UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

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FINAL MANAGEMENT INFORMATION REPORT
State and Local No. 07-03

To: Anne Campbell
Chief of Staff
Office of Elementary and Secondary Education

From: Helen Lew
Assistant Inspector General for Audit Services

Subject: Controls Over Hurricane Education Recovery Funding
Control Number ED-OIG/X19G0003

This purpose of this **Final Management Information Report** is to provide the U.S. Department of Education (Department), Office of Elementary and Secondary Education (OESE), with information that may be beneficial in ensuring Hurricane Education Recovery Act (Act) funds are appropriately expended. The objective of our audit was to assess the adequacy of controls over funding for three programs authorized under the Act – Immediate Aid to Restart School Operations, Temporary Emergency Impact Aid for Displaced Students, and Assistance for Homeless Youth. Congress initially appropriated $1.4 billion for these programs. Our review was limited to the initial implementation phase of these programs, or from enactment of the Act on December 30, 2005, through allocation of initial funding as of June 19, 2006.[1] We may perform additional work at a future date to evaluate subsequent activities under the grants.

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.

BACKGROUND

The Act was passed in response to the impact of Hurricane Katrina and Hurricane Rita on students who attended schools in the affected areas. The Act provides aid to schools located in Federally declared disaster areas to help them reopen as quickly as possible, and provides aid to schools that enrolled students displaced by the hurricanes.

[1] On June 15, 2006, President Bush signed into law the *Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006*. This Act appropriated an additional $235 million for the Temporary Emergency Impact Aid for Displaced Students program.

OESE is responsible for administering the programs we reviewed. A brief description of each program is provided below:

- Immediate Aid to Restart School Operations (Restart) – The purpose of this program is to assist school administrators and personnel with expenses related to the restart of operations and reenrollment of students in elementary and secondary schools. Congress appropriated $750 million for the program to assist areas in Alabama, Louisiana, Mississippi, and Texas, where a major disaster was declared due to Hurricane Katrina and/or Hurricane Rita. The Act does not specify a deadline for the expenditure of Restart funds by public or non-public schools. However, the Department has issued guidance stating that teacher salaries and utility costs for non-public schools may only be paid using Restart funds from the date services are provided through December 31, 2006, or through the end of the school year in which the school reopens.

- Temporary Emergency Impact Aid for Displaced Students (EIA) – The purpose of this program is to enable State Educational Agencies (SEAs) to make emergency impact aid payments to eligible Local Educational Agencies (LEAs), Bureau of Indian Affairs (BIA) funded schools, and non-public schools, to provide for the instruction of displaced students. Congress initially appropriated $645 million for the program to assist all States serving displaced students. Funds received under the EIA program must be obligated by September 30, 2006.

- Assistance to Homeless Youth (HY) – The purpose of this program is to provide assistance to LEAs serving homeless children and youth displaced by Hurricane Katrina and/or Hurricane Rita. Funds must be used to address the educational and related needs of these students consistent with the McKinney-Vento Homeless Assistance Act. Congress appropriated $5 million for the program. Funds received under the HY program must be obligated by September 30, 2007.

See Attachment A for details on the Department's allocations, and funds drawn down by the States for each of the programs through June 30, 2006.

OBSERVATIONS AND SUGGESTIONS

In order to assess the adequacy of controls over funding for the programs, we focused our review on the following three areas:

1. Adequacy of guidance and other communication issued,
2. Appropriateness of funding allocation methodologies used, and
3. Development and implementation of monitoring plans.

Adequacy of Guidance and Other Communication:

We found the Department issued timely guidance and other information consistent with legislative requirements. The Department responded quickly to questions and requests for clarification, and communicated information effectively through use of the *Hurricane Help for Schools* website, conference calls, site visits, and other means. The Department coordinated efforts with other agencies as needed to provide further guidance and clarification, and exercised due diligence in its policy decisions. See Attachment B for a chronology of guidance and other communications provided by the Department.

Appropriateness of Funding Allocation Methodologies:

We found the Department's allocation methodologies were appropriate and reasonable, in compliance with the requirements and flexibilities in the Act, and the calculations made were materially accurate. We found that Restart program officials validated data provided by the SEAs with similar data from the prior school year to obtain assurance of the accuracy of the data.

OESE program officials did not obtain supporting data to provide assurance of the accuracy of the displaced student counts used as the basis for allocations under both the EIA and HY programs prior to the allocation of funds. The Department instead relied upon information and certifications provided by the SEAs, which the SEAs received from the LEAs, BIA-funded schools, and nonpublic schools. Unlike the Restart program, information from prior years or other sources was not readily available for comparison with SEA submissions. Counts of displaced students are unprecedented and resulted from significant natural disasters. No data currently compiled by the Department is comparable.

However, we noted the worksheet used during EIA monitoring site visits includes a step to verify counts reported for each quarter by comparing the numbers on the individual LEA applications to the total displaced student count on the SEA application. We reviewed two completed site visit reports and found that when a discrepancy was noted, OESE asked the State to provide additional information to support the count submitted to the Department. These monitoring steps provide some assurance that funding allocations were based on accurate data.

Development and Implementation of Monitoring Plans:

We determined that monitoring activities, through site visits, conference calls, and other contacts with the SEAs, LEAs, and others, were ongoing for all three programs. Department officials also internally distributed periodic reports on the request and receipt of funds by the states through the Department's Grant Administration and Payments System. The Department worked with the Office of Inspector General (OIG) to include requirements for review of the programs in the Compliance Supplement used by state auditors and independent public accountants when conducting single audits. We also noted Restart program officials requested information regarding the State's planned distribution methodologies and efforts being made to ensure compliance with the Restart requirements and accountability for the use of Restart funds.

In January 2006, Department officials stated they were developing monitoring plans for all three programs. However, staff stated the emphasis at that time was on issuing initial guidelines and allocating the funds. As of May 2006, OESE staff developed plans for monitoring all three programs. The Restart monitoring plan was developed in February 2006, and the EIA and HY monitoring plans were developed in May 2006. We found that these plans, if implemented, would provide assurance relating to compliance with legislative and regulatory requirements. For Restart and HY, the plans also include verification of the appropriateness of use of funds. However, we found that this is currently not identified as an explicit step in the EIA monitoring plan. Reviewing grantee expenditure reports may provide further assurance that funds are being expended appropriately in accordance with legislative and regulatory requirements.

Although not specifically identified as a procedure step in any of the monitoring plans, we determined that officials with each program are considering including the review of A-133 single audit reports in their plans. These audits, mandatory for all entities receiving over $500,000 in Federal funds in a given year, are a valuable resource for information on the appropriateness of a grantee's expenditure of funds. A comprehensive review will help alert program staff to any compliance, programmatic, and/or financial management issues identified in audits of the entity.

Suggestions:

We encourage the Department to continue to obtain supporting information for the displaced student counts submitted by the SEAs during monitoring visits, to help ensure that funds allocated for the EIA and HY programs were appropriate. We encourage the Department to investigate any questionable counts, and take corrective action to reallocate obligations or request funds be returned as appropriate.

As single audit results become available, we encourage the Department to incorporate review of the audit results into the monitoring plan for each program. For EIA, we also encourage the evaluation of grantee expenditure reports during monitoring visits to provide assurance that funds are being spent appropriately.

OBJECTIVE, SCOPE, and METHODOLOGY

The objective of our audit was to assess the adequacy of controls over funding for three of the programs authorized under the Hurricane Education Recovery Act. To accomplish our objective, we performed a review of internal control applicable to the Department's administration and management of the initial appropriations under the programs. We reviewed relevant Office of Management and Budget circulars, requirements in the Education Department General Administrative Regulations, applicable sections of the Elementary and Secondary Education Act, and *Standards for Internal Control in the Federal Government* published by the Government Accountability Office. We reviewed the legislation, guidance, communications, and other materials provided by Department staff or posted on its *Hurricane Help for Schools* website. We

conducted interviews with Department officials to obtain information and an understanding of the programs.

In evaluating these programs, we employed sampling to evaluate the accuracy of the Department's allocations of funding. For our review of the Restart program, incremental sampling was used to verify that data from the National Center for Education Statistics (NCES) was accurately reported by the Department in its analysis of student counts for closed schools. To do this, we judgmentally selected every 10th school for a sample of 10 percent of the public schools and 10 percent of the non-public schools reported as closed in each State and confirmed the student enrollment data contained in NCES. We employed this sampling method to obtain a representative, unbiased sample to evaluate the accuracy of the Department's process. We found that the data matched exactly for all of the schools confirmed.

We employed judgmental sampling in our review of allocations made under the EIA program. Based on data provided by the Department, we determined 8 of the 50 SEAs that applied for funds under the program accounted for over 90 percent of the total number of displaced students reported for the first two quarters. Validation of the allocations to only these eight states was selected to ensure the accuracy of the largest amount of funding provided. We compared the allocations made by the Department to the student counts on the SEA applications received and found that the allocations were materially accurate. We noted one immaterial error, and brought it to the attention of OESE staff who stated they would correct the error in a subsequent allocation.

We did not perform any sampling specific to the HY program, as EIA data was used to determine States' allocations under this program. However, to validate the accuracy of the calculations used to allocate funds, we compared award data to previously provided displaced student counts. The Department stated that it allocated funds to the states that reported over 5,000 total displaced students in the first two quarters. We confirmed this methodology by evaluating the EIA allocation worksheet to verify that only states that met this criterion were included in the HY allocations. We further compared data in the EIA allocation worksheet to source data from initial applications and noted no exceptions.

We relied on computer-processed data obtained from OESE to verify student enrollment totals and NCES data. This data included worksheets OESE developed to determine whether 2004-2005 school year totals, as reported by the States, were reasonable when compared to the NCES data. We verified the completeness and accuracy of this data by performing our own comparison of NCES data for a sample of schools with that in the OESE worksheets. We also validated the figures in the OESE-developed worksheets to applications received from the states that were the basis of the EIA and HY funding allocations. Based on our testing, we concluded that the computer-processed data were sufficiently reliable for the purposes of our audit.

We conducted fieldwork at Department offices in Washington, DC, during the period February 24, 2006, through July 6, 2006. We provided OESE officials with information that would be presented in a draft Management Information Report during an exit conference held on October 4, 2006. We reflected their comments, as appropriate, in the draft report. OESE did not provide any further comments on the draft report that was subsequently issued. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

Should you have any questions, please contact Michele Weaver-Dugan, Director, Operations Internal Audit Team, at (202) 245-6941.

Attachments

cc: Hudson La Force, Special Counselor to the Secretary
Dolores Warner, Audit Liaison Officer, OESE

Attachment A: Hurricane Education Recovery Act Funding
as of June 30, 2006

The following data was extracted from a report provided by the Office of the Chief Financial Officer. "Amount Obligated" represents the amounts allocated by the Department. "Amount Expended" represents amounts drawn down by the States.

Immediate Aid to Restart School Operations FY2006 Appropriation = $750,000,000	**Amount Obligated**	**Amount Expended**
Alabama	$3,750,000.00	$1,037,089.63
Louisiana	$445,604,439.00	$20,585,363.75
Mississippi	$222,492,681.00	$91,756,529.40
Texas	$78,152,880.00	$25,582,108.67
Totals as of June 30, 2006	**$750,000,000.00**	**$138,961,091.45**

Assistance for Homeless Youth FY2006 Appropriation = $5,000,000	**Amount Obligated**	**Amount Expended**
Alabama	$247,065.00	$0.00
Arkansas	$107,160.00	$107,000.00
Florida	$196,433.00	$0.00
Georgia	$389,087.00	$0.00
Louisiana	$1,563,787.00	$0.00
Mississippi	$687,357.00	598.32
Tennessee	$122,454.00	14,637.52
Texas	$1,686,657.00	$0.00
Totals as of June 30, 2006	**$5,000,000.00**	**$122,235.84**

Temporary Emergency Impact Aid for Displaced Students FY2006 Appropriation = $880,000,000[2]	**Amount Obligated**	**Amount Expended**
Alaska	$160,695.00	$109,750.00
Alabama	$26,722,410.00	$19,108,250.00
Arkansas	$11,104,072.00	$11,104,072.00
Arizona	$1,769,550.00	$1,210,220.00
California	$3,425,461.00	$0.00
Colorado	$3,156,392.00	$2,196,642.34
Connecticut	$343,836.00	$243,190.00
District of Columbia	$291,000.00	$0.00
Delaware	$166,442.00	$12,000.00
Florida	$19,866,404.00	$16,171,809.00

[2] The total appropriation amount includes the $645 million originally appropriated under the Hurricane Education Recovery Act and the additional $235 million appropriated on June 15, 2006, under the *Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006,* for a total of $880 million. Our scope included only the original appropriated funds, so this information is presented as of that time period.

Temporary Emergency Impact Aid for Displaced Students (Continued)	Amount Obligated	Amount Expended
Georgia	$40,368,863.00	$28,592,373.59
Iowa	$932,137.00	$696,750.00
Idaho	$37,235.00	$0.00
Illinois	$3,295,749.00	$2,240,500.00
Indiana	$2,027,168.00	$1,278,500.00
Kansas	$1,204,804.00	$910,000.00
Kentucky	$2,740,576.00	$1,964,687.50
Louisiana	$212,202,470.00	$82,827,992.70
Massachusetts	$781,017.00	$489,250.00
Maryland	$3,043,302.00	$2,302,750.00
Maine	$162,609.00	$90,250.00
Michigan	$2,054,254.00	$0.00
Minnesota	$1,007,292.00	$850,843.22
Missouri	$4,239,666.92	$4,150,483.00
Mississippi	$75,243,783.00	$32,741,993.32
Montana	$84,319.00	$60,750.00
North Carolina	$5,726,124.00	$1,644,134.74
North Dakota	$21,900.00	$19,000.00
Nebraska	$638,838.00	$444,586.09
New Hampshire	$150,568.00	$150,568.00
New Jersey	$1,044,922.00	$373,631.05
New Mexico	$385,994.00	$0.00
Nevada	$1,104,873.00	$48,888.00
New York	$1,219,027.00	$207,750.00
Ohio	$2,254,384.00	$1,507,421.50
Oklahoma	$3,579,627.00	$3,579,627.00
Oregon	$308,526.00	$126,347.25
Pennsylvania	$1,364,945.00	$0.00
Rhode Island	$170,276.00	$27,949.97
South Carolina	$3,106,020.00	$3,106,020.00
South Dakota	$138,798.00	$101,750.00
Tennessee	$13,947,135.00	$5,654,532.38
Texas	$185,785,348.00	$78,243,251.84
Utah	$395,855.00	$0.00
Virginia	$4,636,575.00	$3,298,185.00
Vermont	$32,850.00	$0.00
Washington	$1,077,508.00	$734,827.52
Wisconsin	$1,068,464.00	$756,000.00
West Virginia	$78,570.00	$25,000.00
Wyoming	$58,035.00	$40,000.00
Totals as of June 30, 2006	**$644,726,668.92**	**$309,442,527.01**

Attachment B: Chronology of Guidance Issued and Other Significant Communications[3]

Date	Description
December 20, 2005	*Critical Items for SEAs to Know Early for Implementation of Emergency Impact Aid for Displaced Students* issued.
December 30, 2005	Enactment of the *Hurricane Education Recovery Act*.
December 30, 2005	Letter from Secretary of Education to State School Officers regarding passage of the Act and providing information on the new grant programs.
January 5, 2006	Email sent to States regarding the status of Emergency Impact Aid application documents, student count dates, and anticipated payment amounts for the first quarter.
January 6, 2006	Frequently Asked Questions (FAQ) issued for the Restart Program.
January 10, 2006	FAQ issued for the Homeless Youth program.
January 11, 2006	Dear Colleague Letter issued announcing that ED is accepting grant applications from State Educational Agencies under the Emergency Impact Aid and the Homeless Youth programs.
January 12, 2006	Notice in the *Federal Register* announcing availability of funds and application deadline for the Emergency Impact Aid and the Homeless Youth programs.
January 12, 2006	FAQ Volume I issued for the Emergency Impact Aid program.
January 20, 2006	Email sent to States regarding income criteria to be used in determining eligibility of non-public school students for Emergency Impact Aid funds.
February 1, 2006	*Uses of Funds under the Restart Program* issued.
February 2, 2006	FAQ Volume I Revised issued for the Emergency Impact Aid program.
February 10, 2006	Follow-up email with answers to States' supplemental questions on *Uses of Funds under the Restart Program* sent to State officials.
March 5, 2006	Email sent to States receiving funds under the Emergency Impact Aid program advising them on the recording of funds, and urging them to maintain separate accounts at the State and local levels.
March 16, 2006	*Allowable Uses of Restart Funds For Private Schools* issued.
March 16, 2006	Email sent to States receiving funds under the Emergency Impact Aid program informing them that the legislation prohibits Local Education Agencies applying for regular Impact Aid funds from claiming the same students for both of these programs (included a list of applicants for the regular Impact Aid Program for FY 2007).
March 24, 2006	Conference call between the Department, States, and private school officials regarding questions and/or concerns on *Allowable Uses of Restart Funds for Private Schools*.

[3] This attachment presents significant communications, but does not represent all communication regarding the programs.

Date	Description
March 29, 2006	FAQ Volume II issued for the Emergency Impact Aid program.
April 19, 2006	Emergency Impact Aid monitoring site visit to Washington, DC.
April 24, 2006	Revised *Allowable Uses of Restart Funds For Private Schools* issued.
April 25, 2006	Conference call between the Department, States, and private school officials regarding questions and/or concerns on Revised *Allowable Uses of Restart Funds for Private Schools*.
May 8, 2006	Emergency Impact Aid monitoring site visit to Maryland.
May 9, 2006	Emergency Impact Aid monitoring site visit to Virginia.
May 9, 2006	Follow-up email with answers to States' supplemental questions on Revised *Allowable Uses of Restart Funds for Private Schools* sent to State officials.
May 9, 2006	Conference call between the Department, Archdiocese of New Orleans, and Louisiana Department of Education regarding the administration of Restart funds to private schools.
May 11-12, 2006	Joint Restart/Emergency Impact Aid monitoring site visit to Louisiana.
May 13, 2006	Email sent to States receiving funds under the Emergency Impact Aid program reiterating some of the guidance provided on allowable uses of funds, as well as tracking and documenting expenditures, particularly at the local level.
May 19, 2006	Emergency Impact Aid monitoring site visit to North Carolina.
May 22-23, 2006	Joint Restart/Emergency Impact Aid monitoring site visit to Mississippi. Homeless Youth also visited Tennessee during this week.
May 23, 2006	Emergency Impact Aid monitoring site visit to Michigan.
May 25, 2006	Emergency Impact Aid monitoring site visit to Missouri.
June 11-12, 2006	Joint Restart/Emergency Impact Aid monitoring site visit to Texas.
June 29, 2006	Emergency Impact Aid monitoring site visit to Tennessee.