

**State of Delaware  
Office of Auditor of Accounts**

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**Department of Education  
Fiscal Stabilization, Title I,  
and Special Education Programs  
American Recovery and Reinvestment  
Act §1512 Reporting  
Agreed-Upon Procedures Report**

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**As of June 30, 2010**

**Fieldwork End Date: April 6, 2011  
Issuance Date: April 13, 2011**

R. Thomas Wagner, Jr., CFE, CGFM, CICA  
Auditor of Accounts



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STATE OF DELAWARE  
**OFFICE OF AUDITOR OF ACCOUNTS**

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Independent Accountant's Report  
on Applying Agreed-Upon Procedures

To the Specified Users of the Report:

The Governor's Stimulus Solutions Group  
Attn: The Honorable Matthew Denn  
Lieutenant Governor  
820 N. French Street, 10<sup>th</sup> Floor  
Wilmington, DE 19801

The Honorable Lillian Lowery  
Secretary  
Department of Education  
Townsend Building, Suite 2  
401 Federal Street  
Dover, DE 19901-3639

We have performed the procedures enumerated below, which were agreed to by the Office of Auditor of Accounts (AOA) and the specified users of the report, as identified above, and as defined within the applicable laws of the State of Delaware. The procedures were performed solely to assist the specified parties in evaluating the Department of Education's (DOE) compliance with the *American Recovery and Reinvestment Act of 2009* (ARRA) §1512 Report (§1512 Report) for the following programs:

Program	CFDA <sup>1</sup>	SAI <sup>2</sup>	Award	Federal Expenditures at June 30, 2010
State Fiscal Stabilization Fund (SFSF) – Education State Grants	84.394	S9061816	\$110,320,067	\$50,171,415
Special Education – Grants to States	84.391	S9032405	\$32,700,531	\$12,260,498
Special Education – Preschool Grants	84.392	S9032404	\$1,332,738	\$252,609
Title I Grants to Local Educational Agencies (LEAs)	84.389	S9032403	\$32,433,643	\$11,873,221

Management of the DOE is responsible for their compliance with those requirements for the period February 17, 2009 through June 30, 2010.

<sup>1</sup> Code of Federal Domestic Assistance

<sup>2</sup> State Application Identifier

The SFSF – Education State Grants program’s purpose is to support and restore funding for elementary, secondary, and postsecondary education and, as applicable, early childhood education programs and services in States and local educational agencies. The funds are used: (a) to restore State elementary and secondary education support for Fiscal Years 2009, 2010, and 2011 to the greater of the Fiscal Year 2008 or 2009 level; (b) to allow existing State formula increases to support elementary and secondary education for Fiscal Years 2010 and 2011 to be implemented and allow funding for phasing in State equity and adequacy adjustments, if such increases were enacted prior to October 1, 2008; and (c) to restore support for public institutions of higher education for Fiscal Years 2009, 2010, and 2011 to the greater of Fiscal Year 2008 or 2009, excluding tuition and fees paid by students.

The Special Education – Grants to States program’s purpose is to provide funds to State and local educational agencies, in accordance with the Individuals with Disabilities Education Act (IDEA), to help provide the special education and related services needed to make a free appropriate public education available to all eligible children and, in some cases, early intervening services. The Special Education – Preschool Grants program’s purpose is to provide grants to states to assist them in providing special education and related services to children with disabilities ages three through five years, and at a State’s discretion, to two-year-old children with disabilities who will reach age three during the school year.

The Title I Grants to LEAs program’s purpose is to help local educational agencies and schools improve the teaching and learning of children failing, or most at-risk of failing, to meet challenging State academic achievement standards. The use of funds varies, depending on whether a school is operating a schoolwide program under Title I, Section 1114 of the Elementary and Secondary Education Act of 1965 (ESEA) or a targeted assistance program under Section 1115 of the ESEA. A school with at least a 40 percent poverty rate may choose to operate a schoolwide program under Section 1114 that allows Title I funds to be combined with other Federal, State, and local funds to upgrade the school’s overall instructional program. All other participating schools must operate targeted assistance programs that provide extra instruction to those children failing, or most at risk of failing, to meet State academic achievement standards. Targeted assistance programs must ensure that Title I services supplement, and do not supplant the regular education programs normally provided with non-Federal funds by local educational agencies.

This agreed-upon procedures engagement was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and results were as follows:

***Procedure 1:*** We traced the amounts per the §1512 Report to appropriate supporting documentation and verified the amounts were accurate. We confirmed the date the §1512 Report was submitted to the federal reporting system to ensure the report was submitted timely.

**Results:** DOE over-reported the *Total Federal Amount of ARRA Expenditure* for Special Education – Preschool Grants by \$951.44, under-reported the *Total Federal Amount of ARRA Expenditure* for Special Education – Grants to States by \$7,128.35, and under-reported the *Total Federal Amount of ARRA Funds Received/Invoiced* for Title I by \$38,057.76. See Finding #1 below. The June 30, 2010, §1512 Reports were due by July 14, 2010. DOE submitted the reports timely to federalreporting.gov on July 14, 2010. However, DOE did not submit the ARRA §1512 Report and Approval Records to Delaware Office of Management and Budget (OMB). See Finding #2 below.

### **Finding #1 – Incorrect Information Reported**

#### **Criteria**

The Delaware OMB §1512 Reporting Instruction Manual states, “Data quality (i.e., accuracy, completeness and timely reporting of information) reviews required by the OMB June 22 Guidance are intended to avoid two key data problems -- material omissions and significant reporting errors. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted. Sub-recipients delegated to report on behalf of prime recipients share in this responsibility. In light of these data quality responsibilities, recipients and sub-recipients should establish internal controls to ensure completeness, accuracy and timely reporting of all amounts funded by the Recovery Act.”

#### **Condition**

The following significant reporting errors were noted:

- DOE erroneously reported the *Total Federal Amount of ARRA Expenditure* for the Special Education – Preschool Grants program resulting in an overstatement of expenditures of \$951.44. Expenditures of \$252,609.24 should have been reported as \$251,657.80.
- DOE erroneously reported the *Total Federal Amount of ARRA Expenditure* for the Special Education – Grants to States program resulting in an understatement of expenditures of \$7,128.35. Expenditures of \$12,260,498.29 should have been reported as \$12,267,626.64.
- DOE erroneously reported the *Total Federal Amount of ARRA Funds Received/Invoiced* for the Title I program resulting in an understatement of funds received of \$38,057.76. Receipts of \$11,311,645.20 should have been reported as \$11,349,702.96.

#### **Cause**

There was no procedure in place for adequate management review of the supporting documentation and §1512 report before it was submitted to federalreporting.gov.

#### **Effect**

The *Total Federal Amount of ARRA Expenditure* was overstated \$951.44 and understated \$7,128.35, and the *Total Federal Amount of ARRA Funds Received/Invoiced* was understated \$38,057.76.

#### **Recommendation**

DOE should implement a management review process to ensure that the §1512 report is free of errors before submission.

#### **Auditee Response**

The DOE recognizes the need for accuracy associated with ARRA §1512 Reporting. We have attributed the identified errors to the lack of continuity resulting from personnel turnover as well as a need for increased managerial review of the §1512 report. We have put in place a process for improved managerial review of future reporting. It is important to note however, the evaluative criteria documented within the finding indicated “...Guidance are intended to avoid two key data problems – material omissions and significant reporting errors...” My staff has analyzed the reporting errors and, in an effort

to provide clarity regarding materiality and significance of the identified reporting errors, I respectfully offer the following:

- Preschool grants program was overstated by \$951.44, which represents a 0.3% overstatement when considered as percentage of the total that should have been reported.
- Special Education – Grants to States program was understated by \$7,128.35, which represents a 0.058% understatement when considered as a percentage of the total that should have been reported.
- Title I program was understated by \$38,057.76, which represents a 0.3% understatement when considered as a percentage of the total that should have been reported.

Again, I appreciate the need for accurate reporting and DOE has taken steps to improve the accuracy of future §1512 reporting.

### **Finding #2 – Approval Record**

#### ***Criteria***

The Delaware OMB §1512 Reporting Instruction Manual states, “Prime recipients and approved delegated sub-recipients must also complete and have appropriate signed approval from the agency head for each report field prior to uploading to the federal reporting system. A form for this purpose can be located at <http://www.omb.delaware.gov/arra/index.shtml> and a copy is to be emailed to [OMB\\_ARRA1512@state.de.us](mailto:OMB_ARRA1512@state.de.us) or faxed to (302) 739-5661.” “Copies of the final spreadsheet uploaded to the federal reporting system, as well as the sign-off sheet are to be emailed to [OMB\\_ARRA1512@state.de.us/.](mailto:OMB_ARRA1512@state.de.us/)”

#### ***Condition***

DOE did not submit the ARRA §1512 Report Approval Record to OMB for the reporting period ending June 30, 2010, for any of the four programs tested as required by the Delaware OMB §1512 Reporting Instruction Manual. In addition, DOE’s supporting documents for the §1512 reports did not have discernible evidence of management review and approval.

#### ***Cause***

DOE was not aware of the requirement to send the ARRA §1512 Report Approval Record.

#### ***Effect***

The purpose of this approval form is to ensure that there are no material omissions or significant reporting errors in the quarterly report. Failure to certify the accuracy of the report does not ensure the reported information is complete and accurate. Lack of management review and clear supporting documents may leave errors undiscovered.

#### ***Recommendation***

DOE should ensure the quality of the reported data by adequately reviewing the information before submitting it to the federal government and certify the review by submitting the ARRA §1512 Report Approval Record to OMB.

#### ***Auditee Response***

The DOE recognized the need for proper ARRA §1512 Report Approval Record submission. We have put in place a process for improved managerial review of future reporting, that will assure proper report submission to the appropriate agencies.

**Procedure 2:** DOE was designated as the prime recipient for these programs and, therefore, has been responsible for reporting jobs created and retained. DOE reported 309.65 jobs for the Fiscal Stabilization

program, 66.08 jobs for the Special Education – Grants to States program, and 74.87 jobs for the Title I program. No jobs were reported for the Special Education – Preschool Grants program. DOE attempted to obtain the jobs information from all 38 school districts and charter schools; however, responses from 12 school districts/charter schools were not received. As a result, the jobs reported on the §1512 Reports are potentially understated. See Finding #3 below. In addition, supporting documentation provided by DOE did not agree to the amounts reported and contained numerous errors and omissions. See Finding #4 below. In consideration of the net effect of these errors, the number of jobs that should have been reported by DOE is unknown.

### **Finding #3 – School District/Charter School Cooperation with DOE**

#### ***Criteria***

The Delaware OMB §1512 Reporting Instruction Manual states:

#### **Data Quality Requirements**

Prior to submission to the Federal website, the Primary Recipient is responsible for ensuring that no material errors or omissions exist. A material omission is defined as “*instances where required data is not reported or reported information is not otherwise responsive to the data requests resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity.*” A significant reporting error is defined as “*instances where required data is not reported accurately and such erroneous reporting results in significant risk that the public will be misled or confused by the recipient report in question.*” **The Prime Recipient must ensure that there are no material omissions or significant reporting errors in each quarterly report.**

Data quality (i.e., accuracy, completeness and timely reporting of information) reviews required by the OMB June 22 Guidance are intended to avoid two key data problems – material omissions and significant reporting errors. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted. Sub-recipients delegated to report on behalf of prime recipients share in this responsibility. In light of these data quality responsibilities, recipients and sub-recipients should establish internal controls to ensure completeness, accuracy and timely reporting of all amounts funded by the Recovery Act.

#### ***Condition***

12 school districts/charter schools did not provide support to DOE for jobs created/retained by ARRA funds. DOE expressed concern over the reluctance and non-compliance from the districts and charter schools in reporting these figures to DOE in a timely manner.

#### ***Cause***

DOE lacks enforcement authority over the school districts and charter schools. There are no consequences to the school districts and charter schools for non-compliance with items DOE is responsible for reporting.

#### ***Effect***

Jobs created/retained by ARRA funds are potentially understated by unknown amounts.

#### ***Recommendation***

DOE should reinforce the importance of data quality requirements with the school districts and charter schools and employ the assistance of OMB and the Lieutenant Governor as needed to avoid material omissions and significant reporting errors.

***Auditee Response***

The DOE recognizes the need for accuracy associated with ARRA §1512 Reporting in general and specifically regarding jobs creation. As noted in the finding condition and cause, the DOE is limited in its enforcement capabilities. We will continue to work collaboratively with districts and charter schools in order to compel voluntary compliance to future reporting requirements.

**Finding #4 – Jobs Support**

***Criteria***

OMB memos M-09-21, M-10-08 and May 2009 memo from the Council of Economic Advisors, states that “The estimate of the number of jobs required by the Recovery Act should be expressed as full-time equivalents’ (FTE), which is calculated as total hours worked in jobs created or retained divided by the number of hours in a full-time schedule, as defined by the recipient.” The federal guidance was updated and amended on December 18, 2009, and defines jobs created or retained as “those funded in the quarter by the Recovery Act. Jobs funded with non-Recovery Act funds will not be counted unless they will be reimbursed. Jobs funded partially with Recovery Act funds will only be counted based on the proportion funded by the Recovery Act.”

***Condition***

DOE inaccurately reported jobs created and retained for all four programs tested. A spreadsheet provided by DOE did not agree to the amounts reported on the §1512 reports and contained numerous errors and omissions. After verifying the spreadsheet to supporting documents from the school districts and charter schools, the §1512 reports underreported jobs by 14.70 (net). See the table below:

	Title I	Spec. Ed. – Grants to States	Spec. Ed. – Preschool Grants	SFSF
Jobs reported per §1512 report	74.87	66.08	0	309.65
Adjusted Total Jobs per DOE support	92.74	60.58	5.22	306.76
<b>Difference of adjusted support and §1512 report (under)/over reported</b>	<b>(17.87)</b>	<b>5.50</b>	<b>(5.22)</b>	<b>2.89</b>

***Cause***

DOE could not explain the variances due to the change in personnel responsible for DOE’s §1512 reporting.

***Effect***

The jobs reported in the §1512 submissions were not accurate.

***Recommendation***

DOE should comply with the procedures to calculate the number of jobs as explained in OMB memos M-09-21, M-10-08, and May 2009 memo from the Council of Economic Advisors and retain proper supporting documentation.

***Auditee Response***

The DOE recognizes the need for accuracy associated with ARRA §1512 Reporting in general and specifically regarding jobs creation. We have attributed the identified errors to the lack of continuity resulting from personnel turnover as well as a need for increased managerial review of the §1512 report. We have put in place a process for improved managerial review of future reporting.

**Procedure 3:** Per the Delaware OMB §1512 Reporting Instruction Manual, School Districts and charter schools are designated subrecipients for purposes of ARRA reporting and are responsible for reporting directly to the federal reporting system; therefore, this procedure is not applicable to DOE.

**Procedure 4:** Program expenditures were only incurred at the School District/Charter School level; therefore, this procedure is not applicable to DOE.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on compliance with specified laws. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor's Stimulus Solutions Group and the DOE and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited. This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, the Department of Finance, and the Office of the State Treasurer.

R. Thomas Wagner, Jr., CFE, CGFM, CICA  
Auditor of Accounts

April 6, 2010

## ***Distribution of Report***

Copies of this report have been distributed to the following public officials:

### Executive Branch

The Honorable Jack A. Markell, Governor, State of Delaware  
The Honorable Matthew Denn, Lieutenant Governor, State of Delaware  
The Honorable Thomas J. Cook, Secretary, Department of Finance  
The Honorable Ann S. Visalli, Director, Office of Management and Budget  
The Honorable Lillian Lowery, Secretary of Education, Department of Education  
Mr. Kristopher Knight, Director, Division of Accounting

### Legislative Branch

The Honorable Russell T. Larson, Controller General, Office of the Controller General

### Other Elective Offices

The Honorable Joseph R. Biden, III, Attorney General, Office of the Attorney General  
The Honorable Chipman Flowers, Jr., Esq., Treasurer, Office of the State Treasurer

### Other

Ms. Dawn Haw-Young, Manager of Financial Reporting and Internal Control, Division of Accounting,  
Department of Finance  
Mr. Robert Scoglietti, Director of Policy and External Affairs, Office of Management and Budget  
Ms. Karen Field Rogers, Associate Secretary, Financial Reform and Resource Management, Department  
of Education

This report can be accessed online through the Auditor of Accounts (AOA) website at  
<http://auditor.delaware.gov>.