



Wyoming Department of Education

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MEMORANDUM NO: 2010-032

TO: School District Superintendents

FROM: Christine Steele, Director
Federal Programs Unit 

DATE: February 19, 2010

SUBJECT: Documentation of Financial Practices for Federal Funds

FOR YOUR INFORMATION

The purpose of this memo is to share the contents of a recent e-mail I received from the *Title I Monitor* listserv. A narrative summary from the e-mail is included as an attachment to remind districts of the overall importance of documentation when using federal funds.

In January, the Office of the Inspector General (OIG) released an audit of an array of federal programs of the Philadelphia School District, the eighth largest local educational agency in the country. The OIG found that nearly \$140 million in grant expenditures were either not allowed or “inadequately supported.” While the U. S. Secretary of Education may approve, reject, or amend the OIG’s recommendations, the school district’s business officer disputes the proposed findings noting that the report reflects a fundamental misunderstanding of the school district’s management of the funds. At issue are inadequate internal controls and the “supplement not supplant” federal requirement.

OIG audits are often resolved for less than the original recommended amount; however, this article is a stark reminder that **written** policies, procedures, and financial practices are critical for district use of federal funds.

The WDE Federal Programs Unit is a resource for districts that have questions or concerns. Please contact us at (307) 777-6208 for ongoing customer service. Thank you for your continued work and support of federal programs.

Enclosure



Philly Might Be Required to Repay Millions of Federal Education Dollars

Washington, Jan. 26 - The Philadelphia School District may have to return almost \$138.4 million in federal funds to the U.S. Department of Education (ED) because the money was spent on unallowable or insufficiently documented activities, the Office of Inspector General (OIG) asserted in a just-released [audit](#).

In an examination of school year 2005-06 expenditures, ED's OIG found that the eighth largest local educational agency in the country had inadequate controls in place to account for millions of federal grant funds across an array of ED programs, including Title I, Part A.

Specifically, the OIG found that nearly \$140 million in grant expenditures were either not allowed or "inadequately supported." Of this, according to the OIG, \$17.7 million was flat-out unallowable and should be returned to the U.S. Treasury. In addition, the OIG recommended that the district be required to produce "adequate documentation" on another \$121 million or return that as well.

The U.S. Secretary of Education may approve, reject or amend the OIG's recommendations.

In a response to the audit, Michael J. Masch, the school district's chief business officer, said the district "disputes most of the OIG's proposed findings," noting that the report reflects a "fundamental misunderstanding" of the school district's management of ED funds.

District officials have 30 days to respond to the findings before ED will make its final decision on the repayment amount.

Among other findings, the audit determined:

- The district needed better control over personnel expenses charged to federal grant funds, tallying up more than \$2.91 million in unallowable costs and \$107 million in inadequately supported costs;
- The district supplanted state and local funding with federal funds - a major transgression in the world of grants administration - with nearly \$7 million spent on unallowable costs and nearly \$1.3 million spent on inadequately supported costs; and
- The district lacked written policies and procedures for various financial practices.

Some of the unallowable expenditures 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," as well as "newspaper subscriptions for the Title I program office, and the purchase of two copier/printers," the report found.

Masch told the [Philadelphia Inquirer](#) that iPod expenditures were small in comparison to the overall figures cited in the audit and that the district said it used them for literacy programs. He wrote in the report that the "sheer magnitude" of the amount that may have to be repaid "would put an end to the great strides that the [district] has made in meeting the objectives of the No Child Left Behind Act."

With regard to the "supplement, not supplant" requirement, Masch said auditors failed to account for the fact the district's Title I schools operate as school wide programs and therefore had met their obligations in using federal funds. The OIG should have considered other evidence corroborating that employees did "perform the work" that was charged to the federal awards, Masch wrote in his multi-part response to the audit's findings, included at the end of the 139-page audit.

After the district responds, ED will determine if it has to send back the money. OIG audits are often resolved for less than the originally recommended amounts.

Many of the Philadelphia findings, particularly failure to properly document personnel costs, resemble those reported in previous OIG audits of large urban school systems.

- By Erika Fitzpatrick