

# OSEP's Fiscal Monitoring of the Entities



IDEA Fiscal Forum for the Outlying Areas and Freely Associated States  
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# Raise your hand if you...

- Make travel plans prior to going on vacation
- Store and lockup valuable personal belongings
- Keep copies of your tax returns
- Require a password in order to access your WiFi
- Save for a rainy day or retirement
- Balance your checkbook

(from <https://www.auditnet.org/audit-library/auditnet-internal-controls-primer>)

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# Congratulations!

- You have performed a risk assessment, and developed and implemented personal internal controls and monitoring activities at home.
  - What factors do you consider when putting your personal internal controls in place?
  - Are your personal internal controls and monitoring activities time consuming, and do you devote the same amount of time to each?
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# Why are we meeting in Seattle?

- A) The coffee is amazing.
  - B) No cherry blossoms to distract participants.
  - C) The Department of Education has other work in Seattle/Washington State.
  - Free Space (Thanks, GSA!)
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## Headlines from the Seattle Times in 2012-2014

**“Seattle’s Special-Ed Mess: Who’s in charge of What?”**

**“Not-So-Special Treatment in Seattle of Special Education”**

**“State Withholds Chunk of Money from Seattle Special-Ed Program”**

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# What happened in Seattle?

- Constant turnover in leadership.
  - Decentralized schools system.
  - Lack of uniform policies and procedures.
  - Inconsistencies in the provision of special education services.
  - Increase in State complaints.
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## Seattle Public Schools Internal Auditor Stated:

- The District employs knowledgeable staff; however, their work is based on historical practices and institutional knowledge. There are no written internal procedures or written internal controls to guide the staff or create an effective control environment.
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## Seattle Public Schools Internal Auditor Stated:

- The special education function has a functioning reporting process in place, but our report identifies opportunities to improve efficiencies that can potentially save time, effort, and resources.
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## Seattle Public Schools Internal Auditor Stated:

- The special education function is aware of the applicable special education laws and regulations, but we identified an opportunity to ensure that it is aware of any changes to the regulations or best practices necessary to carry out the function's objectives.
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# What did the SEA do?

- Determined that Seattle is in “Needs Substantial Intervention.”
  - Declared Seattle a high-risk grantee.
  - Withheld \$3,000,000 of Seattle 2014 IDEA 611 grant.
  - Required additional reporting.
  - Performed additional monitoring.
  - Required revisions to policies, procedures and practices.
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# How did it get resolved?

- Stick around for the end of the presentation.
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# Presentation Objectives-

- Review OSEP's differentiated monitoring process and tiered systems of support.
  - Examine the OMB Uniform Guidance requirements for risk assessment, and discuss OSEP's fiscal risk reviews process.
  - Discuss OMB Uniform Guidance requirements for financial management and related systems.
  - Examine the requirements included in OSEP's fiscal monitoring protocols for the entities.
  - Discuss documents that may be requested as a part of the monitoring process.
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# OVERVIEW OF OSEP'S DIFFERENTIATED MONITORING SYSTEM (DMS)



# DMS BASICS

- Replaces cyclical, one size fits all monitoring with monitoring and support based upon needs of State and best use of OSEP resources
- Based upon assessment of risk to the Department and IDEA:
  - Starts with Organizational Assessment in key areas
  - Evaluates additional factors about State and OSEP resources
  - All States receive designation of intensive, targeted or universal in each key area

# Organizational Assessment Areas



Each State and Entity is scored based on a rubric in the following areas:

- Results
- Compliance
- Special Focus Area
- Fiscal

# Engagement Decision Tree



Results					
Determination Matrix Percentage	Any factors that may contribute to elevated risk	TA accessed	State capacity to improve results	Additional data needed	Final IT recommendation re: level of monitoring and TA
Compliance					
Determination Matrix Percentage	Any factors that may contribute to elevated risk	TA accessed	State capacity to identify and correct	Additional data needed	Final IT recommendation re: level of monitoring and TA
Special focus: Correctional Education					
Organizational Assessment Score	Any factors that may contribute to elevated risk	TA accessed	State capacity to implement a compliant system	Additional data needed	Final IT recommendation re: level of monitoring and TA
Fiscal					
Organizational Assessment Score	Any factors that may contribute to elevated risk	TA accessed	State capacity to implement a compliant system	Additional data needed	Final IT recommendation re: level of monitoring and TA
SSIP					
	Challenges or barriers to implementation	TA accessed	State capacity to implement the SSIP	Additional data needed	Final IT recommendation re: level of monitoring and TA

## DMS Notice

- After OSEP assigns final designations, States receive DMS notices, with designation for all monitoring areas.
- OSEP State teams work with States to finalize and schedule intensive monitoring and targeted monitoring and support activities.

# Risk Assessment

## Internal Controls – General Risk Considerations

- ❑ Complexity of the process
  - ❑ Level of manual intervention
  - ❑ Fraud risk
  - ❑ Management override
  - ❑ Non-routine transactions
  - ❑ Management by a third party;
  - ❑ History of audit issues
  - ❑ Changes in laws/regulations
  - ❑ Human capital management
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# Risk Assessment

## OSEP's Risk Considerations for the Current DMS Cycle:

- ❑ Date of Last Monitoring Visit
  - ❑ Turnover in Leadership
  - ❑ Audits- Overdue Corrective Actions
  - ❑ Size of the Award
  - ❑ Maintenance of State Financial Support
  - ❑ Unresolved Fiscal Monitoring Findings
  - ❑ Department-wide Special Conditions
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# Control Activities

## Internal Controls – Types of Controls

- ❑ **Preventative**- Controls that helps management to avoid issues before they occur.

*Examples include:*

- Training
- Review and Approval Process
- Segregation of Duties

- ❑ **Detective**- Controls that discover issues after they occur.

*Examples include:*

- Inventory
  - Audits
  - Monitoring/sampling/testing
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# OSEP's Tiered Monitoring Activities



- **Intensive Monitoring:** On-site or virtual visits focused on:
  - LEA Allocations (Mainland States)
  - Subrecipient Monitoring (Mainland States)
  - Financial Management and Internal Controls (Entities)
- **Targeted Monitoring and Support:** Continuation of ongoing activities (e.g., the resolution of audit findings)
- **Universal Support:** Webinars, Resources on GRADS 360, TA by phone and email, OSEP Leadership sessions

# Financial Management Requirements

For its fiscal monitoring of entities, OSEP has selected key components of the Financial Management requirements in 2 CFR § § 200.302 and 200.303.

- Written Procedures
  - Record Retention
  - Effective Controls over Funds, Property, and Other Assets
  - Method(s) for Ensuring that IDEA Part B Funds are Used in Accordance with Applicable Requirements
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# Financial Management Requirements

The OMB Uniform Guidance requires that grantees have:

- Written procedures for determining the allowability of costs, in accordance with the cost principles included in Subpart E of the Uniform Guidance and the terms and conditions of the Federal award.
  - Records that identify adequately the source and application of Federal grant funds.
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# Financial Management Requirements

The OMB Uniform Guidance requires that grantees have:

- Effective control over, and accountability for, all funds, and property and other assets purchased with each Federal Award.
  - Establishing and maintaining effective financial management and internal controls systems for ensuring the allowable use of IDEA Part B funds.
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# OSEP's Fiscal Monitoring Protocols

- Background Information
  - Monitoring Objectives
  - Protocol
    - Summary of underlying Programmatic and Fiscal Requirements
    - Examples of Documentation that OSEP is Likely to Request
    - Sample Questions
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# OSEP's Fiscal Monitoring Protocols

The entity's method(s) for ensuring that IDEA Part B funds are used in accordance with applicable requirements. Areas of review may include:

- The entity's method may include establishing a plan or budget, comparing expenditures to that plan or budget, or an equivalent method for ensuring effective internal controls over the planning and allowable use of IDEA Part B funds
  - How the entity maintains documentation related to the development, tracking, and revision of the Entity's internal controls method(s).
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# OSEP's Fiscal Monitoring Protocols

Review of the Entity's written procedures for determining allowability of costs, in accordance with the cost principles in the Uniform Guidance. Areas of review may include:

- The entity's written procedures, including how they are incorporated into the entity's procurement processes;
  - Entity review processes related to personnel expenses paid for with IDEA Part B funds; and
  - Expenditures for equipment, or expenditures for improvements to buildings or land (e.g., renovations), purchased with IDEA Part B funds.
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# OSEP's Fiscal Monitoring Protocols

Review of the Entity's financial management system for record retention related to expenditures of IDEA Part B funds. Areas of review may include:

- The entity's records must adequately identify the source and application of IDEA Part B funds;
  - Records must adequately support the determination of allowability for special education program purposes; and
  - Records and supporting documents, are retained in accordance with applicable record retention requirements.
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# OSEP's Fiscal Monitoring Protocols

Review effective control over, and accountability for, all IDEA Part B funds, as well as property and other assets purchased with those funds. Areas of review may include:

- How the Entity is adequately safeguarding assets purchased with IDEA Part B funds, and ensuring that they are used solely for authorized purposes;
  - The Entity's accounting system and its ability to track IDEA Part B funds from source (grant award) to ultimate use (specific program purposes).
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# So, what happened in Seattle?

As a result of the State's monitoring and enforcement activities:

- Seattle has strengthened its leadership structure, and developed uniform policies and procedures.
  - Increased opportunities for children with disabilities.
  - Strengthened and maintained central office leadership.
  - \$2.5 million has been released by the State.
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# With Your Entity Group:

- Spend some time reviewing the protocol
  - If your entity was selected for monitoring
    - What would be your areas of strength?
    - What areas would you target for improvement?
  - Select an area to share with the large group
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# Questions?

