

INTERNAL CONTROL STUDY
OF THE
AWARDING OF GRANTS TO REGIONAL EDUCATION SERVICE AGENCIES
BY THE
WEST VIRGINIA DEPARTMENT OF EDUCATION
FOR THE PERIOD
JULY 1, 1993 - MAY 24, 1996

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance



Theodore L. Shanklin, CPA, Director
Legislative Post Audit Division
Building 5, Room 751A
Capitol Complex

Area Code (304)
Phone: 347-4880
Fax: 347-4889

CHARLESTON, WEST VIRGINIA 25305

• The Joint Committee on Government and Finance:

We were asked by the Post Audit Subcommittee of the West Virginia Legislature to perform a study of the internal control structure over grant awards made by the West Virginia Department of Education. Our study covered the period July 1, 1993 through May 24, 1996. The results of our study are set forth on the following pages of this report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Theodore L. Shanklin".

Theodore L. Shanklin, CPA, Director
Legislative Post Audit Division

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EXIT CONFERENCE

We held an exit conference on September 10, 1996 with the Deputy State Superintendent of Schools, the Director of Administrative Services (Assistant State Superintendent) and other representatives of the West Virginia Department of Education. All deficiencies were reviewed and discussed.

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INTRODUCTION

The Legislative Post Audit Division was asked by the Post Audit Subcommittee of the West Virginia Legislature to perform a study of the internal control structure surrounding the awarding of grants by the West Virginia Department of Education. Due to the significant number of grants made by the West Virginia Department of Education during the study period from July 1, 1993 through May 24, 1996 and the established time frame for submission of the report to the Post Audit Subcommittee during the July 1996 interim meetings, we determined the scope of the study should be limited to grants made to the Regional Education Service Agencies (RESAs) consistent with the directives of the committee. The objective of this study was to determine whether the internal control structure of the State Department of Education is effectively designed to prevent grant monies awarded to the RESAs from being utilized by the State Department of Education or any of its employees in a way which circumvents the purchasing procedures of the West Virginia Department of Administration.

Under the authority of Chapter 18, Article 2, Section 26 of the West Virginia Code, the State Board of Education established eight multi-county service agencies to be known as "Regional Education Service Agencies" during the 1972-73 school year. The purpose of these multi-county service agencies is to consolidate

and more effectively administer existing regional education programs and to equalize and extend educational opportunities. To accomplish these goals the State Department of Education awards Federal and State monies as grants to the eight RESAs. With these funds, each RESA is able to provide to each county school system within its educational region a variety of services designed to deliver a higher quality of education. These services include coordination of adult education and special education programs at the school level; implementation of a uniform, integrated regional computer information system for data collection and financial reporting called the West Virginia Education Information System; training teachers in the utilization of new technologies and multi-media materials as teaching tools; assisting in the professional development of teachers; serving as the lead agency for computer installation; as well as, maintenance and repair for the Basic Skills Computer Program. Under rules and regulations promulgated by the State Board of Education, the fiscal agent for each RESA shall be one of the county boards of education comprising the RESA. The county board of education which is selected as the RESA's fiscal agent shall receive and disburse funds in accordance with policies adopted by the board of directors of the RESA and the State Board of Education.

PURPOSE OF AN INTERNAL CONTROL STRUCTURE IN GOVERNMENT

A governmental entity's internal control structure is defined as the policies and procedures established to provide reasonable assurance that specific entity objectives will be

achieved. An internal control structure consists of three elements: (1) the control environment which denotes the agency's overall attitudes, actions and awareness concerning the emphasis and importance of controls; (2) the accounting system which is the agency's method of recording and processing transactions; and (3) the control procedures which are the specific methods designed to develop a system of checks and balances to ensure ACCOUNTABILITY.

A governmental entity is accountable to the public and to other levels and branches of government for the resources provided to administer government programs and services. The resources provided to that particular governmental entity should be administered in accordance with applicable laws and administrative regulations. The resources should be applied efficiently, economically and effectively.

An effective internal control structure for a governmental entity should ensure that goals and objectives of the agency are met, resources are safeguarded, laws and regulations are followed and that reliable data are obtained, maintained and fairly disclosed.

METHODOLOGY

Information concerning the awarding of grant monies to Regional Education Service Agencies for the period July 1, 1993 through May 24, 1996, was obtained by researching applicable sections of the West Virginia Code, as well as, policies and procedures established by the State Department of Education, and reviewing agency records and interviewing the appropriate agency

personnel. A random sample of 50 grant awards were selected for review based on the total number of 560 grants totaling \$23,795,175.08 awarded to RESAs during the period July 1, 1993 through May 24, 1996.

We documented our understanding of the internal control structure established by the State Department of Education for the handling of grant awards before reviewing selected grant awards to determine the adequacy of the internal control structure. We developed our understanding of the internal control structure by reviewing the written grant procedures adopted by the State Department of Education and interviewing the administrative officials within the Department responsible for the handling of grant awards. We questioned agency personnel involved in the grant award process focusing our attention on the programmatic aspects, as well as, the accounting aspects. Programmatic aspects refer to the level of program monitoring performed by the State Department of Education to ensure the proper expenditure by the respective RESA of grant monies in accordance with the individual grant award.

Based on our understanding of the internal control structure, we developed a statistical sampling plan to select a random sample of grant awards for review. We then reviewed selected grant awards to determine whether grant monies were being handled in accordance with the policies and procedures adopted by the State Department of Education. The records we reviewed for each grant award selected included the application submitted by the RESA applying for grant monies, notification of grant award,

requests for funds submitted by the RESA, and the final grant financial report submitted by the RESA after all grant monies had been spent summarizing expenditure of grant monies by type. Our review was designed to identify deficiencies in the internal control structure based on our understanding of grant procedures and review of grant awards. We stress that only DEFICIENCIES in the internal control structure were identified. Since we did not perform an audit of the grants awarded by the State Department of Education to Regional Education Service Agencies, failures in the system of internal controls were not identified.

SUMMARY OF DEFICIENCIES NOTED AND RECOMMENDATIONS

We noted the following deficiencies in the internal control structure:

1. The level of program monitoring performed by the West Virginia Department of Education with respect to grants awarded to RESAs may not be adequate to ensure the proper expenditures of grant monies in accordance with the respective grant awards. During the study period from July 1, 1993 through May 24, 1996, the State Department of Education processed 560 grant awards to the eight RESAs totaling \$23,795,175.08 consisting of 299 grants amounting to \$16,266,164.75 which were made from State funds and 261 grants totaling \$7,529,010.33 from Federal funds. These 560 grants were separate and distinct from the \$11,147,380.00 of School Aid Formula monies remitted to the RESA's during this period to pay salaries and fringe benefits for employees of the eight RESA's. We noted the Department of Education currently has in place a performance-based accreditation system where on-site reviews are conducted of all school districts (county boards of education and local schools) on a cyclical basis to determine whether a school district is worthy of accreditation status. However, our review does not indicate a similar type of on-site accreditation review is conducted on a cyclical basis specifically targeted to the RESAs.

Also, single audits are performed on an annual basis by the Chief Inspector's Office of the West Virginia

Department of Tax and Revenue or by independent CPA firms of all county boards of education and Regional Education Service Agencies. While State funds are included within the scope of such audits, our review of a limited number of the audit reports and audit contracts indicate these audits probably focus more primarily on the expenditures of Federal monies, particularly in regard to audits of the RESAs.

We Recommend:

An on-site accreditation review process should be initiated specifically targeted to the administrative and financial policies, procedures and activities of the RESAs. Also, the State Department of Education should require the administrative personnel of the RESAs to include language requiring audit procedures designed to test the expenditure of State grant funds in accordance with the respective grant awards when contracting with the Chief Inspector's Office or independent CPA firms performing their annual audits.

2. There is lack of segregation of duties within the system of program monitoring established by the State Department of Education. We noted each program office responsible for awarding grants handles its own program monitoring. Therefore, the same officials within the State Department of Education who actively work with and coordinate grant awards with the individual RESAs have the functional responsibility of performing monitoring of the use of the same funds by the RESAs. We believe the current system does not sufficiently reduce the probability of grant funds to be used in an improper manner. In 1994, a former employees of the State Department of Education was identified through a special investigation as having circumvented the State of West Virginia's and Department of Education's purchasing practices by buying computer equipment and software from local vendors and having the invoices paid through a grant award to a County Board of Education. In response to this situation, the State Superintendent of Schools issued a memorandum to all department staff, RESA Executive Directors and County School Superintendents dated June 27, 1994, which states in part,

*4. Grant awards to RESAs or county boards of education are not to be issued for the employment of personnel housed in the Department or who works directly for the Department.

5. Equipment cannot be purchased for the Department through a grant award. Also, no product or direct service to the Department can be provided with the grant award.^a

We believe the program monitoring procedures could be more effectively designed to determine whether the prohibitions contained in the Superintendent's memorandum are being complied with.

We Recommend:

The responsibility for program monitoring should be rotated among the different program offices. Program offices responsible for administering certain grant programs should not also be responsible for monitoring the expenditure of grant monies under these same programs. Alternatively, a separate program monitoring unit could be considered who would have no responsibilities in the area of initiating, awarding or processing grant awards.

RECOMMENDATIONS FOR IMPROVING INTERNAL CONTROLS

The first deficiency noted in the preceding section is the potential weaknesses of the current system of program monitoring performed by the State Department of Education to ensure the proper expenditure of grant monies through grants awarded to Regional Education Service Agencies. The State Department of Education relies primarily on periodic financial reports submitted by the RESAs and audits of RESAs performed in accordance with the Federal Single Audit Act by external audit agencies to ensure the proper expenditure of grant monies.

We recommend the State Department of Education take a more active role in tracking the expenditure of state grant monies by the RESAs by having monitoring teams perform on-site reviews of the RESAs as part of the performance-based accreditation system established by the State Board of Education. We also recommend

that the State Department of Education participate in the contracting process between each RESA and the audit agency selected to perform the annual single audit of the RESA to ensure proper coverage of expenditures of State grant monies.

The second deficiency deals with the lack of a segregation of duties within the State Department of Education's system of program monitoring. Under the present system of program monitoring, a program office responsible for administering various grant programs is also responsible for monitoring all funds awarded to ensure grant monies have been properly expended. This situation results in a weakness in the internal control structure because officials who play an integral part of initiating grant awards are in turn responsible for monitoring the use of the grant funds. During the course of our review we have noted that the State Department of Education has made efforts to implement a system of internal controls to prevent the misapplication of grant monies. However, we believe the current system of internal controls can be further strengthened to insure the proper expenditure of grant monies.

In 1994, an investigation performed by special investigators assigned to the Commission on Special Investigations revealed weaknesses in the State Department of Education's internal control structure over grant awards through the discovery of the misapplication of grant monies by a program director. It appears the program director would override the system of internal controls by manipulating the grant awards process to his advantage under the

authority established by his position. The program director would directly contact the administrative officials of certain county boards of education awarded grants by his office and instruct these officials to purchase different types of equipment for his own use with the grant monies awarded by his office. Once this misapplication of funds came to the attention of the administrative personnel of the State Department of Education, a new system of internal controls was implemented over the awarding of grants to prevent this situation in the future. Steps taken by the Department of Education to strengthen internal controls included establishing written grant procedures in the form of a memorandum dated June 27, 1994, from the State Superintendent of Schools which was circulated to each program director, appropriate accounting personnel, treasurer of each county board of education, and director of each Regional Education Service Agency; informing each county board of education and RESA that the Department of Education or any personnel employed by the Department of Education cannot directly benefit from the expenditure of grant monies awarded to a county board of education or RESA; and placing more emphasis on on-site reviews conducted of each school district on a cyclical basis to make the State Department of Education aware of any existing problems with a school district which are in conflict with the policies and procedures adopted by the State Department of Education.

To further ensure the situation described above does not reoccur and to further strengthen the internal control structure, we recommend that the State Department of Education assign the function of monitoring the expenditure of grant monies to a program office not responsible for administering the grant programs from which the grant monies were awarded.

STATE OF WEST VIRGINIA

OFFICE OF LEGISLATIVE AUDITOR, TO WIT:

I, Thedford L. Shanklin, CPA, Director of the Legislative Post Audit Division, do hereby certify that the report appended hereto was made under my direction and supervision, and that the same is true and correct copy of said report.

Given under my hand this 15th day September, 1996.

Thedford L. Shanklin

Thedford L. Shanklin, CPA, Director
Legislative Post Audit Division

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copies forwarded to the West Virginia Department of Education; Governor; Attorney General; and, State Auditor.