled the objective of the trip, which was to attend training.

In a few instances copies of the training registration forms were presented as support for reimbursement; however, this showed only that the employee registered for the training, not that they actually attended it. As evidenced in our CSR grant sample, PSD reimbursed a teacher, through an imprest fund, with only a copy of the registration for the class. When we requested the training certificate, we learned that the teacher did not attend the training.

Another example we found involved Title II, Part A grant funds expensed through the Intermediate Unit 26 for Nonpublic schools included in our sample discussed in Finding No. 5. Grant funds were used to reimburse $436,756 in professional development costs without any supporting documentation, such as sign-in sheets, course agendas, or training certificates. The Archdiocese of Philadelphia alone was reimbursed $354,501.

We suggest PSD require sign-in sheets, training certificates, and/or course agendas to be submitted as supporting documentation for training attendance in order to be reimbursed for training and associated travel costs.

# OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine if PSD had adequate fiscal controls in place to account for Federal funds for the period July 1, 2005, through June 30, 2006.

To achieve the audit objective, we performed the following procedures:

1. Reviewed applicable laws, regulations and guidance, including Title I, Part A; Title II, Part A; and Title II, Part D of the NCLB Act of 2001; and the Department's Non-Regulatory Guidance, Serving Preschool Children Under Title I, Part A (dated March 2004). We also reviewed Education Department General Administrative Regulations (34 C.F.R. Parts 75, 76, and 80), OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, and OMB Circular A-21, Cost Principles for Educational Institutions.
2. Reviewed reports prepared by the Philadelphia City Controller's Office, including the: A-133 Single Audit report for the year ended June 30, 2005, the *Report on Internal Control and on Compliance and Other Matters for the School District of Philadelphia* (FY 2005), and the *Update to Report Dated August 23, 2000 on Study and Review of the Application Controls of the School District of Philadelphia's American Management Systems Advantage 2000 Financial Management and Human Resources/Payroll System*. In addition, we reviewed the School District of Philadelphia and Philadelphia Intermediate Unit #26 Performance Audit Report (for the years ended June 30, 2004, 2003, 2002, 2001, and 2000). This report was issued by the PDE and also included the status of prior years' findings and recommendations. We also reviewed PSD's *Report on Controls Placed in Operation and Tests of Operating Effectiveness for the Application Hosting Services of Verizon Data Services Inc.* (SAS 70 report) completed by Ernst & Young, for the period of January 1, 2006, to September 30, 2006.
3. Interviewed officials from the Department's Title I, Title II, and GEAR UP program offices, and the Office of the CFO.
4. Interviewed PSD officials, including the former CFO, Interim CFO, Comptroller, General Counsel, Budget Director, the Principal Financial Analyst, former Principal Financial Analyst, Director of Audit Services, Director of Accounts Payable, Accounts Payable Supervisor, Accounts Payable Clerk, Procurement Services Manager, Payroll Director, Inspector General for PSD, Fiscal Coordinator for Transportation Services, Executive Director of Employee Support Operations, Director of Human Resources, Accounting Managers, Program Managers, (Program) Directors, (Program) Executive Directors and the Financial Analysts for Title I (former and current), CSR, Title II, Enhancing Education through Technology, Reading First, Safe and Drug-Free Schools, FIE, and Special Ed grants. We also interviewed the Chairwoman of the SRC.
5. Reviewed PSD accounting records, including the GL of accounts, ABC code descriptions, JV policies and procedures for the POMB, General Accounting Office, AP, travel, imprest funds, payroll, and enhanced controls. In addition, we reviewed JVs, invoices, timesheets, time and effort certifications, job descriptions, employee resumes, employment applications, contracts with vendors, and SRC resolutions. We also surveyed employees from the POMB to determine the types of fiscal and grant related training taken.

**Sampling**
We used random and judgmental sampling techniques during the audit. We did not use a statistical sample; therefore, the results of the audit can not be projected to the intended population. Our samples were selected as follows:

During the survey phase of the audit, we judgmentally selected categories of expenditures for review and within those categories we randomly selected samples for testing. The judgmental selections were based on the GL account object code category descriptions. We selected object categories that had a total of $50,000 or more or those that appeared unusual or of interest because of the category description. We selected separate samples for those object codes that seemed unusual or had a category description of interest. We broke the other object codes into three groupings; salary, salary-related, and other. Samples from these final three groupings were randomly selected.

While conducting our survey phase testing we concluded that the volume of documents that had to be reviewed was extremely voluminous. Therefore, we decided to only review Title I grant expenditures in the survey phase. During the audit phase, we expanded our work to include a review of not only Title I grant expenditures but the other grants (Title II, Parts A and D, Special Ed, FIE, CSR, GEAR UP, Safe and Drug-Free Schools and Reading First) as well.

**Review of Title I Non-Payroll Expenditures**
During the audit we randomly selected our sample from a universe of 37,550 expenditures, totaling $32,929,358, from PSD's GL report for the audit period. We sorted the universe into JV and AP expenditures and selected samples from both categories. We reviewed 913 randomly selected expenditures, totaling $4,403,772. The AP expenditures were paid through PSD's AP process.

| Category of Expense | Number of Expenditures Sampled | Amount of Expenditures Sampled |
|---|---|---|
| **AP Expenditures** | 735 | $3,206,023 |
| **JV Expenditures** | 178 | $1,197,749 |
| **Total Sampled Items** | **913** | **$4,403,772** |

**Review of Title I Payroll Expenditures**
We randomly and judgmentally selected our sample from a universe of 292,167 expenditures, totaling $98,834,989, from PSD's GL report for the audit period. We judgmentally selected payroll JV expenditures to review. The sample selection was based on the amount of the JV, the ABC coding, and the JV date. These items were reviewed during the survey phase.

| Category of Expense | Number of Expenditures Sampled | Amount of Expenditures Sampled |
|---|---|---|
| **Bonuses** | 13 | 26,125 |
| **Overtime** | 3 | 2,009 |
| **Leave** | 10 | 2,127 |
| **Base Pay** | 21 | 27,273 |
| **Fringe Benefits** | 3 | 387 |
| **Total Sampled Items** | **50** | **$57,921** |

**Review of Improving Teacher Quality Expenditures (Title II, Part A)**
We obtained the universe of expenditures from PSD's GL report for the audit period. We sorted the universe into JV and AP expenditures. We only reviewed the AP expenditures because the majority of the expenditures were paid through the AP department and the JV expenditures were included in our review of JV transfers. We judgmentally selected our sample from a universe of 310 AP expenditures,[81] totaling $763,203. We selected 76 AP expenditures, totaling $46,716, for review. The sample selections were based on dollar amount, line description, and ABC coding.

**Review of Enhancing Education through Technology Expenditures (Title II, Part D)**
We judgmentally selected our sample from a universe of 2,547 expenditures,[82] totaling $6,605,924, from PSD's GL report for the audit period. We sorted the universe into JV and AP expenditures. We selected samples from both types of expenditures. The sample selections were based on dollar amount, line description and ABC coding.

| Category of Expense | Number of Expenditures Sampled | Amount of Expenditures Sampled |
|---|---|---|
| **AP Expenditures** | 55 | $1,603,002 |
| **JV Expenditures** | 12 | $495,006 |
| **Total Sampled Items** | **67** | **$2,098,008** |

**Review of Title II Nonpublic Expenditures**
We judgmentally selected our sample from a universe of 779 expenditures, totaling $4,190,805, from PSD's GL report for the audit period. We sorted the universe into JV and AP expenditures and selected samples from both categories. The sample selections were based on dollar amount, line description, and ABC coding.

| Category of Expense | Number of Expenditures Sampled | Amount of Expenditures Sampled |
|---|---|---|
| **Nonpublic School AP Expenditures** | 76 | $605,418 |
| **Nonpublic School JV Expenditures** | 9 | $111,280 |
| **Total Sampled Items** | **85** | **$716,698** |

[81] The total Title II, Part A universe was 62,775 expenditures, totaling $23,461,274.
[82] Some of the expenditures were charged to prior years grants, but were made during the audit period.

**Review of Reading First State Grant Expenditures**
We judgmentally selected our sample from a universe of 9,508 expenditures, totaling $8,710,634, from PSD's GL report for the audit period. We sorted the universe into JV and AP expenditures and selected samples from both categories. The sample selections were based on dollar amount, line description, and ABC coding.

| Category of Expense | Number of Expenditures Sampled | Amount of Expenditures Sampled |
|---|---|---|
| **AP Expenditures** | 665 | $871,323 |
| **JV Expenditures** | 51 | $743,096 |
| **Total Sampled Items** | **716** | **$1,614,419** |

**Review of Safe and Drug-Free Schools Expenditures**
We judgmentally selected our sample from a universe of 1,733 expenditures[83], totaling $2,118,570, from PSD's GL report for the audit period. We sorted the universe into JV and AP expenditures and selected samples from both categories. The sample selections were based on dollar amount, line description, and ABC coding.

| Category of Expense | Number of Expenditures Sampled | Amount of Expenditures Sampled |
|---|---|---|
| **AP Expenditures** | 43 | $530,159 |
| **JV Expenditures** | 30 | $142,743 |
| **Total Sampled Items** | **73** | **$672,902** |

**Review for the Fund for the Improvement of Education Expenditures**
We judgmentally selected a sample of 122 JV expenditures, totaling $9,022,583, from a universe of 206 expenditures, totaling $10,506,152, from PSD's GL report for the audit period. We chose to only review JV expenditures because the grant funds were received late and the majority of the expenditures were charged to the grant funds using JVs. The sample selections were based on dollar amount, line description, and ABC coding.

**Review for Comprehensive School Reform Demonstration Expenditures**
We judgmentally selected our sample from a universe of 12,243 expenditures, totaling $6,188,144, from PSD's GL report for the audit period. We sorted the universe into AP and JV expenditures, and selected samples from both categories. The sample selections were based on dollar amount, line description, and ABC coding.

| Category of Expense | Number of Expenditures Sampled | Amount of Expenditures Sampled |
|---|---|---|
| **AP Expenditures** | 99 | $435,706 |
| **JV Expenditures** | 44 | $123,107 |
| **Total Sampled Items** | **143** | **$558,813** |

[83] Some of the expenditures were charged to prior years grants, but were made during the audit period.

**Review of GEAR UP Expenditures**
We obtained the universe of expenditures from PSD's GL report for the audit period. We sorted the universe into JV and AP expenditures. We only reviewed the AP expenditures because the majority of the expenditures were paid through the AP department and the JV expenditures were included in our review of JV transfers. We judgmentally selected our sample from a universe of 936 AP expenditures,[84] totaling $3,380,097. We selected 424 AP expenditures, totaling $2,527,483, for review. The sample selections were based on dollar amount, line description, and ABC coding.

**Review of Office Depot Expenditures**
We judgmentally selected our sample from a universe of 6,163 expenditures, totaling $364,518. To obtain the universe, we extracted all Office Depot expenditures from each grant's GL report and combined them. We selected a sample of 779 expenditures, totaling $97,953, from the combined universe for review. The sample selection was based on dollar amount, line description, and ABC coding.

**Review of A-133 Single Audit Costs**
We reviewed all A-133 Single Audit expenses charged to the grants in our review during the audit period, totaling $183,220.

**Review of Indirect Cost**
We reviewed all the indirect costs, totaling $2,659,237, charged to the grants on the JVs included in our samples.

**Review of Transfers between the Grants and the General Fund**
We obtained a report containing all non-payroll related JV transfers between the general fund and the grants in our review from PSD's Systems Administration Unit. We judgmentally selected our sample from a universe of 207 JV Requests, totaling $95,816,881.[85] We sampled 52 JV Requests, totaling $39,840,904. We selected those transfers with a high dollar amount that seemed to be a movement of charges across several funding sources and transfers that appeared to be duplicated. We reviewed all transfers on the JV request forms that related to the grants we were reviewing.

To accomplish the audit's objective, we relied, in part, on computer-processed GL data contained in PSD's Advantage system. These data contained the universe of personnel, non-personnel, JV, and AP expenditures made from grant funds. The completeness and accuracy of the data were validated by matching the grant expenditure totals in the GL to the SEFA report for the year ended June 30, 2006. To further determine the reliability of the data, we compared the GL data to supporting documentation, such as invoices, timesheets, contracts, and resolutions. Based on our testing, we concluded that the computer-processed GL data were sufficiently reliable for the purposes of our audit.

---

[84] The total GEAR UP universe was 1,920 expenditures, totaling $4,146,895.
[85] This amount included the IDEA grant. Although we did not review this grant individually, our sample of transfers included the IDEA grant expenditures because a large amount of the grant funds were expended for salary costs by way of JV.

We reviewed and assessed PSD's fiscal controls significant to our audit objective. Our review disclosed significant fiscal control weaknesses. PSD did not have policies and procedures for all its fiscal processes, several of the policies were not adequate and several were not followed. It also appeared that PSD did not have an adequate management control environment. These weaknesses and their effects are fully discussed in the Audit Results section of this report.

We conducted on-site fieldwork at PSD's office in Philadelphia, Pennsylvania, during the period May 22, 2007, through June 6, 2008. On November 14, 2008, we held an exit conference with PSD. We conducted our work in accordance with generally accepted government auditing standards appropriate to the scope of the audit described above.

# Enclosure 1: Calculation of Total Unallowable Amounts

| | Unallowable Amount (UA) | Indirect Cost Rate (ICR) (.0228)* | Total Unallowable Amount (UA multiplied by ICR added to UA) |
|---|---|---|---|
| **Finding 1** | | | |
| **Subpart B (I)** | $2,910,940 | $66,369 | $2,977,309 |
| **Subpart C** | $1,500 | $34 | $1,534 |
| **Total for Finding** | **$2,912,440** | **$66,404** | **$2,978,844** |
| | | | |
| **Finding 2** | | | |
| **Title I** | $5,248,988 | $119,677 | $5,368,665 |
| **Title II (Parts A&D)** | $1,730,075 | $39,446 | $1,769,520 |
| **Total for Finding** | **$6,979,063** | **$159,123** | **$7,138,185** |
| | | | |
| **Finding 3** | **$411,383** | **$9,380** | **$420,762** |
| | | | |
| **Finding 4** | | | |
| **Subpart A** | $6,349,260 | $144,763 | $6,494,023 |
| **Subpart B** | $9,531 | $217 | $9,749 |
| **Total for Finding** | **$6,358,791** | **$144,980** | **$6,503,772** |
| | | | |
| **Finding 5** | | | |
| **Subpart A** | $108,417 | $2,472 | $110,889 |
| **Subpart B** | $422,956 | $9,643 | $432,599 |
| **Subpart C** | $66,252 | $1,511 | $67,763 |
| **Subpart D** | $13,885 | $317 | $14,202 |
| **Subpart F**** | $11,063 | | $11,063 |
| **Total for Finding** | **$622,572** | **$13,942** | **$636,515** |
| | | | |
| **Total for All Findings** | **$17,284,250** | **$393,827** | **$17,678,078** |

**Note:** Any differences in amounts are due to rounding.

*Unallowable costs multiplied by the indirect cost rate for the audit period.

**This portion is for the overcharge of indirect costs. Indirect costs were not calculated for these amounts.

# Enclosure 2: Finding No. 1 – Determination of Unduplicated Costs

| **Unduplicated Unsupported Salary and Fringe Benefits Costs** | |
|---|---|
| Total Inadequately Supported Personnel Expenditures Charged to Federal Grants | $123,775,334 |
| Costs Duplicated in Finding No. 1, B, II<br>School Police Paid From Title I Grant Funds | 22,800 |
| Costs Duplicated in Finding No. 2 | 995,596 |
| Costs Duplicated in Finding No. 4 | 15,751,886 |
| **Total Unduplicated Inadequately Supported Costs** | **$107,005,052** |

**Note:** Any differences in amounts are due to rounding.

# Enclosure 3: Finding No. 3 – Description of AP Transactions

| | **Services** *(i.e., contracted services, training, finance charges)* | **Entertainment and Awards** *( i.e., food, field trips, subscriptions, board games, pool tables, gift cards)* | **Electronics** *( i.e., computers, iPods, Palm Pilots)* | **Office Supplies** *( i.e., school supplies, office furniture, general)* | **Textbooks / Instructional Aids** | **Total** |
|---|---|---|---|---|---|---|
| **Title I** | | | | | | |
| *Unallowable* | | $34,579 | $7,859 | $20,323 | | **$62,761** |
| *Unsupported* | $222,142 | $27,588 | $6,262 | $5,852 | $19,166 | **$280,010** |
| **CSR** | | | | | | |
| *Unallowable* | $997 | $1,448 | $2,109 | | | **$4,554** |
| *Unsupported* | $42,000 | | $5,662 | | | **$47,662** |
| **GEAR UP** | | | | | | |
| *Unallowable* | $115,686 | $18,738 | $500 | $3,589 | | **$138,513** |
| *Unsupported* | $115,561 | $13,030 | $64,751 | $748 | $9,091 | **$203,181** |
| **Title II (A)** | | | | | | |
| *Unallowable* | | | | | $45,000 | **$45,000** |
| **Reading First** | | | | | | |
| *Unallowable* | $125,700 | $2,459 | | $443 | $31,414 | **$160,016** |
| *Unsupported* | $10,476 | | $14,759 | | $18,844 | **$44,079** |
| **Safe and Drug Free** | | | | | | |
| *Unallowable* | $540 | | | | | **$540** |
| *Unsupported* | $18,504 | $2,839 | $31,777 | | | **$53,119** |
| **Title II (D)** | | | | | | |
| *Unsupported* | $87,937 | | $29,225 | | | **$117,162** |
| **Title II D (Nonpublic Schools)** | | | | | | |
| *Unsupported* | | | $18,026 | | | **$18,026** |
| **All Grants** | | | | | | |
| *Unallowable* | **$242,923** | **$57,224** | **$10,468** | **$24,355** | **$76,414** | **$411,384** |
| *Unsupported* | **$496,620** | **$43,457** | **$170,462** | **$6,600** | **$47,101** | **$764,241** |
| **Total** | **$739,543** | **$100,682** | **$180,930** | **$30,955** | **$123,515** | **$1,175,623** |

**Note:** Any differences in amounts are due to rounding.

# Enclosure 3a: Finding No. 3 – Detail of the Title I, Part A Grant AP Transactions

| Subcategory | Number of Transactions | Explanation | Unallowable Amount | Inadequately Supported Amount |
|---|---|---|---|---|
| Furniture | 14 | The unallowable expenditures were for the purchase of various work benches, tables, and shelving. PSD stated that they were not sure why several of the items were ordered or who ordered them. The inadequately documented expenditures, per PSD, were to replace tables in the library, due to students being injured on the old ones or none being present; however, the description listed on the General Ledger stated that the tables were for the cafeteria. These types of expenditures are unallowable per OMB A-21, Appendix A, J.18.(4)b.1. Equipment and other Capital Expenditures. | $22,169 | $4,356 |
| Computers and Equipment * | 9 | One of these expenditures was for an assessment printer (see the Finding for details). Report binding machine, iPods and megaphones; PSD did not show how the items supported the schoolwide plan. Computers and visual equipment were unsupported if no property codes or adequate support were provided. | $8,329 | $6,346 |
| Table Games with Supplies (i.e. Pool Table and Air Hockey Game), and Sporting Equipment | 33 | The expenditures for table games are unallowable per OMB A-122 Attachment B 14 Entertainment Cost. The unsupported expenditures for sporting equipment was not supported with adequate documentation, and is unallowable per OMB A-21, Appendix A, J.48. Student Activity Costs. | $4,364 | $673 |
| T-Shirts * | 3 | The description provided stated that these tee shirts were purchased for professional development; however, a more detailed explanation was provided by PSD that stated the t-shirts were for a parent group and students who volunteered for Unity Day.[86] By the description and explanation this item is clearly not professional development. These expenditures were considered unnecessary to perform the functions of the Title I program as require by OMB A-87, Appendix A.C. Basic Guidelines 1. & 2. Allowability and Reasonable Costs. | $2,175 | $900 |

[86] Unity Day is a summer event sponsored by Clear Channel Radio Station WDAS FM.

# Enclosure 3a: Finding No. 3 – Detail of the Title I, Part A Grant AP Transactions (Continued)

| Subcategory | Number of Transactions | Explanation | Unallowable Amount | Inadequately Supported Amount |
|---|---|---|---|---|
| Textbooks | 39 | Several of these expenditures included "textbooks" in the description line; however PSD was not able to provide us with an invoice so that we could evaluate the allowability of the purchase. | | $16,807 |
| Newspaper Subscriptions * | 2 | Subscriptions to the Philadelphia Inquirer and Daily News papers; delivered to PSD's Title I program office daily. Unallowable per OMB A- 87 Appendix B., 28(b) Memberships, subscriptions, and professional activity costs. | $731 | |
| Stationary Items/ Basic Office Supplies * | 22 | The unallowable expenditures are composed of the purchase of tissue and basic office supplies (i.e. whiteout, files, pens) which were purchased through school's imprest funds. For the unsupported expenditures we were not provided with documentation or support to identify the type of office supplies that were purchased. We identified the expenditures as office supplies from the general ledger description. These types of expenditures are unallowable per OMB Circular A-21, J.18 (4)b.1. Equipment and other Capital Expenditures. | $1,309 | $16,227 |
| Field Trips * | 11 | The expenditures for field trips included trips to the Baltimore Aquarium and various plays and shows, including trips to New York. For one trip, the documentation provided showed that the students were to pay for the trip and a fundraising event (candy sale) would offset the cost of the trip; however, the full invoiced amount of the trip was still charged to Title I and it was never adjusted to reflect any payments made by parents or any offset cost by a candy sale. These entertainment expenditures are unallowable per OMB A-87, Appendix B, 14. | $26,052 | |

# Enclosure 3a: Finding No. 3 – Detail of the Title I, Part A Grant AP Transactions (Continued)

| Subcategory | Number of Transactions | Explanation | Unallowable Amount | Inadequately Supported Amount |
|---|---|---|---|---|
| Gift Cards * | 5 | These expenditures were composed of various gift card purchases of American Express and various retail vendors' gift cards. Gift cards were awarded to parent volunteers, students, and staff. These expenditures are unallowable per OMB A-122 | $1,453 | |
| **TOTALS** | **138** | | **$66,582** | **$45,309** |

**Note 1:** All Title I items are not listed; this Enclosure provides examples of the types of expenditures made. Any differences in amounts are due to rounding.

**Note 2:** According to PSD policy, equipment and related items purchased for $500 or more are required to be inventoried and should able to located on a district property report.

* Includes items expended through an imprest fund. While listed as separate items in this enclosure, in Finding No. 3, items are listed by expenditure.

# Enclosure 3b: Finding No. 3 – Detail of the CSR Grant AP Transactions

| Subcategory | Number of Transactions | Explanation | Unallowable Amount | Inadequately Supported Amount |
|---|---|---|---|---|
| Contracted Service | 2 | Professional development at a school-America's Choice School Design Program; 2 payments; no contract or SRC resolution-per PSD policy, contract is required; without contract cannot determine what services were to be provided and when or if the correct amount is being billed. | | $42,000 |
| Telephone Bill * | 1 | Payment of school telephone bill; unallowable per PSD Imprest Fund policy. | $922 | |
| Food * | 1 | Staff breakfast on opening day of school. | $326 | |
| Field Trip | 1 | Payment for 2 charter buses to Neshaminy Shore Picnic Park; no information in school's CSR files on the trip; no student trips in CSR school budget; PSD personnel could not determine purpose of trip and why it was charged to CSR grant funds. | $370 | |
| Training * | 1 | Payment for registration for workshop attendance by school assistant principal; individual did not attend training; no refund was made. | $75 | |
| Computers | 1 | Purchase of a power book computer ($2,122), service plan and other items ($842); no district property report. | | $2,964 |
| iPods | 3 | Purchase of 15 iPod Shuffles ($1,035) and 6 iPod Nanos ($1,074); no information on students who received the iPods; not in CSR budget; school principal stated items were given to students; supposed to support summer work at home; however, school did not monitor summer work; Title I Director stated purchase does not support CSR grant. | $2,109 | |

# Enclosure 3b: Finding No. 3 – Detail of the CSR Grant AP Transactions (Continued)

| Subcategory | Number of Transactions | Explanation | Unallowable Amount | Inadequately Supported Amount |
|---|---|---|---|---|
| Sports Equipment ** | 9 | Gym equipment purchases; 10 hot ball shields ($43), 1 baseball portfolio ($17), 2 ball bags ($22), 52 softballs ($153), and 40 basketballs ($332); per school principal items ordered by PE teacher and not part of CSR grant nor were items supposed to be funded by CSR grant. | $567 | |
| Field Trip | 1 | Payment for a charter buses to the Spirit of Philadelphia (cruise ship); no student trips in CSR school budget; PSD personnel could not determine purpose of trip and why it was charged to CSR grant funds. | $185 | |
| Computers | 1 | Purchase of 2 iMac computers; no district property report. | | $2,698 |
| **TOTALS** | **21** | | **$4,554** | **$47,662** |

**Note 1:** According to PSD policy, equipment and related items purchased for $500 or more are required to be inventoried and should able to located on a district property report.

**Note 2:** Any differences in amounts are due to rounding.

* Expended through a school imprest fund. While listed as separate items in this enclosure, in Finding No. 3, items are listed by expenditure.

** Other sports equipment was purchased with CSR that were not included in our CSR sample.

# Enclosure 3c: Finding No. 3 – Detail of the GEAR UP Grant AP Transactions

| Subcategory | Number of Transactions | Explanation | Unallowable Amount | Inadequately Supported Amount |
|---|---|---|---|---|
| Finance Charges & Fees | 7 | These finance charges and fees were for invoiced field trips that were not paid by the due date listed on the invoice. These costs can not be charged to grants per OMB A- 87, Appendix B. 16 Fines and Penalties. | $102 | |
| Balloon Arches and Decorations | 4 | The balloon arches and decorations were purchased for graduation and various award luncheons. These expenditures are not consistent with the grant purpose or the intended use of the GEAR UP grant funds. Unallowable per OMB A-21 Appendix A,J. 8. Commencement and Convocation Cost and Appendix A,C.2. & 3. Allowability and Reasonable Costs. | $514 | |
| Extermination | 1 | PSD was unable to provide us with an invoice or an explanation for the expenditure. Based upon the name of the payee the expenditure did not appear to be a cost consistent with the program objective nor did it appear to be permissible as an appropriate expenditure under the GEAR UP program. This expenditure is unallowable per OMB A-87 Appendix A, C. Basic Guidelines 1.& 2. Allowability and Reasonable Costs. | $180 | |
| National Hispanic Institute | 1 | PSD was unable to provide the auditors with any documentation regarding this expenditure. Due to the lack of documentation, the auditors were unable to determine the allowability of the expenditure under the program; Therefore, this expenditure is considered unallowable per OMB A-87 C.1.j. Adequate documentation. | $10,000 | |
| Games | 19 | In preparation for the state PSSA test, PSD purchased several board games to entertain students upon completion of various segments of the State Standardized test. Unallowable per OMB A-21, Appendix A, J. 17. Entertainment Costs. | $311 | |
| Gift Cards * | 2 | 1 $25 card to Dave and Busters, 5 cards, totaling $130, to Best Buy, 1 $50 card to City Blue (clothing store), 1 $40 card to Bennigans restaurant, 10 $15 cards to Staples, 10 $15 cards to Olive Garden, and 20 $25 cards to Wal-Mart. | $1,045 | |

# Enclosure 3c: Finding No. 3 – Detail of the GEAR UP Grant AP Transactions (Continued)

| Subcategory | Number of Transactions | Explanation | Unallowable Amount | Inadequately Supported Amount |
|---|---|---|---|---|
| Food * | 14 | The unallowable expenditures included expenditures for PSD staff meetings at restaurants. These expenditures also included tips and gratuities. The unallowable food expenditures also included incentive trips to restaurants for students and various graduation luncheons and banquets. The unsupported expenditures for food included lunch provided to students during a trip to WHYY, refreshments for parents and students at various GEAR UP program ceremonies. The unsupported cost also included the cost of a breakfast buffet for parents, staff, and students to go to an off site facility to meet the new Regional Superintendant. PSD's Gear UP office could not provide us with documentation showing that the event was an event to support the initiatives of GEAR UP. We were provided with an agenda that showed a small portion of the meeting dealt with items closely related to GEAR UP initiatives. These expenditures were considered unallowable per OMB A-21 Appendix A, J. 17, Entertainment Costs, 32. Meetings and Conferences, and 48. Student Activity Costs. | $5,023 | $5,315 |
| Field Trips | 5 | The unallowable expenditures included a Ride the Ducks Tour in Philadelphia as a student incentive for PSSA's. The unsupported expenditures included field trips that appeared to be to college tours. Documentation to quantify and identify attendees was not maintained. | $1,450 | $5,837 |
| Summer Camps & Summer Programs | 3 | The unallowable expenditure was for a track and field summer camp. This expenditure appeared to be extra-curricular in nature. The unsupported expenditures were for two summer programs that appeared to be reasonable, however PSD could not provide additional documentation to support who was served by the programs. | $2,070 | $106,743 |
| Summer Interns | 31 | PSD was unable to provide sign in sheets or time sheets for the summer interns. | | $7,750 |

# Enclosure 3c: Finding No. 3 – Detail of the GEAR UP Grant AP Transactions (Continued)

| Subcategory | Number of Transactions | Explanation | Unallowable Amount | Inadequately Supported Amount |
|---|---|---|---|---|
| Awards & Incentives * | 10 | The unallowable expenditures included the purchase of an iPod, business card cases, and wine buckets. Goods and Services of this nature are unallowable per OMB Circular A-21 Appendix A, J. 22 Goods and Services for Personal Use. | $2,950 | $1,009 |
| Movie Rental * | 1 | Movie rental to entertain students following their completion of the PSSA test. Unallowable per OMB A-21, Appendix A, J. 17. Entertainment Costs. | $10 | |
| Student Government and Robotics Program * | 2 | These expenditures were for various items purchased to aid the students in putting together a display for the Robotics Competition. These expenditures were considered unallowable. Unallowable per OMB A-21 Appendix A, J.48. Student Activity Costs | $771 | |
| Pencil Sharpener | 1 | The purchase of 1 electric pencil sharpener. The cost seems unreasonable. Unallowable per OMB A-87 Appendix A, C. Basic Guidelines 2. Reasonable Cost. | $130 | |
| Furniture | 3 | The expenditures were for PSD's Student Success Centers, however it was determined that the Centers never opened. | $1,348 | |
| Backpacks | 1 | The purchase of school backpacks. The purchase does not support the programs goals or initiatives. Unallowable per OMB A-87 Appendix A, C. Basic Guidelines 2. Reasonable Cost. | $2,111 | |
| General Office Supplies | 2 | No information was provided for these expenditures, however based upon the GL description, it appeared that the expenditures were for office supplies. | | $1,057 |
| Publications | 2 | PSD expended $100,790 to purchase a personalized publication that compiled various college tools and tips. This document provided the same college entrance tools and tips that were available for no cost on www.ed.gov, therefore we consider the purchase unreasonable and unnecessary. Furthermore, PSD did not have invoices to support the cost, only the publication. OMB A-87, Appendix A, C. Basic Guidelines 2. Reasonable Cost and C.1.j. Adequate Documentation. | $101,890 | |

# Enclosure 3c: Finding No. 3 – Detail of the GEAR UP Grant AP Transactions (Continued)

| Subcategory | Number of Transactions | Explanation | Unallowable Amount | Inadequately Supported Amount |
|---|---|---|---|---|
| Facility Rental | 1 | The rental of an offsite facility to host a event for staff, students, and parents to meet the Regional Superintendant. Unallowable per OMB A-21 Appendix A, J.32. Meetings and Conferences | $2,550 | |
| Shirts for Students | 2 | These two expenditures were for the purchase of shirts for students and staff associated with the GEAR UP program. Unallowable per OMB A-87 Appendix A, C. Basic Guidelines 2. Reasonable Cost. | $6,059 | |
| Music and Performance Class | 1 | The auditors were not provided with adequate support to determine how this expenditure for Music Appreciation supported the GEAR UP program initiatives. | | $870 |
| Computers, Printers, & Software | 22 | These expenditures included the purchases of computers and accessories. For these items PSD was unable to provide invoices or property reports. | | $62,255 |
| Graphing Calculators | 1 | PSD did not provide supporting documentation to show how the purchase of graphing calculators related to the GEAR UP program | | $2,496 |
| Textbooks & Instructional Aides | 7 | For 2 of the expenditures, PSD was unable to provide invoices. For the remaining 5 items PSD was unable to provide documentation to demonstrate how the expenditures were supporting the goals and initiatives of the GEAR UP program. | | $7,644 |
| Student Agendas | 1 | PSD was unable to provide supporting documentation to demonstrate how the purchase of student agendas supported the GEAR UP program. | | $2,205 |
| **TOTALS** | **144** | | **$138,512** | **$203,181** |

**Note:** Any differences in amounts are due to rounding.

* Includes items expended through an imprest fund. While listed as separate items in this enclosure, in Finding No. 3, items are listed by expenditure.

# Enclosure 3d: Finding No. 3 – Detail of Safe and Drug Free Schools Grant AP Transactions

| Subcategory | Number of Transactions | Explanation | Unallowable Amount | Inadequately Supported Amount |
|---|---|---|---|---|
| Travel | 1 | Lodging costs above government rate for two training presenters. | $540 | |
| Undetermined | 2 | No support provided. | | $654 |
| Food | 1 | Food (breakfast and lunch) for vendor fair and mini conference at school; vendor and school personnel in attendance; no sign-in sheets for participants. | | $2,839 |
| Computers | 4 | Computer equipment; no property reports to show status/location of equipment. | | $26,977 |
| Printers | 2 | Printer; no property reports to show status/location of equipment | | $4800 |
| Training | 1 | Invoice for PSD Safe and Drug Free personnel attendance at Business Continuity Certification training; no proof of actual attendance. | | $17,850 |
| **TOTALS** | **11** | | **$540** | **$53,120** |

**Note:** Any differences in amounts are due to rounding.

# Enclosure 3e: Finding No. 3 – Detail of Title II, Part D Grant AP Transactions

| Subcategory | Number of Transactions | Explanation | Inadequately Supported Amount |
|---|---|---|---|
| Undetermined | 1 | No support provided. | $12,400 |
| Training\Contracted Services | 1 | Payment to vendor for 2 training sessions of "Project Management Boot Camp" to be held in 2/2006; no proof that training was provided; no attendance information; invoice date appears to be altered from "1/25/2005" to "1/25/2006." | $10,880 |
| Training | 1 | Invoice for registration fees for 2005 National Education Computing Conference; no support to show who attended\cost per person; per PSD official PSD was a supporter of the event; however, there is no agreement or other document to show that PSD was a supporter, only an invoice for the registration fees was provided. | $23,625 |
| Contracted Services | 1 | Invoice for partnership with West Chester University for faculty stipends, professional development, evaluation, eLearning and mentoring celebration; no contract or resolution (required per PSD OMB official), no detail of services; no info on who services provided to. | $12,900 |
| Palm Pilots | 2 | 100 Palm Pilots ($27,000) plus leather cases ($2,225) for Palm Pilots; no information who received\what school went to; purpose of purchase or status of items. | $29,225 |
| Contracted Services | 1 | Invoice for the development of a digital technology studio (DTS) design and model and model; includes payment of student workers, food, travel, shipping, and other items to make the model; no contract; model could not be located; no receipts attached to the invoice to show that costs invoiced were actually incurred. | $10,757 |

# Enclosure 3e: Finding No. 3 – Detail of Title II, Part D Grant AP Transactions (Continued)

| Subcategory | Number of Transactions | Explanation | Inadequately Supported Amount |
|---|---|---|---|
| Contracted Services | 1 | Workshops for students; "Bring A Computer, Ask A Question;" 20-3 hour sessions for 5-15 students; no contract; no details or dates of services provided, such as list of students\schools serviced or number of people serviced; no documentation to show that 20 sessions were actually provided. | $10,000 |
| Contracted Services | 2 | Computer and related equipment repairs invoices for March 2006 ($125 per repair; 28 instances) and February 2006 ($125 per repair for 31 repairs) per spreadsheet attached to invoices; per invoice-all work performed under RFP-174; however no contract\RFP provided (required per PSD OMB official); original invoice lost for February; support shows only 20 repairs for difference of 11; $1375 not supported. | $7,375 |
| **TOTALS** | **10** | | **$117,162** |

**Note:** Any differences in amounts are due to rounding.

# Enclosure 4: Finding No. 4 – Description of JV Transactions (Subpart A)

| Unallowable JV Transactions | | |
|---|---|---|
| **Title I** | **Number of Transactions** | **Amount** |
| Duplication of Charges for Teacher Prep Time | 1 | $1,403,071 |
| ESOL Tutor Benefits | 1 | 265,026 |
| Carryover of Expenditure Post Grant Period | 1 | 112,383 |
| Transfer of Expenditures Not In School Wide Plan | 2 | 44,432 |
| Facilities Rental and Food Services Charges | 3 | 4,010 |
| **Total Title I** | **8** | **$1,828,922** |
| **FIE** | | |
| Teachers Salaries for Split Classes (not in grant application) | 1 | $2,021,661 |
| Office of High School Reform Charges | 1 | 1,200,012 |
| Truancy Center Charges (not in grant application) | 1 | 455,430 |
| Movement of Charges from State Funding | 1 | 79,438 |
| Attendance and Truancy Intervention and Prevention Support (ATIPs) Charges (transferred charges for a non-ATIPS provider) | 1 | 1,417 |
| **Total FIE** | **5** | **$3,757,958** |
| **Title II, Part A** | | |
| Teachers Who Were Not Hired As Reduced Class Size Teachers | 1 | $576,596 |
| **Safe and Drug Free Schools** | | |
| Salaries of Those Who Did Not Work On Grant From General Fund | 2 | $107,181 |
| **Reading First** | | |
| Transfer of Summer Salaries Earned Under Another Funding Source | 2 | $78,604 |
| **Total Unallowable Costs** | **18** | **$6,349,261** |

## Enclosure 4: Finding No. 4 – Description of JV Transactions (Subpart A) (Continued)

| Inadequately Supported JV Transactions | | |
|---|---|---|
| **Title I** | **Number of Transactions** | **Amount** |
| Principal Training Program | 1 | $1,165,522 |
| Office of Staff Development Salaries | 1 | 677,024 |
| Split Funded Salaries | 1 | 414,109 |
| Teacher Induction Charges | 1 | 77,068 |
| Facilities Rental, Food Service, and Copier Charges for Program Office | 8 | 27,149 |
| New Teacher Training Program Salaries and Expenditures | 1 | 32,521 |
| Transition Support Tutors Salaries | 1 | 17,810 |
| **Total Title I** | **14** | **$2,411,203** |
| **FIE** | | |
| Twilight Charges | 1 | $1,277,330 |
| Office of High School Reform Charges | 1 | 1,035,071 |
| SMART Program Salaries | 1 | 123,796 |
| **Total FIE** | **3** | **$2,436,197** |
| **Title II, Part A** | | |
| Teachers Transferred as Literacy Interns | 3 | $2,849,379 |
| Reduced Class Size Teachers | 1 | 2,566,319 |
| Principal Training Program | 1 | 1,165,522 |
| Teacher Recruitment and Retention Program Costs | 1 | 296,782 |
| New Teacher Training Program Salaries and Expenses | 2 | 97,541 |
| **Total Title II, Part A** | **8** | **$6,975,543** |
| **CSR** | | |
| Carryover to Prior Grant Period | 2 | $72,208 |
| Unsupported Salaries | 9 | 22,480 |
| **Total CSR** | **11** | **$94,688** |
| **Safe and Drug Free Schools** | | |
| Facilities Rental | 1 | $3,640 |
| **Reading First** | | |
| Salaries | 1 | $3,434 |
| Copier Charges for Program Office | 1 | 179 |
| **Total Reading First** | **2** | **$3,613** |
| **Title II Part D** | | |
| Salaries | 2 | $2,483 |
| **GEAR UP** | | |
| Payment for Membership to Latino Festival | 1 | $984 |
| **Total Inadequately Supported Costs** | **42** | **$11,928,352** |

**Note:** Any differences in amounts are due to rounding.

# Enclosure 5: Finding No. 5 – Detail of the Office Depot Web site Transactions by Grant (Subpart C)

| Grant | Category | Number of Transactions | Explanation | Unallowable Amount |
|---|---|---|---|---|
| **Title I, Part A** | | | | |
| | Office Supplies | 27 | 48 dozen black markers ($359), wastebasket ($16), cases of paper ($257), 10 boxes of laminating film ($251), 50 chairs ($1,496), dustpan ($56), file cabinet ($70, $377), book shelves ($228), 4 tables ($139), magazine rack ($98), 29 multi-bins ($119), brooms ($51, $42), hand trucks ($167, $198), storage locker ($208), label makers ($122), money receipt book, 3 pack ($62), 3 pencil sharpeners ($320), paper towels ($20, $40), desk ($216), 6 cabinets ($1,412), computer cases ($160), printers ($600, $300) | $7,384 |
| | Electronics | 24 | Scanner ($200), calculators ($101, $262, $363, $389), laptop computer battery; no laptop user information provided ($171), wireless PDA keyboards ($252), 5 mini heaters ($128), hard drive; no serial number or user information ($229), 4.2 cubic feet mini refrigerator ($145), headset and Bluetooth ($178, $270), PDAs; no user or serial number provided ($1,200, $750, $250), 3 heaters ($74), 3 desk alarm clocks ($41), microwave oven ($69), anti-virus software packages 60 units for 47 Title I reading teachers ($2,399, $2,394), shredders; used for documents with staff personal information ($150), toner for Nonpublic schools ($178), stopwatches; 77 ordered when only 47 needed ($309), fax machine; no serial number information provided ($200) | $10,705 |
| | Miscellaneous | 49 | Vinyl gloves ($87), facial tissues ($31, $60, $124), 50 sponges ($132), computer cleaner ($40), dusters ($152), lotion and band aids ($14, $23), plates\cups\napkins\spoons ($34, $107, $82, $17, $36, $48), floor sweeper ($51), Clorox Germicidal Wipes ($101), deodorized urinal blocks ($45, $25), coffee\tea\sugar\sweetener ($40, $7, $9, $7, $31), Tylenol and Advil ($18, $12, $30, $60), candy and pretzels ($8, $4, $9, $6, $4, $3), birthday cards (teacher) ($22), hand sanitizers ($10, $10, $27), coffee maker ($66), Pine-Sol ($117, $28), Windex ($132), holiday themed greeting cards ($16, $17, $17), antacid ($19, $19), first aid kit ($81), Shout stain remover wipes ($46) | $2,084 |
| | **Title I, Part A Totals** | **100** | | **$20,173** |

# Enclosure 5: Finding No. 5 – Detail of the Office Depot Web site Transactions by Grant (Subpart C) (Continued)

| Grant | Category | Number of Transactions | Explanation | Unallowable Amount |
|---|---|---|---|---|
| **CSR** | | | | |
| | Office Supplies | 8 | Kim Wipes and Windex ($40), wrist gel ($8), door stops ($27), reusable ties ($6), 50 ink cartridges [3 expenditures] ($1,935), a chair ($74) | $2,090 |
| | Electronics | 5 | 5 digital cameras [2 expenditures] ($750), VHS tape ($8), mini-solar calculator ($10), 60 computer mice ($737) | $1,505 |
| | Miscellaneous | 2 | 20 cases of facial tissue ($285), duster ($4) | $289 |
| | **CSR Totals** | **15** | | **$3,884** |
| **GEAR UP** | | | | |
| | Office Supplies | 19 | 4 two door storage cabinets ($857), toner ($179), picture frame [8.5 X 11] ($61), ink cartridges [6 expenditures] ($854), 8 cases of copy paper [2 expenditures] ($215), soap dispenser ($11), business\index cards ($611), toner\laminating machine\planner ($1,364), desktop calculator\file cabinet\marker board ($871), paper and toner ($670), fuser kits [2 expenditures] ($589), cards ($32) | $6,314 |
| | Electronics | 10 | Fax, ($200), photo printer ($130), thumbdrives [2 expenditures] ($107), calculators [4 expenditures] ($37), extension cords [2 expenditures] ($185) | $659 |
| | Miscellaneous | 15 | Sanitizing wipes ($9), gloves ($18), hand sanitizers [2 expenditures] ($28), 8 boxes of plastic spoons ($24), 8 boxes of plastic forks ($24), coffee ($19), 50 count packs of creamer [2 expenditures] ($16), cleanser ($17), liquid soap ($7), 3-5lb bags of candy [2 expenditures] ($15), 3 packs of paper plates ($15); 1000 count pack of sugar ($5) | $198 |
| | **GEAR UP Totals** | **44** | | **$7,171** |

# Enclosure 5: Finding No. 5 – Detail of the Office Depot Web site Transactions by Grant (Subpart C) (Continued)

| Grant | Category | Number of Transactions | Explanation | Unallowable Amount |
|---|---|---|---|---|
| **Reading First** | | | | |
| | Office Supplies | 12 | Ink cartridges [5 expenditures] ($101), wastebaskets [2 expenditures] ($45), shelf ($19), desk drawer organizer ($43), electric stapler ($26), electric hole punch ($75), toner ($301) | $610 |
| | Electronics | 2 | Light bulbs ($3), lamp ($8) | $11 |
| | Miscellaneous | 13 | Coffee creamer ($5), coffee [3 expenditures] ($32), coffee filters [2 expenditures] ($5), sugar packets ($5), utility knife ($9), facial tissue [3 expenditures] ($36), liquid soap ($4), plastic spoons ($3) | $99 |
| | **Reading First Totals** | **27** | | **$720** |

**Note 1:** All items are not listed; this Enclosure provides examples of the types of expenditures made. See Table 3 for total amounts.

**Note 2:** Any differences in amounts are due to rounding.

# Enclosure 6: Finding No. 5 – Federal Grants Allocated 2006 Single Audit Costs (Subpart E)

| Grant | Grant Year | Amount Charged to Grant | PSD Methodology for Allocation |
|---|---|---|---|
| Title I* | 2004 | $50,000 | Flat Amount |
| Perkins Vocational Education | 2005 | $32,668 | .0025 of direct costs |
| Reading First | 2005 | $21,711 | .0025 of (expenses less audit and indirect costs) |
| Class Size Reduction | 2005 | $19,856 | Plug amount used since insufficient funds at time of grant closing |
| Title VI Public Schools | 2005 | $13,000 | Same amount budgeted for prior years |
| Temporary Assistance for Needy Families | 2006 | $10,146 | .0025 of FY 06 Award |
| 21st Century Community Learning Center | 2005 | $6,321 | .0025 of (expenses less audit and indirect costs) |
| Title IV Public Schools | 2005 | $5,483 | .0025 of FY05 Award |
| Elect Student Works | 2006 | $5,000 | .0025 of FY06 Award |
| 21st Century Community Learning Center | 2006 | $3,942 | Preliminary estimate of audit based on expenses @ .0025 |
| Responsive Education for All Children | 2006 | $1,901 | .0025 x FY06 total budgeted costs |
| Core Philly Scholarship Program | 2005 | $1,812 | .0025 x FY05 total budgeted costs |
| ABE Training Program | 2006 | $1,415 | .0025 of FY05 Award |
| Success For All | 2006 | $1,275 | .0025 x FY06 total budgeted direct costs |
| Fatherhood Initiative | 2006 | $1,261 | .0025 of FY 06 Award |
| Title II B (Math and Science) | 2004 | $1,251 | .0025 x FY04 total budgeted direct costs |
| Partnerships in Character Education | 2004 | $1,200 | .0025 x FY04 total budgeted direct costs |

*Indicates grant was audited as part of the FY 2006 single audit.

# Enclosure 6: Finding No. 5 – Federal Grants Allocated 2006 Single Audit Costs (Subpart E) (Continued)

| **Grant** | **Grant Year** | **Amount Charged to Grant** | **PSD Methodology for Allocation** |
|---|---|---|---|
| Language Instruction for Limited English Proficient & Immigrant Students | 2005 | $1,000 | Preliminary Estimate of Audit Based on Expenses |
| Refugee School Impact Aid | 2005 | $827 | .0025 expenses less audit/indirect (FY 05 award) |
| Homeless Children | 2005 | $746 | .0025 x FY05 Award |
| ARREST | 2005 | $750 | Flat Amount for FY 05 |
| Improvement of Education | 2005 | $600 | Expenses of $236,039 less $5,713 (indirect costs) and $600 (audit)= $229,726 (base amount) x .0025 (audit rate) =$575, rounded up to $600 |
| Asthma Buster | 2005 | $500 | Flat amount for FY 05 |
| Bicycle Education Enhancement Program | 2004 | $293 | .0025 x FY 04 total budgeted direct costs |
| Chinese Language Grant | 2005 | $262 | "budgeted less indirect costs and audit @ .0025" |
| | **TOTAL** | **$183,220** | |

# Enclosure 7: PSD's September 23, 2009 Response to the Draft Report

THE SCHOOL DISTRICT OF PHILADELPHIA
OFFICE OF THE CHIEF BUSINESS OFFICER
440 N. BROAD STREET, SUITE 304
PHILADELPHIA, PENNSYLVANIA 19130

MICHAEL J. MASCH
*CHIEF BUSINESS OFFICER*

TELEPHONE (215) 400-4500
FAX (215) 400-4501

August 24, 2009

**VIA ELECTRONIC MAIL**

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

Re: *Audit of Federal Expenditures by School District of Philadelphia FY 2006 – Response to Draft Report (Control No. ED-OIG/A030H0010)*

Dear Mr. Tadley:

Please accept the attached document and supporting documentation as the response of The School District of Philadelphia (the "SDP") in connection with the above-referenced draft audit report from the U.S. Department of Education ("USDE") Office of the Inspector General ("OIG"). The narrative document contains revised exhibit designations referring to the supporting records missing from our August 17, 2009 submission. The narrative is otherwise unchanged.

This response was prepared by the SDP's Office of the Chief Business Officer in cooperation with the SDP Office of General Counsel, the SDP Title I Office, the SDP Office of Management and Budget, the SDP Office of Grant Development, the SDP Comptroller's Office and Robert Graham of Feldesman Tucker Leifer Fidell LLP, the SDP's outside legal counsel for grant compliance matters. The exhibits and other supporting documentation are available on the SDP's secure File Transfer Protocol (FTP) website. The URL address and access code for those materials are included in the text of the electronic mail transmittal. You will separately receive one or more compact discs via Federal Express tomorrow containing the same files.

I would like to take this opportunity to thank you and your staff for all of your efforts in connection with this matter. Please convey our appreciation to the auditors, Eugenia Guess and Erin Hudson, for their cooperation and assistance.

Please contact me if you have any questions concerning our response.

Yours truly,

[redacted]

Michael J. Masch
Chief Business Officer

cc: Dr. Arlene C. Ackerman, Superintendent, The School District of Philadelphia
Robert L. Archie, Jr., Esq., Chair, School Reform Commission
Miles H. Shore, Esq., General Counsel, The School District of Philadelphia
Thomas E. Darden, Chief of Staff, The School District of Philadelphia
Ellen Steiker, Deputy Chief Business Officer, The School District of Philadelphia
Marcy F. Blender, Comptroller, The School District of Philadelphia

# The School District of Philadelphia

## Response to United States Department of Education, Office of the Inspector General

## Draft Audit Report ED-OIG/A030H0010: “Philadelphia School District’s Controls Over Federal Expenditures”

## Audit Period 7/1/2005 through 6/30/2006

**Submitted August 17, 2009**

# TABLE OF CONTENTS

The School District of Philadelphia (the "SDP") submits the following in response to the findings and recommendations contained in the draft audit report prepared by the United States Department of Education ("USDE"), Office of Inspector General ("OIG") with respect to USDE financial assistance to the SDP during the period from July 1, 2005 through June 30, 2006. The SDP greatly appreciates the OIG's acceptance and consideration of this written response and accompanying documentation.

As set forth in greater detail below and in the supporting exhibits, the SDP disputes most of the OIG's proposed findings. Where we do not dispute the OIG's proposed findings, this is noted in the narrative below. However, the School District of Philadelphia believes and will demonstrate in this response that the overwhelming majority of costs questioned in the draft audit report are, in fact, adequately documented and allowable under the awards received by the SDP, based on an examination of the SDP's records and the relevant Federal policy guidance. The School District further believes and will demonstrate in this response that the financial practices and procedures under which the SDP operated during the audit period provided sufficient internal controls to safeguard Federal funds against loss or misuse.

Due to the number and complexity of the findings in the draft report, it was not possible to address each element of those findings in a comprehensive manner, even with the additional time that the OIG afforded for submission of this response. Certain of the findings in the draft report are based not on representative samples of a particular type of cost, but instead on a 100% sample for 268 schools and 91 administrative organizations. The spreadsheets that were provided to the SDP along with the draft report contain approximately 122,000 line-item findings (many of which relate to multiple schools or locations). The explanations associated with those findings were in many instances not self-explanatory, making the process of performing a meaningful analysis of the findings all the more complicated.

The SDP could not during the audit period and cannot in the formal response fully research, clarify, and address each item, as would be our normal practice when responding to an audit.. We have therefore focused our efforts on responding to and commenting on those portions of the supporting documentation to the audit findings that either provide the best illustration of our reasoning in disputing a finding or comprise a significant part of the dollar value attached to a finding. The omission of any particular finding line-item from this response is not to be taken as agreement with that finding, but is instead the result of resource and time limitations.

We are compelled to note that despite the enormous amount of time and resources expended by both the OIG and the SDP in the course of the eighteen month audit process, the findings and recommendations contained in the draft report appear to reflect a fundamental misunderstanding of the SDP's management of USDE funds. Moreover, the draft report does not constitute an accurate and comprehensive assessment of the SDP's financial practices and compliance systems.

Of significant concern are these elements of the draft report:

1. **Incorrect Supplantation Analysis (Finding #2)** – The draft report states that the SDP supplanted $21,413,178.99 **in** State and local funding with Federal dollars, in violation of the statutory "supplement, not supplant" requirement. In coming to this conclusion, the draft report relies on the supplanting test applicable to "targeted assistance" schools, not the test applicable to "schoolwide program" schools. This is an error since all SDP schools operate under schoolwide plans. Application of the correct supplantation analysis reveals that the SDP has met its obligations to use Federal funds to "supplement, not supplant" State and local funding.

2. **Failure to Consider Alternative Corroborating Evidence Per Generally Accepted Government Auditing Standards (Findings 1.A.I., 1.A.II)** – The draft report questions more than $124,000,000 in personnel costs charged to Federal awards because it concludes that the SDP did not maintain time and effort records in the format described in Federal cost principles. The SDP, however, presented support for these costs in the form of contemporaneous time records, staff listings, classroom assignments, and job titles, all of which corroborate the fact that the subject employees did in fact perform the work for which the Federal awards were appropriately charged. Because this alternative documentation was reliable (perhaps even more reliable than the documentation that the OIG requested) and relevant to the costs at issue, the OIG draft report should have considered that evidence, in keeping with generally accepted government auditing standards.

3. **Requiring Incorrect Documentation of Personnel Costs (Finding 1.A.III.)** – The draft report questions more than $38,000,000 in salary and fringe benefit charges for employees paid from two or more funding sources, based on the contention that the SDP did not keep detailed records showing the distribution of employee time among Federally-supported and non-Federally-supported activities. However, the SDP was not required to maintain such records, because the subject employees worked exclusively on activities eligible under a single Federal award. The SDP simply decided not to charge the employees' total compensation to the Federal award. Because each employee was devoted to a single cost objective, the SDP adequately documented the personnel costs by keeping the periodic time and effort certifications called for under Federal cost principles.

4. **Disallowances Without Sufficient Basis (Findings 3, 4)** – The draft report recommends disallowance of several recommended award-eligible expenditures because the SDP did not explicitly identify those costs in a school's budget or schoolwide plan. These findings are improper because there is no apparent legal or other requirement that a school operating a schoolwide program must set forth every potential expenditure of Federal funds in its schoolwide plan. Rather, a cost is allowable under a Federal award if it is incurred in support of the schoolwide program goals in general and is otherwise an award-eligible expense. Moreover, the OIG's position in this regard would deprive the SDP of the budget flexibility afforded by USDE regulations. *See* 34 C.F.R. § 80.30(a) ("Grantees and subgrantees are permitted to rebudget within the approved direct cost budget to meet unanticipated requirements and may make limited program changes to the approved project.").

It is also important to note that the Government suffers no apparent harm as a result of many of the alleged transgressions in the draft report.

The substantial majority of the total amount of costs questioned or disallowed in the draft report relate exclusively to a purported failure to adequately document costs in compliance with OMB standards. All SDP schools, however, operated under "schoolwide programs" during the audit period and continue to do so today. Those schools were therefore entitled to consolidate all Federal and non-Federal funding into a single pool that they could manage free of many Federal administrative requirements. Although, as the OIG repeatedly observes in the draft report, the SDP schools did not formally avail themselves of their legal authority to consolidate funding, it is difficult to imagine what, if any, detriment the government may have suffered due to departures from recordkeeping requirements that the SDP could have by all rights been exempt from in the first place.

We cannot overemphasize the devastating impact that the OIG's draft findings would have on the SDP's mission should the responsible USDE officials accept the recommendations in the OIG draft report. The sheer magnitude of the findings – **over $140,000,000** – would put an end to the great strides that the SDP has made in meeting the objectives of the *No Child Left Behind Act*. For example, the SDP steadily and significantly improved standardized test scores before, during, and after the audit period. In FY 2002, only one in four SDP students were proficient or better in reading, and only one in five students were proficient or better math. In FY 2009, about one in two students is proficient or better The SDP intends to accelerate this progress as outlined in its *Imagine 2014* strategic plan – a plan whose objectives and strategies are highly consistent with the goals and recommendations of the Obama Administration's K-12 educational policies.

To require the SDP to repay the amounts that the draft report has questioned would not only preclude the SDP from implementing its plans further to enhance the educational services it provides to children and families in the City of Philadelphia, but would also effectively undo many important advances the SDP has already made in the past several years.

We note that the SDP has budgeted more than $300 million in Federal *American Recovery and Reinvestment Act* funds in FY 2009-10, of which a substantial portion is targeted to the first year implementation of *Imagine 2014*. Both in anticipation of these new Federal programs and as a responsible on-going business practice, the SDP has undertaken a comprehensive review of its grants administration policies, procedures, and operations under the direction of Superintendent Ackerman to make sure that the SDP has the organizational structure, personnel, resources, data systems, policies, and procedures necessary to ensure effective and strategic utilization of ARRA funds and the successful implementation of the *Imagine 2014* plan in a manner fully consistent with Federal guidelines.

It is our fervent hope that, through this submission, we will successfully and thoroughly address the concerns that were raised in the draft report regarding the SDP's management of grants and its overall operations and that the OIG will conclude after reviewing this response that the SDP's financial and management systems are sound and its use of Federal funds was and is compliant with Federal requirements. Once again, the SDP appreciates the opportunity to submit these comments.

**FINDING #1 – PSD NEEDS STRONGER CONTROLS OVER PERSONNEL EXPENDITURES CHARGED TO FEDERAL GRANTS**
$2,955,524 Unallowable; $123,775,334[87] ($95,899,570 unduplicated) Unsupported

The SDP disputes this finding. The discussion below and the accompanying documentation demonstrate that the SDP maintains sufficient documentation to support the questioned compensation costs and that the personnel charges to the SDP's Federal awards were otherwise allowable.

The SDP keeps daily time and attendance records which, together with documents showing classroom assignment and/or the duties associated with each employee's position, create a reliable basis on which to conclude that the employee performed the work for which an award was charged. These records are in many instances more comprehensive and detailed than the form of documentation described in the relevant cost principles. The OIG should therefore accept the SDP's alternative corroborating evidence as adequate support for the questioned salary and fringe benefit costs.

The draft report identifies three general grounds for the questioning of costs and/or the recommended disallowance associated with this finding.

The first is the absence of supporting documentation for salary and fringe benefit costs charged to Federal awards. The OIG asserts that the SDP failed to maintain adequate (1) semi-annual certifications showing that employees who were charged 100% to a Federal award worked exclusively on a single cost objective and (2) "personnel activity reports" that record the distribution of staff time for individuals charged in part to Federal awards. The questioned costs associated with this rationale total $124,940,508.22.

The second basis cited for the finding in the draft report relates to personnel costs paid out of Federal awards that allegedly were not properly allocable to those awards. The OIG recommends disallowance of $2,982,572 in light of this determination.

The OIG's third basis for the finding arises out of the auditors' review of overtime costs and bonus payments, resulting in questioned overtime payments of $2,669 and $1,500 in allegedly unallowable bonuses.

The following narrative addresses each of these three issues:

**A. Lack of Personnel Time Records**

The lion's share of the questioned costs in Finding #1 – and, for that matter, in the draft report as a whole – fall under the rubric of inadequately supported salary and fringe benefit expenses paid

[87] The $123,775,334 figure appears in the text of the draft report. The numbers in the OIG's spreadsheets, however, do not match with this amount. Instead, they show a total of $124,943,177.22 in unsupported costs for Finding #1, with $124,940,508.22 questioned as part of subfinding 1.A. and $2,669 questioned under subfinding 1.C. *See* OIG Spreadsheet entitled "Finding_Recon.xls," Finding 1 tab, lines 34, 46, 47. The discussion herein relies on the spreadsheet numbers.

out of ten USDE awards. Of those ten, the employee compensation charges related to the SDP's Title I (Part A), Title II (Part A), IDEA, Reading First, and Comprehensive School Reform ("CSR") awards make up $114,308,755.49 – *i.e.*, fully 91% of the $124,940,508.22 in costs that the OIG has deemed unsupported as part of this subfinding.

The draft report indicates that the SDP's documentation of personnel expenses during FY 2006 was deficient in three ways. First, except with respect to its Title I (Part A) and CSR awards, the SDP's records did not include semi-annual certifications for employees devoted solely to a single USDE award as described in Attachment B, Paragraph 8.h.(3) of OMB Circular A-87. Second, the OIG claims that the SDP did not require employees working on more than one cost objective to keep "personnel activity reports." Third, the OIG contends that the SDP failed to support salary and fringe benefit charges transferred to Federal awards through "journal vouchers."

Because the OIG's finding is based on a 100% sample of the subject costs, it would be all but impossible for the SDP to assemble and transmit support for all of the personnel costs questioned. The SDP has therefore selected a judgmental sample of six schools – Horatio B. Hackett, Guion S. Bluford, James R. Lowell, Joseph W. Catharine, Gilbert Spruance, and John B. Kelly – chosen because they received funds under three or more of the awards listed in the finding during FY 2006. The documentation gathered from those six schools are representative of the records maintained at all SDP schools generally, and serve to illustrate the SDP's reasoning in response to this finding and the type of information available in each of the SDP's 267 schools.

1. *Support of Compensation Costs for Employees Working on a Single Cost Objective*

The draft report states that the SDP only provided time and effort certifications for single cost objective employees working on Title I (Part A) and CSR activities during FY 2006, and, moreover, that even those certifications did not cover personnel charges transferred to either Title I (Part A) or CSR by journal voucher. Citing OMB Circular A-87, Att. B, § 8.h(3) to the effect that an awardee must document such charges with semi-annual certifications stating that the subject employee was devoted exclusively to funded activities during the months covered by the certification, the OIG concludes that the SDP could not support $113,284,180.48 in salary and fringe benefit expenses under its USDE awards. That amount includes $26,307,664.88 charged to IDEA, $21,561,956.87 to Title II (Part A), $11,272,851.88 to Title I (Part A), $7,435,464.04 to Reading First, and $1,910,008.60 to CSR.

The OIG's conclusion, however, ignores evidence other than semi-annual certifications that the SDP offered to support the questioned compensation costs. The United States Government Accountability Office's "Government Auditing Standards" indicates that in order to enhance the reliability of audit conclusions and to reduce "audit risk," auditors should obtain "alternative forms of corroborating evidence" where sufficient and appropriate evidence is otherwise lacking. *See* U.S. Gov't Acct. Office, "Government Auditing Standards: July 2007 Revision," GAO 07-731G, at 123-124 (2007) (hereinafter, "GAO Yellow Book").

In addition, USDE has itself long acknowledged that recipients may use alternative documentation to support personnel compensation charged to Federal awards. See:

- *Application of the New York State Department of Education*, Docket No. 90-70-R (1994) ("This tribunal will also accept the after-the-fact affidavits executed by supervisors and submitted by NYSED in the case at bar.");
- *Consolidated Appeals of the Florida Department of Education*, Docket Nos. 29-293-88 & 33-297-88 (1990) ("The use of later affidavits... is not categorically precluded... This Panel... finds the [affidavits submitted] to be credible and useful evidence.");
- *Application of Escambia County Board of Education*, Docket No. 89-9-R (1989) ("The Education Appeal Board (EAB) and the Secretary of Education have indicated that after-the-fact evidence can be considered to substantiate costs disallowed in a Final Letter of Determination.");
- *Appeal of Fort Valley State College, Docket No. 21(196)85 (1987)* ("The EAB has in the past permitted such expenditures if, after the fact, the grantee can support them with alternative, equivalent, or contemporaneous documentation.");
- *Appeal of Government of Guam*, Docket No. 30(162)84 (1986) ("The Secretary agrees that where appropriate, a Panel can permit a recipient to meet its burden by constructing a time distribution formula based on credible evidence.");
- *Appeal of Albany State College*, Docket No. 41(173)84 (1986) ("[T]he Department of Education... has indicated its satisfaction with certain after-the-fact affidavits and has revised its demand accordingly.").
- *Application of Escambia County Board of Education*, Docket No. 89-9-R (1989). *See also Appeal of Fort Valley State College*, Docket No. 21(196)85 (1987). ("There is no limit on the types of documentation that can serve as support so long as the evidence is 'credible'.")

The SDP maintains "alternative forms of corroborating evidence" of sufficient weight and credibility to satisfy its obligation to document the subject personnel costs.[88] The SDP maintains daily attendance records ("Time and Attendance Personnel Timesheets," or "TPERs") that require employees to document the time that they work each day and personally initial the record each day. In combination with an employee's job description, the TPER is credible alternative documentation that provides the same (if not better) corroboration as the twice-yearly certifications cited by the OIG for positions such as grade teachers, special education classroom assistants, literacy interns, and school-based teacher leaders,.

The summaries below describe the support the SDP has produced for the questioned charges at the six schools in the SDP's sample:

1a. IDEA: *Support of Compensation Costs for Employees Working on a Single Cost Objective*

The SDP has identified a total of 25 employees among the six sample schools whose salary and benefit costs were included in the spreadsheets provided by the OIG. TPERS verify that each of those employees regularly worked at their assigned school throughout the 2005-2006 school

[88] Although the SDP is able to provide sufficient alternative documentation to support salary costs, in order to simplify the process and ease the administrative burden the SDP implemented procedures in January 2009 to assure that all Federal grant awards with salary costs complete semi-annual time and effort certifications.

year. In addition, as set forth in the table below, school and/or human resources records more than reasonably support the inference that each such employee worked on IDEA eligible activities. These daily attendance documents, school-based records, and human resources files are provided in the attached exhibits as indicated in the table below.

**SUMMARY OF SCHOOL RECORDS SUPPORTING SALARIES CHARGED TO IDEA**

| NAME | SCHOOL | EVIDENCE | EXH. |
|---|---|---|---|
| [redacted] | Hackett | Staff list shows as special education classroom assistant; HR records show same | A, B |
| [redacted] | Hackett | Staff list shows as special education classroom assistant; HR records show same | A, B |
| [redacted] | Hackett | Staff list shows as special education classroom assistant; HR records show same | A, B |
| [redacted] | Hackett | Staff list shows as special education classroom assistant; HR records show same | A, B |
| [redacted] | Hackett | Staff list shows as special education classroom assistant; HR records show same | A, B |
| [redacted] | Hackett | Staff list shows as special education classroom assistant; HR records show same | A, B |
| [redacted] | Hackett | Staff list shows as special education classroom assistant; HR records show same | A, B |
| [redacted] | Hackett | Staff list shows as special education classroom assistant; HR records show same | A, B |
| [redacted] | Bluford | Schedule shows assigned to special education classroom; certification as special education teacher; HR records show as special education classroom assistant | P at 13, B |
| [redacted] | Bluford | Schedule shows assigned to special education classroom; HR records show as special education classroom assistant | P at 14, B |
| [redacted] | Lowell | Staff list shows as special education classroom assistant; HR records show same | C, B |
| [redacted] | Lowell | HR records show as special education classroom assistant | B |
| [redacted] | Kelly | HR records show as special education classroom assistant | B |
| [redacted] | Kelly | HR records show as special education classroom assistant | B |
| [redacted] | Catharine | HR records show as special education classroom assistant | B |
| [redacted] | Catharine | HR records show as special education classroom assistant | B |
| [redacted] | Catharine | HR records show as special education classroom assistant | B |
| [redacted] | Catharine | HR records show as special education classroom assistant | B |
| [redacted] | Catharine | HR records show as special education | B |

| | | | |
|---|---|---|---|
| | | classroom assistant | |
| [redacted] | Spruance | HR records show as special education classroom assistant | B |
| [redacted] | Spruance | HR records show as special education classroom assistant | B |
| [redacted] | Spruance | HR records show as special education classroom assistant | B |
| [redacted] | Spruance | HR records show as special education classroom assistant | B |
| [redacted] | Spruance | HR records show as special education classroom assistant | B |
| [redacted] | Spruance | HR records show as special education classroom assistant | B |

1b. Title II - Improving Teacher Quality: *Support of Compensation Costs for Employees Working on a Single Cost Objective*

The SDP has identified a total of 19 employees[89] in the six sample schools whose full-time salary and benefit costs during the 2005-2006 school year were included in the spreadsheets provided by the OIG. Although the full compensation of a number of other employees was charged to Title II at various points in the year, the OIG spreadsheet listing the Title II journal voucher salary transfers reveals that the SDP reversed those charges.

The SDP primarily uses Title II funds to reduce class size and to improve teacher quality through increasing the number of adults in a classroom through more homeroom teachers, the deployment of literacy interns, and improving teacher morale through mentoring and training. These personnel expenses were properly allocable to Title II either because the school paid for one or more additional teachers to reduce class size or because the individual charged to the award performed other Title II eligible activities, such as improving/maintaining teacher morale or acting as a "school based teacher leader."

As to the reduced class size ("RCS") charges, the SDP distributes operating funds to schools based on a formula that guarantees that class size will not exceed a set maximum as negotiated with the Philadelphia Federation of Teachers ("PFT"). The maximum in grades K-3 is thirty students per classroom, while the maximum for all other grades is thirty-three per classroom. *See* Exh. D; *see also* Exh. E (snapshot report of enrollment data used to determine homeroom teacher allotments for each of the sample schools).

To take an example, Hackett School had 303 students in grades K-3 and 69 students in grade 4. To determine the funded positions for Hackett per the SDP formula, the total of funded positions would be 12.2 (303 students divided by 30 students per classroom in grades K-3 plus 69 total students divided by 33 for grade 4). The actual number of homeroom teachers at Hackett was 16, indicating that the school had 3 RCS teachers. Application of that formula to the six sample schools yielded the following results in grades K-4 during the 2005-2006 school year:

[89] The other personnel charges to Title II in the sample schools relate either to (1) pay for July and August of 2005 for "literacy interns" who worked at one of the sample schools during the 2004-2005 school year, or (2) extra-curricular/professional development (*i.e.*, non-full-time) pay.

**FORMULA HOMEROOM DISTRIBUTION/RCS-ELIGIBLE POSITIONS**

| SCHOOL | STUDENTS IN K-3, 4 (Exh. E, Cols. 0-4) | FUNDED POSITIONS PER FORMULA | ACTUAL NO. OF HOMEROOMS/RCS POSITIONS |
|---|---|---|---|
| Hackett | 303, 69 | 12.2 (303/30=10.1, 69/33=2.1) | 16/3 |
| Lowell | 794, 210 | 32.8 (792/30=26.4, 210/33=6.4) | 34/1 |
| Spruance | 518, 121 | 21 (518/30=17.3, 121/33=3.7) | 22/1 |
| Catharine | 478, 117 | 19.5 (478/30=15.9, 117/33=3.6) | 21/1 |
| Kelly | 451, 98 | 18 (451/30=15, 98/33=3) | 24/6 |
| Bluford | 380, 81 | 15.2 (380/30=12.7, 81/33=2.5) | 18/2 |

Where the actual number of homerooms is greater than the number according to the formula, the excess position(s) would be for the purpose of reducing class size. Therefore, Hackett had three K-4 RCS eligible teachers, Lowell, Spruance, and Catharine each had one, Kelly had six, and Bluford had two.

The SDP's records of Title II personnel charges show that the sample schools' RCS charges are consistent with the foregoing. *See* Exh. F.

The table below summarizes those records.

**RCS TEACHER CHARGES TO SAMPLE SCHOOLS**

| SCHOOL | EMPLOYEES 100% CHARGED AS TI. II RCS | GRADE/ROOM ASSM'T | NO. OF STUDENTS |
|---|---|---|---|
| Hackett[90] | [redacted] | $1^{st}$/307<br>$1^{st}$/306<br>$2^{nd}$/211 | 20<br>18<br>23 |
| Lowell | [redacted] | Literacy Intern<br>Literacy Intern | Literacy Interns are individuals placed in a classroom with an existing teacher in order to assist that teacher and to increase the frequency and quality of |

[90] One other grade teacher, [redacted], appears in the SDP's accounting records as a Hackett RCS teacher. The SDP has determined that this is a result of miscoding, as [redacted] was a teacher at Hartranft School (5320), not Hackett (5300).

| | | | |
|---|---|---|---|
| | | | interactions between instructors and students. Lowell relied on the Literacy Intern model to reduce class size rather than adding homerooms. |
| Spruance | N/A (no teachers were charged to Title II RCS) | | |
| Catharine | [redacted] | 2nd/322<br>2nd/209 | 30<br>29 |
| Kelly | [redacted] | 1st/217A<br>4th/105<br>K/K-2 | 21<br>25<br>25 |
| Bluford | [redacted] | 6th/26 | 33 |

The documentation maintained at the sample schools supports the remaining single objective employee compensation paid from Title II. The following is a list of those employees, their positions, and the evidence corroborating the fact that they performed Title II activities.

**OTHER TITLE II FULL-TIME SALARY CHARGES TO SAMPLE SCHOOLS**

| NAME | SCHOOL | POSITION | EVIDENCE | EXH. |
|---|---|---|---|---|
| [redacted] | Lowell | School-based teacher leader | Schedule; training logs | G |
| [redacted] | Lowell | School-based teacher leader | Schedule; training logs | G |
| [redacted] | Bluford | School-based teacher leader | Schedule; training logs | P at 7-9 |
| [redacted] | Bluford | School-based teacher leader | Schedule; training logs | P at 1, 52 |
| [redacted] | Catharine | School-based teacher leader | Schedule; training logs | Q |
| [redacted] | Spruance | School-based teacher leader | Schedule; training logs | H |
| [redacted] | Spruance | Climate (teacher morale) specialist | Staff list shows as “climate specialist,” “Dean of Students” | H |

For both the RCS and non-RCS employees devoted exclusively to Title II purposes, the TPERs show their regular attendance at their assigned schools. *See* Exhs. R through Z.

---

[91] The charges for [redacted] are likely in error. Title II RCS should instead have paid for the addition of a fifth-grade teacher. *See* Exh. E at 2, Col. 5.

1c. Reading First: *Support of Compensation Costs for Employees Working on a Single Cost Objective*

Three of the six schools in the SDP sample used Reading First funds to pay for employee time. Only one – J. W. Catharine – applied Reading First dollars to cover one employee's total compensation during the 2005-2006 school year. In October 2005, Catharine requested funding to hire [redacted], a retired teacher, on a part-time basis to assist the school's reading specialist in testing and evaluation. *See* Exh. I. That request was approved and [redacted] started work in November 2005. *Id.* The TPERs for November 2005 through June 2006 show that [redacted] worked 3-4 days per week throughout that period. *See* Exh. AA at 1-5.

The remaining salary and fringe benefit charges at Catharine, Lowell, and Kelly relate either to professional development activities or extracurricular work in connection with the SDP's after-school "Power Hour" program. The spreadsheet attached hereto as Exh. F identifies each of those charges, the Reading First purpose associated with each charge, and a reference to the exhibits containing the relevant sign-in sheets and other corroborating evidence.

1d. Title I: *Support of Compensation Costs for Employees Working on a Single Cost Objective*

The OIG also questions $11,272,851.88 in compensation expenses for single objective employees charged to Title I by way of journal voucher transfers. Again, the basis for this portion of the finding is the absence of semi-annual certifications.

Although the questioned costs comprise more than 60,000 separate transactions, a single rationale serves as support for the vast majority of the charges. More than 90% of the transactions relate to regular compensation for teachers, counselors, and librarians working in SDP schools. The spreadsheets provided by the OIG show that 5,874 of the 7,136 salary entries carry an object code of 1120, 1122, 1123, 1124, 1125, 1126, 1127, or 1128, which codes represent payments to teachers, part-time teachers, librarians, classroom assistants, assistant teachers, counselors, and "other paraprofessionals." Likewise, the fringe benefit charges listed in the spreadsheets consist largely of those associated with the regular salary charges.

Because the SDP schools have the TPERs for the relevant time period in their school-based records, and because all SDP schools operate under schoolwide programs, there is adequate support for the bulk of the questioned Title I personnel compensation expenditures. That is, the TPERs document that employees regularly appeared for work at a particular school. Where an employee appearing on a TPER is a teacher, part-time teacher, librarian, counselor, or "other paraprofessional," that employee's salary and fringe benefits are eligible Title I costs simply by virtue of the fact that he or she works in a schoolwide program. *See* 20 U.S.C. § 6314(a)(2)(A) (No school participating in a schoolwide program shall be required . . . to identify particular children . . . as eligible to participate in a schoolwide program; or to provide services to such children that are supplementary, as otherwise required by section 6321(b) of this title.).

The remaining questioned employee compensation costs are associated with object codes 1211, 1511, and 1611, all of which relate to pay above and beyond regular salaries, *e.g.*, per diem, extracurricular, and professional/staff development. As to those costs, the SDP maintains sign-in sheets or similar documentation supporting the charges to Title I. This is true with respect to the questioned costs in both Finding 1.A.I. and Finding 1.A.II., many of which are duplicated in the two findings. *See* Exh. J (spreadsheet showing approximately $2,000,000 in duplicate questioned costs).

1e. CSR: *Support of Compensation Costs for Employees Working on a Single Cost Objective*

The same explanation for Title I support of salary costs for employees working on a single cost objective can be applied to the $145,010.32 of CSR salary costs, plus the costs of the associated fringe benefits. (See discussion of Title I, above.) In this case, the OIG spreadsheets show 128 salary charges for object codes 1122, 1123, 1127, and 1128, relating to non-teaching professionals, teachers, part-time classroom assistants, and "other paraprofessionals" working in the schools. Because all SDP schools operate under schoolwide plans for the purpose of school reforms, and because all of the 128 compensation charges are for individuals working in furtherance of such reform efforts, the TPERs showing that each such individual regularly appeared for work at their assigned school is sufficient to support the salary and benefit expenses paid out of CSR.

2. *Lack of Personnel Activity Reports (Title I, CSR)*

The draft report questions $38,444,708.00 in personnel compensation charged to Title I and CSR that covered "split salaries" listed in SDP school budgets. The draft audit appears to have taken any non-whole number appearing in a school's budgeted positions that were to be funded out of Title I, then multiplied that number by the salary associated with each such position, and thus derived a total amount that the OIG assumes to have been charged as "split salaries." As to these assumed charges, the draft report contents that the SDP cannot rely on the semi-annual certifications contained in SDP's records as sufficient support. Rather, the report contends that the OMB cost principles require "personnel activity reports" ("PARs") prepared at least monthly showing an after-the-fact distribution of staff time between USDE-funded work and other work.

This finding is wrong both as a matter of fact and law. There are at least three factors that call the OIG's reasoning into question.

First and foremost, the OIG's methodology is fundamentally unsound. An auditor cannot reasonably find that an auditee has expended funds in an improper manner or without sufficient support strictly on the basis of budgeted figures. Such a conclusion is inherently unreliable in the absence of some evidence confirming that the auditee in fact incurred the questioned costs according to budget. This practice also creates a substantial risk that the costs questioned in this subfinding are duplicated elsewhere in the draft report given that the draft report questions $7,376,101.22 in personnel compensation charged to Title I and CSR under Finding 1.A.I., and a further $13,182,860.48 under Finding 1.A.II. In short, audit findings must be related to actual expenditures. To rely on budget numbers when actual expenditure numbers were provided is contrary to accepted audit practice. *See* spreadsheets previously provided by Office of Management and Budget.

Second, the spreadsheets detailing the budgeted positions underlying the finding include several positions that were not, in fact, split-funded. It appears that the finding sweeps in any non-whole number positions shown on a school's Title I budget. The flaw in this approach lies in the fact that where a school's budget contains a non-whole number of Title I positions that is greater than one, only the amount to the right of the decimal represents a split salary. The OIG incorrectly added all such positions, both the whole and split funded, in arriving at the questioned amount. Accordingly, of the 408.36 positions comprising the basis for Finding 1.A.III., 206 were funded 100% by Title I under a single object code. *See* Exh. DD (showing breakdown of whole number and non-whole number positions).

Finally, even where a school budget shows a "salary split," the position was devoted exclusively to Title I purposes, *i.e.*, a single cost objective. As the documentation and certifications previously provided to the OIG shows, the employees budgeted between Title I/CSR and another Federal or non-Federal funding source still worked 100% on activities properly allocable to Title I/CSR. In such circumstances, PARs are not necessary to support salary and benefit charges under an award. *See* Exh. K (Title I policy guidance from Michigan, New Hampshire). Therefore, there is no instance where a salary split would require a PAR.

**B. Ineligible Charges**

The draft audit report identifies as unallowable (1) $2,888,140.00 in charges to Title I for Head Start salaries and (2) $22,800.00 in charges to Title I for school police salaries. The draft report bases the first determination on a contention that the subject personnel expenditures were not for the purpose of complementing or extending Head Start services, as required in order to be allowable under Title I. The report bases the second determination on an assumption that the schools where the particular officers were assigned failed to amend their schoolwide plans to reflect that Title I would pay for police salaries.

As to the latter finding, the SDP has been unable to locate any guidance or legal authority that would have required the subject schools to amend their schoolwide plans as the report appears to believe is necessary. Moreover, although the four schools did not amend their schoolwide plans to include police salaries, they did amend their budgets to reflect the additional police salary costs.

The former finding is also incorrect. Although Head Start Performance Standards do not require that grantees employ only certified teachers, all SDP Head Start teachers have Commonwealth of Pennsylvania teaching certificates. The SDP follows this practice because of its determination to enhance the quality of the Head Start services it provides directly to children. The SDP's Head Start delegate, by contrast, does not require its teachers to be certified.

As a result of the higher standards that the SDP applies in its Head Start hiring, the SDP must compensate its Head Start teachers at a higher level than it would require for Head Start teachers with lesser qualifications. The FY 2006 Head Start budgets attached hereto as Exh. L reveal that the delegate agency paid its teachers an average of $21,507.50 per annum, while the average annual salary for SDP Head Start teachers was $50,908.35. Because the SDP employed 266 teachers in its 2006 Head Start program, the difference in Head Start compensation costs between an assumed average of $21,507.50/teacher and the actual $50,908.35/teacher comes to $4,860,695.00 – substantially more than the $2,888,140.00 that the SDP charged to Title I to pay for higher quality Head Start services.

Finally, the draft report states that the SDP failed to enforce its own payroll policies because it did not require employees to sign-out on TPERs. The OIG misunderstands the SDP's policies and procedures on this score. As the portion of those policies quoted in the draft report indicates, sign-outs are required only as necessary "to meet wage and hour requirements." The OIG has not identified any case in which wage and hour laws would call for employees to sign-out where an employee failed to do so. In the absence of such evidence, the OIG cannot claim that the SDP violated any internal policy.

**FINDING #2 – SUPPLANTING OF FEDERAL FUNDS**
$21,413,180.01 Unallowable; $1,293,385.68 Unsupported

The SDP disputes this finding in its entirety.

The draft report applies the wrong test to determine whether the SDP ran afoul of any supplanting prohibition. Had the report applied the correct test, it could not have concluded that the SDP engaged in supplantation.

As discussed in more detail below, because all SDP schools operate under schoolwide programs, it is an "equitable funding" standard – not the comparison of line-item expenditures that the OIG conducted – that needs to be applied in order to determine whether the SDP violated the statutory "supplement, not supplant" requirements.

We will demonstrate that the SDP did, in fact, meet the standard by distributing its state and local funds in a fair and equitable manner, based on established and published per student and per school formulas that have remain consistent over time. Furthermore, the availability of Federal funds has no bearing on the SDP's distribution of non-Federal dollars. The SDP's Title I formula, unlike its Basic Education formula, allocates Federal funds exclusively as a function of student family income levels

The conclusions contained in the draft report appear to rest largely on a comparison between particular line item expenditures in FY 2005 and FY 2006 – *i.e.*, the report claims the existence of "supplantation" when a given cost was charged to non-Federal sources in FY 2005 and then was charged to a Federal award in FY 2006. In addition, the draft report indicates that there is at least one instance of alleged "supplanting" involving the use of Federal funds to pay for costs that the SDP was allegedly required to incur under local regulation.

The largest portion of the finding relates to charges applied to Title I, Part A in the amount of $17,539,693.00, the bulk of which consist of salaries for the Transition Support Tutors Program ($4,555,099.00), bilingual instruction ($1,666,981.00), teacher preparation time required under SDP's collective bargaining agreement with the Pennsylvania Federation of Teachers ($5,543,762.00), consulting contracts ($5,248,988.00), and school choice transportation costs ($1,293,386). The remainder of the finding concerns $1,701,000.00 in IDEA consulting contract expenditures, $1,395,685.00 in personnel compensation charges to Title II, Part A, and $334,390.00 in costs for computer hardware and software paid out of Title II, Part D.

The chief flaw in the draft report's analysis is in its use of the wrong method of testing for supplantation. Whereas a presumption of supplanting typically arises if an awardee uses Federal funds to provide services that it provided with non-Federal funds in the prior year, this is not the case in the context of a schoolwide program. The U.S. Department of Education has issued guidance indicating that, "[a] school operating a schoolwide program does not have to: (1) show that Federal funds used with the school are paying for additional services that would not otherwise be provided; (2) demonstrate that Federal funds are used only for specific target populations; or (3) separately track Federal program funds once they reach the school." *See* U.S. Dep't of Educ., "Non-Regulatory Guidance, Title I Fiscal Issues: Maintenance of Effort; Comparability; Supplement, Not Supplant; Carryover; Consolidating Funds in Schoolwide

Programs; Grantback Requirements," at 37 (2008) (citing 20 U.S.C. § 6314(a)(2)); *see also* OMB Circ. A-133 Compliance Supp. at 4-84.000-15 (March 2006) (same).

That guidance further states that, in order to satisfy the "supplement, not supplant" requirement for schoolwide program schools, "[a]n LEA should be able to demonstrate, through its regular procedures for distributing funds and resources, that it distributes State and local funds fairly and equitably to all its schools – including schoolwide program schools – without regard to whether those schools are receiving Federal education funds." *See* Title I Non-Regulatory Guidance at 64.

Because all SDP schools operate under schoolwide programs, it is this "equitable funding" standard – not the comparison of line-item expenditures that the OIG staff conducted – that would apply to determine whether the SDP violated the statutory "supplement, not supplant" requirements.

The SDP did, in fact, meet the standard by distributing its State and local funds in a fair and equitable manner. The SDP's FY 2006 allocation formula (attached hereto as Exh. M) reveals that the level of "Basic Education" funding (*i.e.*, State and local financial assistance) for each school is determined on a per student basis and according to school size, both with adjustments for grade level and type of school. As the funding stream analysis (attached hereto as Exh. N) shows, the Basic Education formula yielded substantially constant levels of funding in each school between FY 2005 and FY 2006. The few instances in which State/local assistance to a particular school dropped by more than 10% from 2005 to 2006 are attributable to decreases in enrollment, the elimination of one or more grades at the school, or school closing.[92]

Furthermore, the availability of Federal funds has no bearing on the SDP's distribution of non-Federal dollars. The SDP's Title I formula, unlike its Basic Education formula, allocates Federal funds exclusively as a function of student family income levels. The factors relevant in calculating State/local funding to SDP schools are completely distinct from those applicable in the SDP's Federal funding calculation. Accordingly, the SDP does not consider the amount of Federal education assistance that a school will receive in apportioning non-Federal assistance to that school.

In light of the foregoing, the supplantation finding is simply incorrect to the extent that it is based on a comparison of FY 2005 and FY 2006 expenditures. All portions of that finding relying on this manner of analysis should therefore be eliminated. These would include all but the $5,543,762.00 in compensation for teacher preparation time and $419,918.00 in copier costs charged to Title I, Part A.

The two remaining parts of the finding are equally invalid. The draft audit report indicates that the teacher preparation time and copier costs violate the "supplement, not supplant" prohibition because the obligations arise out of the SDP's collective bargaining agreement with the Pennsylvania Federation of Teachers. According to the spreadsheets accompanying the draft

---

[92] For instance, the spreadsheet shows that Sayre Middle School's level of State and local funding in 2006 was 88.95% of the level of State and local funding in 2005. *See* Exh. N, line 17. The reduction in funding is attributable to the fact that Sayre lost a grade in 2006, *i.e.*, Sayre served four grades (7-10) in 2005, but only served three grades (9-11) in 2006. *Id.*

report, the report treats these as services that the SDP "was required to make available under other Federal, State or local laws," and therefore concludes that the use of Federal funds to pay for such services amounts to supplanting

Again, the OIG auditors misunderstand the law on this score. Union contract requirements are not "services that are required by law." These are no different from any other obligation an awardee assumes by way of agreement with a vendor, employee, or service provider. Moreover, the charges relating to teacher preparation time are simply a type of personnel cost comparable to any of the other types of compensation provided under the collective bargaining agreement which the OIG has previously deemed allowable. To adopt a contrary view would, in effect, render *any* salary or fringe benefit payments on behalf of *any* bargaining unit employee (*i.e.*, most employees of most, if not all, school districts) unallowable. Consequently, the "supplement, not supplant" prohibition on using Federal dollars to cover expenses incurred in compliance with State or local law or regulation is irrelevant in determining whether the teacher preparation time and copier costs are allowable. Instead, it is the "equitable funding" standard described above that applies here, which, as previously discussed, shows that the SDP has not supplanted Federal assistance for non-Federal assistance.

It bears at least brief mention here that, notwithstanding the draft report's conclusion that none of the costs included in this finding fall within the regulatory exemption from the supplanting prohibition, the $4,555,099.00 in Transition Support Tutors costs relate to a program that "meets the intents and purposes" of Title I, and should therefore be excluded from any "supplement, not supplant" analysis. That is, the Transition Support Tutors program satisfies all four of the criteria for the exclusion because the program (1) "[i]s implemented in a school in which the percentage of children from low-income families is at least 40 percent" (all SDP schools are at least 40% low-income), (2) "[i]s designed to promote school-wide reform and upgrade the entire educational operation of the school" by increasing the number and quality of student/instructor interactions in upper elementary and middle school grades, (3) "[i]s designed to meet the educational needs of all students in . . . to meet the State's challenging student academic achievement standards," and (4) "[u]ses the State's assessment system under Sec. 200.2 [*i.e.*, the PSSA] to review the effectiveness of the program." *See* 34 C.F.R. § 200.79 (b).

The further observation in the draft report that no SDP schools consolidated their State, local, and Federal funding is likewise irrelevant. Consolidation relieves schoolwide program schools from various programmatic, accounting, and reporting requirements. That is, a school that consolidates its Federal and non-Federal assistance need not maintain separate books and records demonstrating that it has expended its Federal funds exclusively for award purposes so long as it can show that its schoolwide plan as a whole serves the intents and purposes of the award. 20 U.S.C. §§ 6314(a)(3)(A)-(B). The "equitable funding" test for supplantation, however, applies regardless of whether a schoolwide program school consolidates its funding. *See* Title I Non-Regulatory Guidance at 64.

Finally, the draft report itself casts doubt on the validity of the proposed "supplement, not supplant" finding.

As noted above, the alleged substitution of Federal for non-Federal funds will create a *rebuttable* presumption that an awardee has engaged in prohibited supplanting. That presumption can be overcome through evidence that the awardee would not have been able to provide the subject services in the absence of Federal assistance – *i.e.*, that non-Federal funds were otherwise insufficient to support the activities.

According to the draft report, the SDP suffered a deficit in its general fund of approximately $66.1 million during the 2005-2006 school year. *See* Draft Report at 18.

This general fund deficit was a component of an overall Operating Funds negative fund balance of $23.8 million for the period ending June 30, 2006. Although the OIG indicates that the SDP "did not determine" whether the movement of general fund charges into Federal accounts in order to relieve the deficit "would be supplanting Federal funds," the mere existence of such a substantial shortfall in non-Federal dollars should eliminate any presumption of supplanting. It therefore appears that, even under the OIG's incorrect "supplement, not supplant" test, there is no basis for the proposed finding

**FINDING #3 – PSD DID NOT HAVE ADEQUATE CONTROLS IN PLACE TO ENSURE NON-PAYROLL EXPENDITURES MET FEDERAL REGULATIONS AND GRANT PROVISIONS**

$572,437.14 Unallowable; $1,020,003.52 Unsupported

The SDP disputes this finding.

The OIG staff reviewed over 2,000 transactions processed through the SDP's Accounts Payable ("AP") department and concluded that some $572,437.14 in costs were unallowable, and another $1,020,003.52 either lacked sufficient support or were "questionable." The transactions that are the subject of this finding range in value from hundreds of thousands of dollars down to less than two dollars.

As to the costs listed as "questionable" in the OIG's spreadsheets, it appears that the OIG does not dispute that the particular costs were allowable or adequately documented. Instead, the OIG poses general questions regarding the relationship between a specific expenditure and a Federal award purpose. Each "questionable" line item commentary from the auditors agrees that the cost was necessary, allocable, and adequately supported, and in many cases there is acknowledgement that the finding has no dollar value finding attached. Although the SDP does not understand these "questionable" findings to require a response, we have endeavored to provide responses where possible.

Due to the sheer number of line item costs at issue in this finding, the SDP has limited its response to addressing those transactions valued at $1,000.00 or greater.

It is worth noting that in many circumstances the OIG staff's description of the grounds for recommending disallowance or questioning a given cost are at odds with the documentation that the SDP presented. For instance, at line 198 of the OIG's "Office Depot" spreadsheet, the OIG claims that the SDP could not support a charge of $1,199.96 for Palm PDA devices because it was "[u]nable to provide names of those using." Upon review of the documentation presented to support this transaction, it appears that the SDP did, in fact, produce a list of individuals using the devices, their titles, and the serial number for each product. *See* Bates numbered exhibits at file designated "4650 through 4761 Finding 3 Office Depot.pdf."

Likewise, at lines 417 and 418 of the OIG's "Reading First" spreadsheet, the OIG staff concludes that two transactions of $1,000.75 each for Leapfrog electronic learning systems are unallowable because the SDP could not present scientifically-based reading research that supported the Leapfrog system as a learning device. The SDP's contract files, however, include research literature demonstrating the efficacy of the Leapfrog system. *See* Bates numbered exhibits at file designated "4960 through 5224 Finding 3 AP Reading First.pdf."

The results of the SDP's review of its records concerning the AP transactions appear in the spreadsheet and supporting documentation attached hereto as Exh. BB.

**FINDING #4 – POLICIES AND PROCEDURES WERE NOT ADEQUATE AND/OR ENFORCED**

$6,358,792.03 Unallowable; $12,009,159.07 Unsupported

The SDP disputes this finding.

The OIG's conclusions rest predominantly on its review of JV transactions recorded in the SDP's books. According to the draft report, the SDP's policies and procedures for the approval and entry of JVs did not ensure that amounts charged to Federal awards were reasonable, allocable, and sufficiently documented, allegedly resulting in double charges, payment of costs unrelated to award purposes, and otherwise unsupported expenditures.

In the vast majority of cases, the draft report does not provide any reference to a law, regulation, or other authority underlying its finding, and it is therefore difficult to discern the bases for a particular recommended disallowance or questioned cost. For example, the report's summary spreadsheet identifies unallowable costs in two JVs transferring summer salary expenses to the SDP's Reading First grant. (*See* "Findings Amount Reconciliation" Spreadsheet, Finding 4 Tab, Lines 19-20.) The separate spreadsheet containing the explanation for this conclusion indicates that the salaries were earned when the SDP staff members were being paid from non-Federal funding sources and discusses the manner in which SDP employees accrue summer pay. (*See* "Reading First" Spreadsheet, Lines 21-44.) The explanations do not, however, describe how these observations have any bearing on whether the costs are allowable, nor do they cite any requirement with which the SDP has failed to comply.

Without some reference to specific criteria for disallowance – *i.e.*, "[t]he laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated," as called for in the GAO Yellow Book – the SDP cannot understand the OIG's rationale and formulate a response to the finding. *See* GAO Yellow Book at §§ 4.15, 5.21 (definition of "criteria" for finding, and description of need to communicate "criteria" in audit report, respectively).

Further, to the extent that the draft audit report or the accompanying spreadsheets purport to cite some "criteria," it appears that many of the OIG staff's objections to the award charges relate to matters that are not genuine requirements. For instance, the OIG staff recommends disallowance of activities or items not specifically identified either in a schoolwide plan or in a grant application/budget. *See, e.g.*, "Title I" spreadsheet, lines 2-4; "FIE" spreadsheet, lines 71-94, 95, 96-123; "Transfers" spreadsheet, lines 653-660. This, however, is not sufficient grounds for a disallowance.

We have found nothing in law, regulation, or USDE guidance to suggest that a schoolwide plan must detail each planned expenditure in order properly to charge that expenditure to a Federal award. Rather, a cost is allowable under Title I as long as it is incurred in furtherance of the purposes of the schoolwide plan. *See* OMB Circ. A-133 Compliance Supp. at 4-84.000-6 (March 2006).

Costs charged to other awards are allowable if they relate to activities generally contemplated in an award agreement and are otherwise eligible under the statute authorizing the grant program.

*See* 34 C.F.R. § 80.30 (grantee flexibility to make budget and program changes, defining circumstances requiring prior approvals).

Accordingly, the mere fact that Federal dollars may have paid for an item not explicitly listed in a grant budget does not amount to a failure to comply with a "criterion" if it does not result in either a significant rebudgeting or a change in the scope or objectives of the project. 34 C.F.R. §§ 80.30(c), (d).

The SDP otherwise responds to the challenged JV transactions as follows. Due to the sheer volume of transactions involved (both JV and individual transactions within a JV), this response addresses only the grants with the greatest dollar amounts at issue.

- Title I JVs (with reference by line to the OIG "Title I" spreadsheet)

1. JV ACC00006608 (lines 2-4) ($13,988.22 unallowable): The draft report states that it "[r]eveiewed [*sic*] School wide plan (swp) for Masterman. Unallow=core curriculum math books," that "[t]he only mention of items in this purchase in the swp were supplemental math books unallowable=Copy paper," and that "[a]ll of the rest of this purchase is unallowable (non-math books) since not mentioned in the SWP." As noted above, the fact that a schoolwide plan does not enumerate every item that a school intends to purchase with Title I funds does not give rise in and of itself to a disallowance of a cost that was not mentioned in that plan. All of the subject expenditures here were in furtherance of the schoolwide plan and are therefore allowable. In addition, for the reasons discussed in the response to Finding 2, there is no supplanting.

2. JV ACC00007137 (lines 34-44) ($630.00 unallowable): The draft report states that two transactions within this JV – one for $390.00 to support a health fair, and the other for $240.00 relating to a "concert" – are not Title I-eligible activities. This is incorrect. The health fair served the goals of the schoolwide plan because it was a health education event for the benefit of both students and parents, and thus was part of an effort to upgrade the school's entire educational program. Similarly, the $240.00 facility rental charge was not exclusively for the purpose of a "concert." The musical performance by [redacted] was only an element of a larger program focusing on conflict resolution in the schools. The program served an educational purpose as it sought both to teach basic life skills and to create a safer, less adversarial learning environment.

3. JV ACC00007162 (line 46) ($90.00 unallowable): The OIG states that the cost of water for NCLB liaison meetings among themselves and with the Title I program office director are "not necessary for Title I goals." It is not, however, unreasonable to provide some modest refreshments for meetings the purpose of which is to discuss and coordinate Title I activities, nor is such an expenditure prohibited under OMB Circular A-87.

4. JV ACC00007304 (lines 78, 82) ($3,290.00 unallowable): The OIG states that two transactions within this JV – one for $685.00 for breakfast served at a staff meeting, and the other for $2,605.00 relating to a health fair and a community fair – are not

Title I-eligible activities. This is incorrect. Once again, it is not unreasonable to provide some modest refreshments for meetings the purpose of which is to discuss and coordinate Title I activities, nor is such an expenditure prohibited under OMB Circular A-87. The health fair served the goals of the schoolwide plan because it was a health education event for the benefit of both students and parents, and thus was part of an effort to upgrade the school's entire educational program. The community fair was a Title I-eligible parent involvement activity.

5. JV OMBG0001858 (lines 107, 109) ($112,382.81 unallowable): The draft report states that the allegedly unallowable amount consist of charges to the SDP's FY 2003 Title I allocation after the period of availability of funds. Those funds were available for obligation for the twenty-seven month period from July 1, 2002 to September 30, 2004. The OIG asserts that the $112,382.81 in charges covers expenditures incurred after September 2004. The SDP concurs with this finding and is in the process of identifying eligible costs not charged to the award that would offset the proposed disallowance.

6. JV OMBG0002964 ("Transfers" spreadsheet, lines 1157-1173) ($265,025.62 unallowable): The draft report contends that the subject amounts consist of fringe benefit charges for part-time ESOL tutors not entitled to fringe benefits. The SDP concurs with this finding and is in the process of identifying eligible costs not charged to the award that would offset the proposed disallowance.

7. JV ACC00007002, JV ACC00007065, JV ACC00007137, JV ACC00007162, JV ACC00007304, JV ACC00007339 (lines 14-88) ($17,562.58 unsupported): The draft report questions various amounts spent on refreshments for parent meetings, parent workshops, and other school events based on the absence of sign-in sheets for those programs. Sign-in sheets are not necessary to support the subject costs. The documentation supplied demonstrates that (1) the SDP incurred the obligation (*i.e.*, it arranged with a vendor to provide goods and services for value), and (2) the obligation related to a Title I activity. This is sufficient documentation. Sign-in sheets have no bearing on whether the costs are reasonable and/or allocable because they would be evidence that came into existence after the SDP already incurred the obligation. In other words, the number in attendance at any of the events is irrelevant to a determination of whether the costs "exceed[ed] that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost." *See* OMB Circ. A-87, Att. A, § C.2.

- FIE JVs (with reference by line to the OIG "FIE" spreadsheet)

1. JV OMBG0002066 ("Results" tab, lines 2-84) ($1,200,011.80 unallowable): The draft report states that sixty-seven transactions within this JV are unallowable because the "[i]tems [are] not mentioned in FIE Federal Program Application." These include, among other things, expenditures for transportation, student conferences/competitions, and matters relating to career and college awareness. As noted above, the fact that a given activity is not expressly identified in an award agreement or budget will not, in and of itself, warrant disallowance. The relevant inquiry is whether the cost falls within the scope or objectives of the project. 34

C.F.R. §§ 80.30(c), (d). A review of the questioned transactions reveals that either (1) the SDP did, in fact, mention the activity in its grant application, or (2) the activity was generally in furtherance the project purposes. *See* Exh. CC.

2. JV OMBG0002245 (lines 45-60) ($79,438.49 unallowable): The draft report contends that the SDP violated the "supplement, not supplant" requirement by transferring $79,438.49 in costs associated with the Saturday Morning Alternative Reach and Teach ("SMART") program from the SDP's Empowerment Grant from the Commonwealth of Pennsylvania to FIE. This transfer is not supplantation for the reasons described in the response to Finding 2.

3. JV OMBG0002312 (lines 71-94) ($455,430.48 unallowable): The draft report states that $455,430.48 representing charges relating to the SDP's Truancy Center is unallowable because "[t]he truancy center is not mentioned in the FIE grant application." These costs are allowable under the FIE grant because the Truancy Center is a key element of the Attendance and Truancy Intervention and Prevention Support ("ATIPS") program, an activity referenced in the FIE grant application. Although the OIG staff auditors appear to believe that the Truancy Center and ATIPS are unrelated, they both operate in furtherance of the goal of "increasing student attendance and promoting safe and orderly learning environments" as set forth in the SDP's application. The Truancy Center expenses included in this finding therefore fall within the scope of the FIE award.

4. JV OMBG0002968 (lines 96-123) ($2,021,660.68 unallowable): The draft report states that $2,021,660.68 in teacher salaries and benefits incurred to prevent split classes (*i.e.*, two grade classes in a single classroom) are unallowable because the "[c]harges do not fall under the programs listed in the FIE/Spector grant application." The OIG auditors are mistaken with respect to this finding. The SDP's FIE grant application details the purposes and goals of its school reform efforts, including reducing class size in grades 3-11. The compensation charges relating to teachers placed in a position to reduce class size and to prevent a split class served to "reduce the number of students for which staff is responsible," and thus enhanced the quantity and quality of student/staff interactions.

5. JV OMBG0002066 (lines 2-39; "Results" tab, Lines 2-84) ($1,035,071.38 unsupported): The draft report asserts that the SDP did not present sufficient support for $1,035,071.38 in costs charged to FIE, consisting primarily ($983,080.63) of salary and fringe benefit expenses that the OIG questions due to lack of semi-annual certifications. As to these compensation costs, the corroborating documentation (other than semi-annual certifications) described in the response to Finding 1 would support these expenditures. It is unclear why the OIG audit staff claims the remaining costs to be unsupported as there is no indication in the draft report or the accompanying spreadsheets explaining precisely why the OIG staff found the SDP's documentation to be deficient.

   These cited costs include a payment of $11,420.00 that the OIG mistakenly characterizes as the cost of transportation to inner-city sporting events. This was, in fact, the cost of airfare to Atlanta, GA for fifty students to attend a robotics competition. The invoice and payment support is attached hereto as the Bates numbered exhibit designated “6263 through 6449 Finding 3 AP FIE.pdf” (pages 6391 through 6403).

The cited costs also include payments totaling approximately $28,000.00 that OIG staff appears to believe relate to transportation to sporting events, when these are actually costs related to college awareness events. The relevant documentation appears in the Bates numbered exhibit designated “6263 through 6449 Finding 3 AP FIE.pdf” (pages 6408 through 6412).

As to the other costs questioned under this JV, the SDP cannot formulate an informed response in the absence of at least some detail as to the bases for the OIG staff’s conclusions.

6. JV OMBG0002245 (lines 45-60) ($123,796.13 unsupported): The draft report states that the SDP did not produce time distribution records to support $123,796.13 in personnel charges relating to the SMART program. Attached as Bates numbered exhibit “5752 through 5889 Finding 3 AP FIE.pdf” (pages 5837 through 5843) are the TPERs for one pay period for seven individuals whose salaries were included in this JV. Due to time constraints, the SDP has not been able to complete a thorough search for the relevant records. The SDP will continue in its efforts to locate these documents and requests that the OIG consider any further documentation that the SDP is able to produce.

7. JV OMBG0002251 (lines 61-70) ($1,277,329.64 unsupported): The draft report indicates that the SDP did not maintain “time and effort logs” to support salary transfers for “Twilight Program” activities from the SDP’s state Empowerment grant to FIE. The SDP has conducted a review of the files at nine of the thirteen Twilight Program locations during FY 2006 and has retrieved the relevant files from six of those locations. Those records are attached hereto as Bates numbered exhibit “5752 through 5889 Finding 3 AP FIE.pdf” and are sufficient to support $678,106.40 of the $1,277,329.64 in questioned costs. The SDP will continue in its efforts to locate records to support the remaining questioned costs and requests that the OIG consider any further documentation that the SDP is able to produce.

- Transfers (with reference by line to the OIG “Transfers” spreadsheet)

1. JV OMBG0002168 (lines 653-660) ($30,443.71 unallowable): The draft report states that the costs included in this JV were not items listed in the schoolwide plan. As noted above, the fact that a schoolwide plan does not enumerate every item that a school intends to purchase with Title I funds will not give rise to a disallowance of a cost not mentioned in that plan. All of the subject expenditures here were in furtherance of the schoolwide plan and are therefore allowable.

2. JV OMBG0002487 (lines 895-928) ($1,403,071.00 unallowable): The draft report asserts that this JV includes $1,403,071.00 in costs for teacher prep time previously charged to Title I. The SDP concurs with this finding and is in the process of

identifying eligible costs not charged to the award that would offset the proposed disallowance.

3. JV OMBG0002943 (lines 1048-1111) ($576,595.56 unallowable): The draft report states that the SDP presented documentation showing that the salaries and benefits for eight teachers out of the thirty-one included in this JV transfer were not, in fact, reduced class size teachers, and that one more teacher was split-funded between Title I and the SDP's general fund. The SDP has reviewed its records and determined that one of the eight teachers it had previously identified as an incorrect transfer, [redacted], was actually RCS-eligible. Moreover, the semi-annual certificiations for the teacher listed as split-funded reveal that she performed RCS activities, and is therefore not properly part of this finding. The unallowable amount should be reduced to reflect these two matters.

4. JV OMBG0001999 (lines 343-368) ($66,214.79 unsupported): The draft report contends that the SDP did not maintain semi-annual certifications to support the compensation charges for teacher training moved from the SDP's state Empowerment Grant to Title II. The subject charges do not relate to individual's working exclusively on Title II activities, but instead consist of payments for participation in professional development. The SDP customarily keeps sign-in sheets for these types of trainings and will locate and provide any such records in its files upon request.

5. JV OMBG0002000 (lines 369-415) ($31,326.67 unsupported): The draft report contends that the SDP did not maintain semi-annual certifications to support the compensation charges for teacher training moved from the SDP's state Empowerment Grant to Title II. The subject charges do not relate to individuals working exclusively on Title II activities, but instead consist of payments for participation in professional development. The SDP customarily keeps sign-in sheets for these types of trainings and can locate and provide any such records in its files upon request.

6. JV OMBG0002058 (lines 489-533) ($2,299,224.69 unsupported): The draft report contends that none of the salaries and benefits transferred from the SDP's general fund to Title II as "literacy intern" compensation were for SDP literacy interns. That a grade teacher might appear in a JV relating to literacy intern salary transfers does not serve as a basis for disallowing these costs. The costs remain allowable so long as (1) the grade teacher was Title II/RCS eligible, and (2) the SDP maintains documentation of the teacher's time on Title II/RCS activities. The SDP does maintain such documentation, as was described in its response to Title II questioned costs in Finding 1.A.

7. JV OMBG0002232 (lines 661-707) ($296,781.81 unsupported): The draft report broadly asserts that these teacher retention and recruitment costs lacked sufficient support. Without further detail, the SDP cannot provide a response to this finding.

8. JV OMBG0002259 (lines 708-737) ($1,165,521.54 unsupported): The draft report states that the costs associated with principal training transferred from the SDP's state Empowerment Grant to Title II lacked sufficient support due to the absence of sign-in sheets. The documentation provided by the SDP included in the auditors' work

papers is, however, adequate support for the subject charges. The records include dates of trainings, agendas, lists of participants, and the costs of such trainings.

9. JV OMBG0002269 (lines 738-777) ($157,962.69 unsupported): The draft report contends that the SDP did not maintain semi-annual certifications to support the compensation charges for teacher training moved from the SDP's state Empowerment Grant to Title II. The subject charges do not relate to individuals working exclusively on Title II activities, but instead consist of payments for participation in professional development. The SDP customarily keeps sign-in sheets for these types of trainings and will locate and provide any such records in its files upon request.

10. JV OMBG0002270 (lines 778-818) ($392,191.43 unsupported): The draft report contends that the SDP did not maintain semi-annual certifications to support the compensation charges for teacher training moved from the SDP's state Empowerment Grant to Title II. The subject charges do not relate to individuals working exclusively on Title II activities, but instead consist of payments for participation in professional development. The SDP customarily keeps sign-in sheets for these types of trainings and will locate and provide any such records in its files upon request.

11. JV OMBG0002378 (lines 819-849) ($1,165,521.54 unsupported): This is a duplicate of the finding relating to JV OMBG0002259 and should therefore be removed.

12. JV OMBG0002449 (lines 855-894) ($414,108.56 unsupported): The draft report contends that the salary/benefit transfers from Title VI Nonpublic to Title I are unsupported, presumably due to lack of semi-annual certifications. The report indicates in the accompanying spreadsheet that the SDP provided sign-in sheets, but that such documentation was somehow insufficient. As discussed in the response to Finding 1.A., the TPERs that the SDP produced document the fact that the subject employees actually worked the amount of time for which they were paid. Moreover, the employees worked in the SDP's Office of Accountability, Assessment, and Intervention, the purpose of which is to carry out the Title I activity of ensuring compliance with NCLB policies and goals. This, together with the TPERs, more than reasonably supports an inference that the personnel costs are allowable under Title I.

13. JV OMBG0002555 (lines 929-984) ($32,521.29 unsupported): Based on the OIG's description, this appears to be a duplication of the finding related to JV OMBG0002000 and should therefore be removed.

14. JV OMBG0002943 (lines 1048-1111) ($2,566,319.04 unsupported): The draft report asserts that the SDP has provided insufficient documentation to support compensation for twenty-two teachers charged to Title II as reduced class size teachers. According to the draft report, the evidence presented did not adequately show that the particular teacher charged to Title II was hired to fill the reduced class size slot, and was therefore inadequate. The materials that the SDP produced demonstrated that (1) the teachers regularly signed in at their assigned schools, (2) the schools were allotted one or more reduced class size positions, and (3) these positions were filled. The lack of proof regarding whether the teacher charged was hired for reduced class size purposes at most permits a determination that the compensation charges were

excessive to the extent that the actual salaries charged were at a level greater than that of a new hire. It does not allow a conclusion that the full $2,566,319.04 was unsupported.

15. JV OMBG0002967 (lines 1186-1216) ($677,024.12 unsupported): The draft report asserts that the SDP has provided insufficient documentation to support compensation for individuals charged to Title I that were working in the Office of Staff Development. The report takes issue with the absence of semi-annual certifications to show that these employees were devoted exclusively to Title I activities. The TPERs that the SDP produced demonstrate that the subject employees actually worked the amount of time for which they were paid. Moreover, the employees worked in the SDP's Office of Staff Development, the purpose of which is to carry out the Title I activity of coordinating and providing for professional development opportunities. This, together with the TPERs, more than reasonably supports the SDP's position that the personnel costs are allowable under Title I.

16. JV OMBG0002971 (lines 1217-1240) ($77,068.40 unsupported): The draft report broadly asserts that these "teacher induction charges" lacked sufficient support. Without further detail, the SDP cannot provide a response to this finding.

17. JV OMBG0002980 (lines 1241-1338) ($17,810.46 unsupported): The draft report states that the JV includes compensation charges for one hundred fifty employees listed at "transition support tutors," seventy-eight of whom do not appear as "transition support tutors" on the print-out provided by the SDP's human resources department. It is presumably on this basis that the report questions the associated costs. Assuming that this is the case, the report is mistaken in that the cited print-out on which the report apparently relies contains a list of transition support tutors for the 2004-2005 school year, not the 2005-2006 school year in which the questioned charges were made.

As to the portions of the finding addressing inventory controls and imprest funds, the SDP's responses appear in the spreadsheet exhibit and supporting documentation for Finding #3. As to the questioned travel costs, the OIG cannot reasonably conclude that lodging costs are unallowable simply because they were not at government rate. At most, the OIG might question lodging costs in excess of the government rate, but certainly not the entire amount.

Finally, the SDP's contract approval and invoice review procedures ensure that all contracts are properly authorized and that vendor invoices contain adequate documentation for payment.

**FINDING #5 – PSD DID NOT HAVE WRITTEN POLICIES AND PROCEDURES FOR VARIOUS FISCAL PROCESSES**

$208,081.00 Unallowable; $42,655.00 Unsupported; $422,956.00 Unallowable (Title II Nonpublic); $10,050.00 Unsupported (Title II Nonpublic)

The SDP disputes this finding.

The bulk of the discussion in the draft report under Finding 5 relates to policies and procedures that allegedly allowed for unsupported or unallowable AP and JV charges. The SDP has already addressed these matters in its responses to Findings 3 and 4.

The element of this finding of greatest consequence appears in the addition received on July 14, 2009 entitled “B. Use of Title II, Part A Grant Funds.” This document asserts that $422,956.00 in Nonpublic professional development costs charged to Title II are unallowable “because they were direct reimbursements to private school organizations (for example, the Archdiocese of Philadelphia, and the Philadelphia Association of Christian Schools) and\or on behalf of their affiliated private schools and other private schools (for example, the Politz Hebrew Academy, Muhammad’s Islamic Academy, Green Tree School and Chestnut Hill Academy).” According to the document, the SDP failed to “maintain continuing administrative direction and control over funds and property that benefit students enrolled in private schools” as required under 34 C.F.R. § 76.651 (a)(3).

In each instance where the SDP made a direct payment to a Nonpublic school, it did so only after the school had already made a payment to a vendor for an eligible cost and the school then sought reimbursement from the SDP. If anything, this allowed the SDP to retain greater “administrative direction and control” over Title II funds than it would had it directly incurred an obligation to pay a vendor. That is, the structure employed by the SDP permitted it to determine after-the-fact whether a particular good, service, or activity was eligible under Title II, then exercise its discretion either to pay or not to pay for that activity free from any contractual obligation with the vendor. This is for all intents and purposes the method of reimbursement that a Federal agency uses with the highest risk awardees. *See, e.g.*, 34 C.F.R. § 80.12(b)(2) (payment on cost reimbursement basis for high risk grantees and subgrantees).

The draft report document further contends that “[t]he majority of the expenditures ($248,572) paid to the Nonpublic schools would also be unallowable because many of these expenditures were for the incidental costs (*i.e.*, travel, food and lodging) of the professional development activity.” The auditors base this assertion on its view that an awardee cannot use grant funds to pay for costs incidental to an eligible activity unless the grant pays for the activity itself.

This reasoning is not only tenuous, but it is also contrary to USDE guidance which encourages grantees to coordinate professional development funding among Federal awards. *See* U.S. Dep’t of Educ., “Improving Teacher Quality State Grants – Non-Regulatory Guidance,” at 32 (2006) (“Provided that an LEA maintains records of the amount of Title I and Title II, Part A funds used for these professional development activities, and the Title I funds are used as permitted in the Title I statute and regulations, Title I and Title II, Part A funds may be used jointly for this purpose.”). The SDP does not believe the auditors were correct in adopting a contrary position to disallow $248,572 in costs.

Moreover, the draft report is incorrect to suggest that the professional development activities at issue were funded from another source. The report seems to assume that “other” dollars paid for the vendors conducting the trainings simply because Title II was not charged. In fact, the vendors/presenters provided their services free of charge in most – if not all – of these cases. The auditors’ conclusions therefore rest substantially on inaccurate conjecture.

Once again, we have focused our efforts on responding to those portions of the finding that either provide the best illustration of our reasoning in disputing a finding or comprise a significant part of the dollar value attached to a finding. The omission of any particular finding line-item (Single Audit costs, indirect cost allocation, school choice transportation, use of Office Depot web site) here is not to be taken as agreement with that finding, but is instead the result of resource and time limitations.

## CONCLUSION

In light of the foregoing and the attached exhibits and documentation, the OIG should revise the draft audit report to eliminate the vast majority of the findings of unsupported, questionable, and unallowable costs. The SDP is able to support those costs either through primary or alternative corroborating documentation. This alternative evidence is in many instances more comprehensive and detailed than the method of documentation described in the relevant cost principles. In addition, the most significant recommendations for cost disallowance are incorrect under the law and/or the terms of the particular award(s).

Further, this response illustrates the fact that the SDP's financial practices and procedures provide sufficient internal controls to safeguard Federal funds against loss or misuse. Despite the administrative complexities associated with the decentralized nature of the schoolwide program model, the SDP has systems in place that permit it to trace expenditures to source documentation and to ensure that those expenditures are properly allocable to a Federal funding source. The SDP continuously reviews its financial policies and practices both to identify and correct weaknesses and to target areas for improvement. The SDP has redoubled its efforts in this regard in order to ensure that it has the organizational structure, resources, data systems, policies and procedures necessary for the successful implementation of its *Imagine 2014* strategic plan and to meet the enhanced accountability and transparency standards attaching to Federal funds under the *American Recovery and Reinvestment Act*.

We reiterate our belief that the potential adverse consequences of the current draft recommendations dictate further and careful consideration of the evidence and the arguments presented by the SDP. As previously noted, the magnitude and severity of the draft report's findings jeopardize the SDP's ability to build on the substantial advances it has made in meeting the needs of the children and families that it serves. Supported by significant increases in Title I, IDEA, and other Federal funds, the SDP has made steady progress in raising student performance in math and reading over the past seven years, . As Exh. O shows, in FY 2002, 24% of students in all grades were proficient or better in reading and 20% were proficient or better in math. In FY 2009, the comparable figures were 48% in reading and 52% in math. PSSA testing results reported by groups also show increases in all categories when reported by race/ethnicity, students with disabilities, English Language Learners, and economically disadvantaged students. The SDP intends to accelerate this progress as outlined in its *Imagine 2014* strategic plan – a plan whose objectives and strategies are highly consistent with the goals and strategic direction of the Obama Administration's K-12 educational policies.

The SDP once again would like to express its appreciation for this opportunity to respond to the draft audit report. The SDP stands ready to respond to any further questions or requests for additional information that the OIG may have with respect to this audit.