FCPS Audit Report: 20-1101 – Performance Audit of Grants Administration, Accounting, and Monitoring

February 2020

Prepared by

Office of Auditor General

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Executive Summary

This audit report summarizes the results of the Office of Auditor General’s (OAG) performance audit of Grants Administration, Accounting, and Monitoring controls and processes in place to support grant activities, including compliance with laws, rules, and regulations, as well as performance within selected departments and schools. The audit was performed in accordance with the Fiscal Year (FY) 2020 Audit Plan approved by the Fairfax County School Board.

The primary objectives of the audit were to perform the following:

- Determine if there is an adequate management control framework in place with respect to governance and internal control to effectively support grant related activities
- Review and assess proper use and allocation of grant funds and compliance with the related grant terms and conditions

Areas of potential risk include the lack of a comprehensive process within FCPS to identify relevant grant opportunities, monitor grant supported project performance, and meet compliance requirements.

Based on our review, FCPS has a framework in place to support division-wide grant activities, with Regulation 5970, Grants, providing authoritative guidance, and the Grants Manual and grants website providing additional guidance and information on specific grant processes and procedures. Separately, FCPS grants are subject to oversight by various entities, including grantor agencies and external auditors. All FCPS federal awards are also subject to audit as part of the Fairfax County Government Single Audit. While the FCPS framework provides for a heightened level of assurance that division-wide objectives are being met, FCPS can improve its control environment by clarifying, updating, and consistently applying existing grants processes and guidance, better documenting key grant information, and developing a formal methodology for assessing division-wide and grant specific risks (Finding 1). Additionally, while OAG did not identify any grant funds being used improperly, we identified two instances of non-compliance with grant terms and conditions (Finding 2).

As a result of this audit, OAG made a total of five recommendations:

1. **Financial Services Grant Team** review and assess Regulation 5970, the FCPS Grants Manual, and other grants guidance to ensure current guidance over grants management is clear, adequate, and reflects current processes (Condition 1.A.)
2. **Financial Services Grant Team** document key grant information in a centralized repository for all currently active and newly awarded grants (Condition 1.B.)
3. **Financial Services Grant Team** develop and implement a methodology to assess division-wide and specific grant risks (Condition 1.C.)
4. **VPSA Educational Technology Notes Grant Program Manager** coordinate with **Financial Services** to ensure, if applicable, a reimbursement resolution is adopted for future note proceeds (Condition 2.A.)
5. **Financial Services Grant Team** provide additional training to ensure that grant program managers, who hold the ultimate fiscal and legal authority and responsibility on a grant, are familiar with grant terms and conditions (Condition 2.A.- B.)

Management concurs with these recommendations and will implement corrective actions during FY 2020 and FY 2021, as described in the management responses.
Background, Scope and Objectives, and Methodology

Background

FCPS defines a grant as any external funding awarded in response to an application or proposal where funding is designated for a specific purpose, has reporting requirements, and usually requires funds be expended within a specific timeframe. In general, a grant provides resources for a specific purpose that, once awarded, becomes a contractual agreement between FCPS and the grantor.

FCPS receives grants from federal, state, and local government agencies, private foundations, nonprofit organizations and charities, and privately and publicly held corporations. The types of grants received include formula grants (e.g., Titles I-IV, Individuals with Disabilities Education Act (IDEA), Impact Aid) and competitive grants. Formula grants are noncompetitive awards awarded by government agencies while competitive grants are awarded by government agencies, foundations, nonprofits, or corporations.

Regulation 5970, Grants, the FCPS Grants Manual, and the grants website provide overall grants management guidance for the division. Regulation 5970 establishes guidelines and procedures for the development, management, and administration of grants. The Grants Manual further elaborates on specific processes and procedures for the various phases of the Grants Life Cycle, from pre-award processes through award closeout. The grants website includes a variety of information related to grants, including links to reference materials such as federal grant regulations, FCPS and Virginia travel regulations, frequently asked questions, and resources for finding grants. In addition to grant specific guidance, grant program managers must follow all FCPS regulations related to employment, financial management, procurement, reporting, and record retention.

While the Financial Services grant team provides general guidance and support for all grants, per Regulation 5970, grant applications that meet any one of the following criteria are deemed appropriated grants and must be submitted to grants development for content review, budget approval, and verification of application criteria prior to submission to the grantor:

a. Funding of $5,000 or more, including both FCPS and non-FCPS resources  
b. Federal or state funds, regardless of amount  
c. Research grants  
d. Financial matches  
e. Funding for positions, including part-time or hourly  
f. In-kind funding or service contribution  
g. Collaborative grants with agencies, organizations, or other school systems

Local School Activity Funds (LSAF) grants are smaller, individual school grants which do not meet the above criteria. LSAF grants must be reviewed and approved by the school principal prior to applying. While LSAF grants are still subject to FCPS compliance requirements, where applicable, Regulation 5970 recommends that LSAF grant recipients consult with the grant compliance team if there are questions or issues regarding compliance with the terms of a grant.

During FY 2019, FCPS managed a total of 127 appropriated grants, with 60% being derived from governmental sources, including federal, state, and local governments, and 40%
originating from private or other sources. While federal pass-through grants, or grants where FCPS is a subgrantee to a pass-through entity, generally the Commonwealth of Virginia, make up only 31% of the total active FY 2019 grants, these grants account for the majority of grant-related expenditures.

Appropriated grant revenue, which closely correlates with expenditures, increased over the previous five fiscal years, from approximately $89 million in FY 2015 to over $110 million in FY 2019.
FCPS grants are subject to oversight by various entities, including grantor agencies and external auditors. Grantor agencies may conduct audits of awards made to FCPS. Federal awards (directly from a federal agency, as well as those flowing through the Commonwealth of Virginia) are subject to Single Audit, or Subpart F of the OMB Uniform Guidance. Single audits are performed by independent auditors and involve both financial and compliance components. FCPS Single Audit is part of the Fairfax County Government Single Audit. Additionally, OAG is authorized to audit or review any FCPS grant.

Organizational Structure

Grants management at FCPS involves two groups with supplemental responsibilities, the Department of Financial Services grant team and the grant project team or “grantee”. These responsibilities are outlined below.

Financial Services Grant Team

The cross-functional Financial Services grant team, consisting of grants development, grants budgeting, grants compliance, and grants accounting functions, supports division-wide grants management by working together as a cohesive unit, implementing the total grant process from the pre-award stage to the final close-out stage. The mission of the grant team is to support the School Board’s Strategic Plan, Ignite, Portrait of a Graduate, and other school system initiatives by obtaining grant funding from federal, state and private sources to help supplement the FCPS budget.

Source: FCPS Grants Manual

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1 2 CFR Part 200 - Uniform Administrative Requirements, Cost Principles, And Audit Requirements for Federal Awards
Grant Project Team

The grant project team consists of department or school personnel who are responsible for the implementation of a grant according to the terms and conditions. The team should typically consist of, at a minimum, a project director, program manager, and a financial assistant or analyst.

Grant program managers hold ultimate fiscal and legal authority and responsibility on a grant while project directors are responsible for the day-to-day administration of the grant. The project director implements the grant award, monitors progress toward stated objectives, and ensures compliance with regulations and policies.

Overview of the Grants Management Process

Grants management has two distinct phases, pre-award and post-award. Components of the pre-award phase, as described below, revolve around developing, identifying, and obtaining grant opportunities. The post-award phases include day-to-day activities which involve implementing and meeting programmatic and administrative requirements.

Grant Life Cycle

Source: FCPS Grants Manual
Pre-Award Phase

While any FCPS employee may identify grant opportunities, the grants development section in the Office of Budget Services coordinates this activity on behalf of the school division. The FCPS Grants Manual describes the various pre-award phase components as follows:

1. **Project Development**: recognizing a need, establishing goals, identifying an opportunity.

2. **Identify Funding**: finding a funding source that aligns with the need.

3. **Proposal Preparation**: developing a proposal narrative and budget, obtaining supporting documents and leadership approval.

4. **Proposal Submission**: submitting an application and receiving the award.

Post-Award Phase

Once a grant is awarded, the Office of Budget Services and the Office of the Comptroller provide central administrative services and oversight while the grant project director manages daily operations. The FCPS Grants Manual describes the various post-award phase components as follows:

5. **Project Start Up**: setting up the program in FOCUS if the award value is $5,000 or meets any of the appropriated grant criteria.

6. **Award Management**: implementing the project, managing the program and budget, complying with FCPS rules and regulations as well as the terms and conditions of the grant award and organization, evaluating the program, reporting on project obligations, submitting reimbursements if required by the program.

7. **Award Closeout**: completing and closing out the grant.

Scope and Objectives

We conducted this audit in accordance with generally accepted government auditing standards, with the exception of peer review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit focused on appropriated grants for the period from FY 2018 to FY 2019; however, OAG reviewed documents, such as grant award letters and terms and conditions which may pre-date FY 2018.

The objectives of the audit were to:

- Determine if there is an adequate management control framework in place with respect to governance and internal control to effectively support grant related activities
- Review and assess proper use and allocation of grant funds and compliance with the related grant terms and conditions
Internal Controls

Generally Accepted Government Auditing Standards (GAGAS) establish that internal control is a process effected by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. GAGAS further provides that management is responsible for designing, implementing, or maintaining internal control. Ultimately, internal controls provide reasonable, but not absolute assurance, that the organization’s goals will be achieved.

As internal controls were significant to the context of the audit objectives, OAG obtained an understanding of the control environment by reviewing both authoritative and non-authoritative guidance and developing procedures to evaluate the design, implementation, and operating effectiveness of existing controls. Deficiencies in the control environment are documented in Finding 1.

Methodology

To achieve our audit objectives, OAG:

- Reviewed grant control and audit guidance as prescribed by Government Finance Officers Association (GFOA) and The Institute of Internal Auditors (IIA)
- Interviewed FCPS grant team staff, including grants development, grants budgeting, grants compliance, and grants accounting
- Reviewed and evaluated Regulation 5970, FCPS Grants Manual, and other internal guidance
- Obtained and reviewed grant population from grants compliance
- Validated grant population to FOCUS and other relevant sources
- Requested and reviewed preliminary internal control questionnaires completed and submitted by sample of grant project team staff
- Reviewed Fairfax County Government Single Audit reports for FY 2018 and FY 2019
- From population of grants provided by grants compliance, judgmentally selected a sample of 30 grants, considering attributes such as grant type (federal, state, and other), expenditures, managing department, and Single Audit results
- For sample of grants, obtained and reviewed award documents from grants development
- For sample of grants, obtained and reviewed general ledger records from FOCUS
- For sample of grants, interviewed FCPS departmental and school-based staff who are responsible for decentralized grant activities
- For sample of grants, obtained and reviewed supporting documents from departmental and school based staff

The judgmentally selected sample of 30 grants allowed for the audit team to assess both the centralized grant team roles and responsibilities as well as decentralized responsibilities of the departments and schools for various grant types. This sample was selected from a population of 190 grants active in either FY 2018 or FY 2019, or both years. This sample also allowed for the audit team to review documents associated with the entire life-cycle of a grant, from pre-award phase components to close-out.
Audit Findings, Recommendations, and Management’s Responses

The finding(s) within this report has been attributed a risk rating in accordance with established risk criteria as defined in Table 1.

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<thead>
<tr>
<th>Type</th>
<th>Description</th>
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<tbody>
<tr>
<td>High</td>
<td>One or more of the following exists:</td>
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<tr>
<td></td>
<td>• Controls are not in place or are inadequate.</td>
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<td></td>
<td>• Compliance with legislation and regulations or contractual obligations is inadequate.</td>
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<td></td>
<td>• Important issues are identified that could negatively impact the achievement of FCPS program/operational objectives.</td>
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<td>Moderate</td>
<td>One or more of the following exists:</td>
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<td></td>
<td>• Controls are in place but are not sufficiently complied with.</td>
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<tr>
<td></td>
<td>• Compliance with subject government regulations, grant terms and conditions, or FCPS policies and established procedures is inadequate, or FCPS policies and established procedures are inadequate.</td>
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<tr>
<td></td>
<td>• Issues are identified that could negatively impact the efficiency and effectiveness of FCPS operations.</td>
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<td>Low</td>
<td>One or more of the following exists:</td>
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<td></td>
<td>• Controls are in place but the level of compliance varies.</td>
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<tr>
<td></td>
<td>• Compliance with government regulations, grant terms and conditions, or FCPS policies and established procedures varies.</td>
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<tr>
<td></td>
<td>• Issues identified are less significant but opportunities exist that could enhance FCPS operations.</td>
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Finding 1 - FCPS Can Improve the Control Environment for Grant Administration, Accounting, and Monitoring

Risk Rating: Low – Issues identified are less significant but opportunities exist that could enhance FCPS operations.

FCPS can improve upon the existing control environment to oversee and support division-wide grants management. While department or school personnel are responsible for the implementation of grant programs and objectives according to terms and conditions, the Financial Services grant team supports grants management during all phases of the grant life cycle. However, the Financial Services grant team can elevate its central oversight role by clarifying, updating, and consistently applying existing grants processes and guidance, better documenting key grant information, and developing a formal methodology for assessing division-wide and grant specific risks.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as “a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.” An overview of five components of internal controls for grants management, as provided by the Government Finance Officers Association (GFOA), is included in Appendix.

A. FCPS should clarify, update, and consistently apply existing grants processes and guidance

Regulation 5970, Grants, acts as the authoritative literature over the full life-cycle of FCPS grants, detailing definitions, responsibilities, and key requirements, while non-authoritative guidance, including the Grants Manual, FOCUS Toolkit, and information provided on the FCPS internal web, provides for specific processes and other information such as links to federal and state grant regulations, FCPS travel regulations, and other administrative resources. While the authoritative and other guidance provides a general framework for the control environment, FCPS has the opportunity to further clarify, update, and consistently apply existing processes and guidance.

Specifically, OAG identified the following instances where processes and guidance are unclear, outdated, or not consistently applied:

1. **FOCUS grant numbers** – The FOCUS Toolkit section related to the Grants Management (GM) module does not accurately reflect the current process for assigning grant numbers. While the FOCUS Toolkit indicates that grants are tracked by award year, meaning that a new grant is created for each award, OAG found that this was not done for 20 of the 30 sampled grants, including seven sampled federal grants. Rather, grants in the Grants Subfund often contain multiple award years.

According to the FOCUS Toolkit:

*In the GM module grants are tracked by award year—a new grant is created for each award. The last four digits of the grant number will change to reflect the award year (not necessarily the FCPS fiscal year). This makes it easier to track award balances and spend the earliest awarded funds first.*
While not an instance of non-compliance, combining multiple awards into one grant in the Grants Subfund may require additional manual tracking of award balances and expenditures, especially when multiple awards from the same grant are being managed concurrently. Based on discussions with Financial Services, the use of grant program year reporting in FOCUS was discontinued because it required extensive manual effort to allocate costs. The manual effort required to implement program year reporting is caused by an insufficient quantity of accounting codes in Lawson, the FCPS human resources and payroll system, as well as incompatibilities between Lawson and FOCUS accounting codes. Per management, the current process of tracking grants is more reliable until FCPS converts the chart of accounts or upgrades Lawson.

As such, FCPS should clarify and update existing guidance to reflect the current process for assigning grant numbers in FOCUS.

2. **Grant reporting** – Both authoritative and internal guidance for grant reporting do not accurately reflect the current process for reports to be submitted to and reviewed by grants compliance. Regulation 5970 and the Grants Manual each indicate that reports, both financial and programmatic, must be submitted to grants compliance for review prior to submission to a grantor; however, OAG found that this was not consistently performed. Due to the total quantity of FCPS grants, grants compliance instead prioritizes review of federal and state grant reports.

According to FCPS Regulation 5970, Section V.C.5.a, Reporting, General Requirements for Financial and Programmatic Reporting:

> All grants are subject to reporting requirements based on the terms of the grant. Federal reports can be quarterly, semi-annual, or annual and are based on the federal fiscal year of October 1 through September 30.

> (1) Reports must be submitted to grants compliance with the appropriate assistant superintendent’s signature on a completed Superintendent’s Office Routing Slip (S-010).

> (2) Reports must be submitted with sufficient time to allow for review and routing to the Superintendent for approval and signature.

> (3) Approved reports will be submitted to the grantor according to the terms of the grant and a copy of the report retained with grants compliance and the grant project team.

> (4) Nonfederal grant and LSAF grant reporting shall be submitted subject to the requirements of the grantor.

Additionally, according to the FCPS Grants Manual, Section II.B.6.G.2, Preparing and Submitting Reports:

> All reports required by the grantor are to be submitted through the grants compliance officer… In order to reach grantors on time, reports to grantors are due to the compliance officer two weeks prior to the due date.
While non-compliance with federal and state grant terms and conditions has greater risks and consequences compared to non-compliance with private grants, private grants are not without risks. Terms and conditions for private grants, similar to federal and state grants, often contain prescriptive spending and reporting requirements, as well as audit clauses, which could result in FCPS having to return funds for instances of non-compliance.

OAG agrees with the prioritization of compliance review for federal and state grants, as it is not practical for one grants compliance Officer (one full time equivalent) to review every report for all grants division-wide; however, FCPS should take additional steps to assess and document risks associated with specific private grants to determine if additional monitoring should be performed. Additionally, FCPS can more formally perform and document “spot-checks” on private grants to further detect if instances of non-compliance exist.

Additionally, as stated in Finding 2, OAG identified one sampled grant where reporting was not accurate, as the existence of carryover funds was not reported to the grantor in accordance to the terms and conditions of the grant. This report was not provided to grants compliance for review prior to submission to the grantor.

3. Definition of a grant – Both Regulation 5970 and the FCPS Grants Manual include two differing definitions of a grant.

   Definition 1 – Any external funding awarded in response to an application or proposal where funding is designated for a specific purpose, has reporting requirements, and usually requires funds be expended within a specific timeframe.

   Definition 2 – a transfer of resources from grant maker to recipient by legal procedure.

Having multiple definitions of a grant may result in varied interpretations of what FCPS considers to be a grant.

B. FCPS should better document key grant information in an accessible format

While the Financial Services grant team was able to provide grant-related documentation, such as grant applications and award letters, for 29 of 30 sampled grants, key grant information such as award numbers, award amounts, grant objectives and/or purposes, time periods required by the grants, terms and conditions, matching requirements, and reporting requirements could be better documented and maintained in a more accessible format.

Based on discussions with Financial Services, FOCUS does not currently allow for documenting information such as award numbers, award amounts, grant objectives and/or purposes, time periods required by the grants, terms and conditions, matching requirements, and reporting requirements. FCPS does not currently have a secondary repository for documenting this information.
In response to OAG's request for a list of all grants, grants compliance compiled a grant listing from grant master record information in FOCUS, information obtained through review of grant-related documentation, and information possessed by the grants compliance officer. This report was used as the basis for sampling specific grants.

Grant master records in FOCUS contain the following relevant information:

- Sponsor (used to document grantor)
- Award Type (federal, federal Pass-Through, State, Private, etc.)
- Name
- Description
- Valid from Date
- Valid to Date
- Catalog of Federal Domestic Assistance (CFDA) Number (for federal awards)

While much of the information that is documented in the grant master records is useful, relevant information, OAG noted the following limitations to this data:

- For 18 of 30 sampled grants, OAG noted that the grant name and description fields were identical or nearly identical. FCPS could better utilize the description field to document more relevant grant information.
- Since multiple awards are booked to the same grant in FOCUS, the ‘Valid from Date’ and ‘Valid to Date’ do not provide an accurate representation of the award period of performance. Rather, the ‘Valid from Date’ and ‘Valid to Date’ more closely represent the entire post-award lifecycle of a grant.

Additionally, for one of 30 sampled grants, FCPS was unable to provide any documentation, including a grant agreement, award letter, or other documentation which details terms and conditions of the award. For this one grant, on June 30, 2011, during the transition from the prior financial accounting system, FAMIS, to the current system, FOCUS, a fund balance transfer in the amount of $165,696 was posted to this account. Between FY 2012 and FY 2019, average annual expenditures associated with these funds were approximately $23,049 per year. While the funds in this grant account pre-date the existence of FOCUS, expenditures are still being recorded to the grant as recently as FY 2020.

As a result, FCPS may not be aware of key grant information, including award numbers, award amounts, grant objectives and/or purposes, time periods required by the grants, terms and conditions, matching requirements, or reporting requirements, without referencing authoritative documents such as grant agreements and award letters. Additionally, FCPS may not be able to adequately assess division-wide and grant specific risks or provide relevant grant information to internal stakeholders in a timely manner.

The GFOA recommends that entities:

- Document in a format accessible to stakeholders the purpose and the government’s responsibilities for each of its grants
- Identify the time periods required by the grants
- Identify grant reporting requirements
• Identify grants that require specialized administration
• Ensure that grant information is available to internal stakeholders

C. FCPS should develop a formal methodology for assessing division-wide and grant specific risks

As stated above in Finding 1.A.2., while FCPS prioritizes monitoring of federal and state grants, no formal methodology exists to identify and assess grant risks, both division-wide and for specific grants. Grants compliance currently utilizes various spreadsheets and other methods to assess risk; however, this process can be enhanced by more formally documenting division-wide and grant specific risks.

The grant team does conduct monthly meetings with departments who manage grants to discuss grant progress, but key outcomes or action items which result from these meetings are not documented.

The GFOA recommends that entities:

• Perform and document a risk assessment of the entity’s grants management processes
• Utilize a comprehensive, internal control questionnaire to facilitate the risk analysis
• Consider the level of program risk (e.g., high, medium, low) when establishing control activities
• Perform a cost/benefit analysis prior to installing a new control activity;
• Consider the possibility and likelihood of fraud in the entity’s grants management process
• Identify and assess changes in the regulatory, technology, personnel and operating environment under which the grants are managed

While FCPS prioritizes the management of risks associated with federal and state grants, without a methodology for assessing risks, FCPS may not unaware of division-wide risks or risks associated with specific grants.

Recommendations: OAG recommends:

1. **Financial Services Grant Team** review and assess Regulation 5970, the FCPS Grants Manual, and other grants guidance to ensure current guidance over grants management is clear, adequate, and reflects current processes (**Condition 1.A.**)  

2. **Financial Services Grant Team** document key grant information in a centralized repository for all currently active and newly awarded grants (**Condition 1.B.**)  

3. **Financial Services Grant Team** develop and implement a methodology to assess division-wide and specific grant risks (**Condition 1.C.**)  

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Management Responses:

1. Regulation 5970 is in the process of being updated and DFS leadership plans to ensure there is consistency between the regulation, grant manual and other grant guidance. This work should be completed by **September 1, 2020**.

2. Financial Services has key grant information in various repositories but will revisit updating the legacy Grants Database (GEMS) which can accommodate key grant information. Meetings will take place with stakeholders to restructure the database so it will be the centralized repository for active grant information. This work should be completed by **January 1, 2021**.

3. Financial Services will review the existing risk assessment process and formulate a methodology for reviewing grants on a cyclical basis. Key elements of the risk considerations include but are not limited to:
   
   a. Reviewing results of Single Audit and Grantor audits  
   b. New Grant Awards  
   c. Grant Closeouts  
   d. Reviewing Private Grants on a rotational basis

   This work should be completed by **September 1, 2020**.
Finding 2 – Compliance with Grant Terms and Conditions

Risk Rating: Moderate – Compliance with subject government regulations, grant terms and conditions, or FCPS policies and established procedures is inadequate, or FCPS policies and established procedures are inadequate.

While OAG did not identify any instances of grant funds being used improperly, OAG identified two instances of non-compliance with grant terms and conditions related to the Virginia Public School Authority (VPSA) Educational Technology Notes, Series XVIII, and a grant from the Jack Kent Cooke Foundation.

A. VPSA Educational Technology Notes, Series XVIII

FCPS utilized the VPSA Educational Technology Notes, Series XVIII, request for reimbursement form to claim expenditures incurred prior to the Series XVIII note closure date without adopting a reimbursement resolution stating the intention to use the proceeds of the equipment notes to reimburse qualifying expenditures incurred prior to the note closure date.

According to VDOE Superintendent’s Memo #137-18:

School divisions and regional programs that adopted a reimbursement resolution and made expenditures prior to the issuance of the Series XVIII notes are required to certify that all reimbursements are qualifying reimbursements.

Annually, VPSA sells technology equipment notes, with the proceeds made available to school divisions for the educational technology grant program. Proceeds from the notes become available for reimbursement to divisions in May or June each year after the note transactions are closed. Expenditures incurred prior to the closing of the note transaction require the adoption of a reimbursement resolution stating the intention to use the proceeds of the equipment notes to reimburse qualifying expenditures. School divisions must also complete payments for qualifying equipment prior to filing a request for reimbursement form with Virginia Department of Education (VDOE).

According to management, FCPS utilized the Series XVIII request for reimbursement form to request funding from the Series XVII note proceeds. While the Series XVIII form was used, FCPS documented its intention to draw upon Series XVII funds by modifying the reimbursement form to indicate that all expenditures were incurred on or after May 22, 2017, rather than May 22, 2018, as originally printed; however, VDOE matched the reimbursement request to the Series XVIII note funding, rather than to the Series XVII note funding, as intended by FCPS.

On October 17, 2018, FCPS certified to the following statements on the Series XVIII request for reimbursement form:

3. When applicable, the school board or local governing body has adopted a reimbursement resolution, and I hereby certify that none of the disbursements for which this reimbursement is requested were paid more than 60 days prior to the date the reimbursement resolution was adopted.

4. Other than previously paid capital expenditures being reimbursed in accordance with an adopted reimbursement resolution, the aforementioned
disbursements are all current capital expenditures, (i.e. costs were incurred on or after the May 22, 2018 [2017 handwritten] note issuance date).

Additionally, as it relates to the Series XVIII notes, Superintendent’s Memo #161-17, which was published one year prior to the issuance of the Series XVIII notes, states:

School divisions that have spent all of the Series XIII, Series XIV, Series XV, Series XVI, and Series XVII notes proceeds and that have adopted a reimbursement resolution for the Series XVIII (Spring 2018) notes issue may make qualifying purchases in support of the SOL Web-based Technology Initiative or, for eligible schools, the Virginia e-Learning Backpack Initiative, to be reimbursed from Series XVIII proceeds; however, please be aware that the note proceeds will not be available for reimbursement until after the closing of the notes sale, which will likely in May or June 2018. Please be aware that, prior to incurring any costs, the local be school board must state its intention to use the proceeds of the equipment notes to reimburse qualifying expenditures, including for the Virginia e-Learning Backpack Initiative supplemental grants. This must be done through a reimbursement resolution adopted by the local school board.

B. Jack Kent Cooke Foundation

For one of 30 sampled grants, FCPS did not notify a private foundation grantor, the Jack Kent Cooke Foundation, within 60 days of the completion of the grant period of the existence of carryover funds. Rather, FCPS indicated that no carryover funds existed. The foundation provided FCPS with grant funds totaling $99,744 in one installment in May 2015, which was the beginning of the grant period of performance.

On October 1, 2017, a FCPS grant program manager submitted to a grantor a final progress report which specified that no carryover funds existed. This report was not provided to grants compliance for review prior to being submitted to the grantor.

<table>
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<tr>
<td>Requesting Carryover?</td>
<td>Y N</td>
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While the report indicates that no carryover funds were being requested, OAG identified $41,123 of expenditures booked to the grant after the submission of the final report. Upon further inquiry with the program manager, OAG determined that in May 2018 the program manager reached out to the grantor to notify them of the existence of carryover funds. The grantor approved for the use of the remaining funds in May 2018.

According to the Grant Agreement:

The Grantee will return to the Foundation within 60 days any portion of the grant not yet spent at the completion of the grant period, unless the Foundation agrees otherwise in writing.

According to the program manager, at the time the final report was submitted, it was thought that the funds were fully expended. Additionally, turnover in the finance
technician position resulted in the new finance technician not being aware of the remaining funds. Although FCPS and the grantor were able to reach an agreement to allow for the use of carryover funds which were not initially reported, inaccurate reporting could result in FCPS having to return funds to grantors.

Recommendations: OAG recommends:

4. **VPSA Educational Technology Notes Grant Program Manager** coordinate with **Financial Services** to ensure, if applicable, a reimbursement resolution is adopted for future note proceeds (Condition 2.A.)

5. **Financial Services Grant Team** provide additional training to ensure that grant program managers, who hold the ultimate fiscal and legal authority and responsibility on a grant, are familiar with grant terms and conditions (Condition 2.A.- B.)

Management Responses:

4. **Financial Services** agrees that to ensure flexibility, reimbursement resolutions will be adopted starting with the 2020 bond issuance. In addition, DFS will coordinate with the Grant Program Manager to ensure that the appropriate forms are used for reimbursements.

5. **Financial Services** will establish an annual training program for grant program managers in addition to an orientation or grant kick off meeting for all new grant program managers. This work should be completed by **November 1, 2020**.
Observation 1 – Outstanding Reimbursement Receivables for One Grant

In FY 2015, FCPS received a federal pass-through award, as a subrecipient of Virginia Department of Education (VDOE), from the federal agency Substance Abuse Mental Health Services Agency (SAMHSA). The five-year award, which ended in September 2019, was intended to help FCPS create a program for students to increase awareness of student mental health issues and provide training to school staff and adults who interact with students in the detection and response to mental health issues.

Following year two of the grant, SAMHSA conducted a monitoring visit and audit of VDOE. As a result of this audit, VDOE was placed on a restricted status with SAMHSA. VDOE made FCPS aware of the restriction, but still accepted and reimbursed FCPS for all expenditures related to the grant for award years three and four. FCPS submitted reimbursements for year five as well, but VDOE only reimbursed for expenditures in the first quarter. As a result, FCPS has an exposure of approximately $322,000 for unreimbursed expenditures related to this grant.

In December 2019, VDOE requested FCPS (and other recipients throughout the Commonwealth) submit additional support documentation for award years three, four, and five of the grant to assist with the ongoing audit by SAMHSA. VDOE also advised, contingent upon the audit results, that subrecipients may receive the outstanding year five reimbursements. FCPS submitted the additional documentation accordingly and VDOE confirmed receipt of the documentation.
The most widely recognized source of guidance on internal control is the Committee of Sponsoring Organizations (COSO). COSO provides the following definitions for each of the five components of internal control.

**Appendix – Five Components of Internal Control**

<table>
<thead>
<tr>
<th>Control Environment</th>
<th>The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization.</th>
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</thead>
<tbody>
<tr>
<td>Risk Assessment</td>
<td>Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives.</td>
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<tr>
<td>Control Activities</td>
<td>Control activities are the actions established through policies and procedures that help ensure that management’s directives to mitigate risks to the achievement of objectives are carried out.</td>
</tr>
<tr>
<td>Information and Communication</td>
<td>Information and communication are the continual iterative process of providing, sharing, and obtaining necessary information.</td>
</tr>
<tr>
<td>Monitoring</td>
<td>This represents the process of ongoing and periodic evaluations to ascertain whether the components of internal control are present and functioning. To the extent control deficiencies are found they are communicated, in a timely manner, to responsible parties, including senior management and elected officials, for corrective action.</td>
</tr>
</tbody>
</table>

Source: Government Finance Officers Association – Internal Control for Grants