



# CARES ACT Targeted Monitoring Report: Iowa Department of Education (ESSER Funds)

U.S. Department of Education  
Office of Elementary and Secondary Education  
400 Maryland Avenue, SW  
Washington, DC 20202

# Table of Contents

---

<b>GENERAL INFORMATION</b> .....	<b>3</b>
<b>SECTION I</b> .....	<b>5</b>
SUMMARY OF OESE SELECTION OF IOWA DEPARTMENT OF EDUCATION AND SUBRECIPIENTS .....	6
<b>SECTION II</b> .....	<b>8</b>
SUMMARY STATUS OF CARES ACT IMPLEMENTATION .....	8
<b>SECTION III</b> .....	<b>9</b>
CASH MANAGEMENT AND PAYMENT SYSTEMS .....	9
Action Required .....	9
<b>SECTION IV</b> .....	<b>15</b>
ACCOUNTING SYSTEMS AND FISCAL MANAGEMENT .....	15
Action Required .....	15
<b>SECTION V</b> .....	<b>17</b>
INTERNAL CONTROLS .....	17
Action Required .....	17
<b>SECTION VI</b> .....	<b>19</b>
SUBRECIPIENT MONITORING .....	19
Action Required .....	19

## GENERAL INFORMATION

---

### Overview of the CARES Act Targeted Monitoring

The Office of Elementary and Secondary Education (OESE) is committed to supporting States as they implement Federal grant programs. Part of this commitment includes monitoring reviews designed to not only address OESE’s responsibilities for fiscal and programmatic oversight, but to also identify areas in which States may need assistance and support.

Specifically, OESE created a proactive monitoring review process due to passage of the Coronavirus Aid, Relief and Economic Security (CARES) Act. Ideally, the targeted monitoring review process should result in improved and strengthened partnerships between the United States Department of Education (the Department) and States and encourage States to develop fiscal systems for emergency funding sources that align with Federal requirements.

The primary goal of this new targeted review is to ensure the funds received under the CARES Act are handled by States in a manner consistent with the fiscal, administrative, and select program requirements contained in the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), the Education Department General Administrative Requirements (EDGAR), Office of Management and Budget (OMB) Memorandum 20-20 (OMB M-20-20), and the Cash Management Improvement Act (CMIA). To accomplish this, OESE’s CARES Act targeted monitoring review process focuses on the Governor’s Emergency Education Relief (GEER) and the Elementary and Secondary School Emergency Relief (ESSER) funds, as well as on areas that reflect fiscal requirements for States. It prioritizes the Department’s monitoring of areas known to be historically challenging based on the Department’s oversight of American Recovery and Reinvestment Act funds.<sup>1</sup>

Additionally, OESE includes subrecipients in the review as a matter of due diligence to learn how State agencies that receive CARES Act funds plan to monitor subrecipient expenditures and ensure CARES Act funds are used for allowable purposes.

#### **Navigating the Targeted Monitoring Report**

This report contains six sections. Section I contains a snapshot of OESE’s monitoring process. Section II is a summary of the State’s performance for each section included in the review.

For each indicator, the Department assigns one of four ratings:

- “Met requirements with commendation” represents high-quality implementation where the grantee is exceeding expectations;
- “Met requirements” indicates that no instances of noncompliance were identified;

---

<sup>1</sup> Lessons from Implementing the American Recovery and Reinvestment Act of 2009 Final Management Information Report: <https://www2.ed.gov/about/offices/list/oig/auditreports/fy2014/x09m0002.pdf>

- “Met requirements with recommendations” indicates there are quality implementation concerns and some improvements could be made to ensure the grantee continues to meet expectations; and
- “Action required” indicates there are significant compliance or quality concerns that require urgent attention by the reviewed entity and will be revisited until the issue is addressed.

The remaining four sections provide the Department’s analysis for designating the performance rating for each of the subject areas that were included in the review: Cash Management and Payment Systems, Accounting Systems and Fiscal Controls, Internal Controls, and Subrecipient Monitoring.

## SECTION I

# Overview of the Iowa Department of Education Targeted Monitoring Review



### CARES ACT ESSER FUND DISTRIBUTION

\$

#### FEDERAL FUNDING<sup>2</sup>

CARES ACT	
ESSER Award	\$71,625,561.00
Drawdown May 13, 2020	\$64,348,803.00
Percent of Drawdown	90%

#### Key Dates of Review

CARES ACT Monitoring Notification Sent: September 18, 2020  
 Initial Call: September 30, 2020  
 Self-Assessment and Document Request: October 2, 2020  
 OMB Max Training Call: October 5, 2020  
 Virtual Desk Review: Scheduled for October 29, 2020 (SEA Declined)  
 Subrecipient Monitoring Selection: September 30, 2020  
 Subrecipient Initial Call: October 21, 2020  
 Subrecipient Desk Reviews: November 4 and 10, 2020

#### ED Reviewers

Shane Morrissey (Management Support Office)  
 Dan Schreier (Management Support Office)  
 Jacqueline Mynarski (Management Support Office)  
 Tara Ramsey (State and Grantee Relations)  
 Britt Jung (State and Grantee Relations)  
 Lakesha McKenzie (State and Grantee Relations)

#### Subrecipients Participating in the Desk Review

Des Moines Public Schools  
 Sioux City Community Schools

<sup>2</sup> <https://oese.ed.gov/offices/Education-Stabilization-Fund/>

# Summary of OESE Selection of Iowa Department of Education and Subrecipients

On Friday, March 27, 2020, President Trump signed the CARES Act, which is a \$2 trillion package of assistance measures, including \$30.75 billion for an Education Stabilization Fund. The CARES Act created several new programs including the Education Stabilization Fund Discretionary Grants, Governor's Emergency Education Relief Fund (GEER Fund), Elementary and Secondary School Emergency Relief Fund (ESSER Fund), and Higher Education Emergency Relief Fund. After the Department completed awarding the ESSER funds, Iowa Department of Education (IDOE)<sup>3</sup> immediately withdrew over 90 percent of their available ESSER balance from Department's grants management system (G5), which triggered potential cash management concerns. As such, OESE began developing a targeted monitoring review process for the several ESSER or GEER grantees that immediately drew down 90 percent of their GEER or ESSER funding. This review was designed to specifically monitor these grants to ensure proper oversight and provide States with technical assistance.

IDOE triggered a targeted monitoring review by immediately drawing down 90 percent of its allocation of ESSER funds. Iowa was monitored only for IDOE's management of ESSER funds. GEER funds were not included in this review as IDOE's GEER drawdowns did not cause immediate concern for the Department because the funds were not immediately drawn down.

Subrecipients were included as part of the targeted monitoring process. When selecting subrecipients for this review, OESE staff considered the following items: the number of subrecipient grants awarded, the amount of those subawards, and if there is information (i.e., disclosed accounting by the State, public databases, or news reports) related to available balances still held by subrecipients as of September 1, 2020. Also, as part of the consideration for this monitoring engagement, OESE staff focused on larger districts with significant allocations, and then once IDOE submitted ESSER account balances, attention was given to districts with large balances of unspent ESSER funds, and those that may have the capacity to assist this review as opposed to overburdening smaller districts with already limited capacity during the pandemic. Based on the outlined criteria, the Department selected Des Moines Public Schools and Sioux City Community School District to participate as subrecipients for IDOE's targeted monitoring review.

On September 24, 2020 IDOE agreed to participate in a virtual desk review with the Department scheduled to take place on Thursday, October 29, 2020. The day before the virtual meeting was to take place the Department provided IDOE with the desk review questions to be asked during the interactive portion of the review for its reference in accordance with OESE standard operating monitoring procedures. Approximately 15 minutes before the review was scheduled to begin, IDOE notified the Department that it would not be participating in the review and that IDOE disagreed with the timing of OESE's provision of the desk review questions. Due to timing and scheduling constraints, the

---

<sup>3</sup> In this document "IDOE" and "Iowa" are used interchangeably to refer to the Iowa Department of Education

Department decided to offer IDOE the option of proceeding with the monitoring process without speaking to IDOE staff. IDOE elected to proceed without participating in a virtual desk review. The Department based the findings in this report on documentation and written responses to self-assessment questions provided by IDOE as well as conversations with subrecipients and documentation provided by them.

## Summary Status of CARES ACT Implementation

### STATUS KEY



**Met requirements  
with commendation**

High quality  
implementation &  
compliance



**Met requirements**

No instances of  
noncompliance  
identified



**Met requirements with  
recommendation**

Satisfactory compliance  
with quality concerns



**Action required**

Significant  
compliance &  
quality concerns

### TARGETED MONITORING

Topic	Status
Cash Management and Payment Systems	● ○ ○ ○
Accounting Systems and Fiscal Controls	● ○ ○ ○
Internal Controls	● ○ ○ ○
Subrecipient Monitoring	● ○ ○ ○



# Cash Management and Payment Systems

---

### ACTION REQUIRED



This section identifies cash management areas where OESE staff has “significant compliance and quality concerns.”

For these issues, OESE will outline the current practice, the nature of noncompliance, and the required action.

### REQUIREMENT SUMMARY

**Description:** A Grantee must have written procedures for payment systems. Grantees are generally required to minimize the time elapsing between transfer of funds from the U.S. Treasury. The timing and amount of fund transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees.

[Cash Management Improvement Act](#)  
[31 C.F.R. §§ 205.1-205.35](#)

Uniform Guidance  
[2 C.F.R. § 200.302\(b\)\(6\)](#)  
[2 C.F.R. § 200.305](#)  
[OMB M-20-20](#)

### ISSUE

#### Background

OESE conducted an initial review of ESSER and GEER drawdowns from the G5 system that were posted as of May 31, 2020. During this review, the Department noted the IDOE had drawn down \$64,348,803 of its \$71,625,561 ESSER allocation. As a result of the large drawdown, the Department convened a call with IDOE on June 9, 2020. The intent of this call was to review the Department’s and the State’s cash management responsibilities under the Cash Management Improvement Act (CMIA) and the Uniform Guidance. During the call, OESE also reminded IDOE that the Department’s Office of Inspector General (OIG) had made multiple findings for the American Recovery and Reinvestment Act (ARRA)<sup>4</sup> funds for States that had not followed cash management procedures. IDOE informed the

---

<sup>4</sup> <https://www2.ed.gov/about/offices/list/oig/auditreports/AlertMemorandums/109j0007.pdf>. See pages 4-5 for a list of States identified by the Office of Inspector General with cash management concerns.

Department that it had already subawarded and advanced the ESSER funds to local educational agencies (LEAs) on the belief that the funds would be utilized for actual and immediate cash requirements.

### Applicable Federal Cash Managements Requirements

As outlined below, there are distinct cash management requirements for IDOE and its subrecipients. The Department included an attachment describing these cash management requirements in IDOE's Grant Award Notification (GAN).<sup>5</sup>

#### 1. The Cash Management Improvement Act (IDOE)

The disbursement of most Federal assistance<sup>6</sup> to States, including most grant funds awarded to States by the Department, is governed by the CMIA, a Federal law administered by the United States Department of the Treasury (Treasury). Depending on the dollar amount of a grant in relation to the total amount of Federal funds received by a State, a grant may be considered a major Federal assistance program and will be included in a Treasury-State agreement and governed by subpart A of the CMIA regulations (31 C.F.R. §§205.3-205.31).<sup>7</sup> Alternatively, funds that fall below the threshold will not be included in a Treasury-State agreement and are governed by subpart B of the CMIA regulations (31 C.F.R. §§205.32-205.35). After OESE's monitoring of IDOE, the Treasury Department posted Iowa's Treasury-State agreement for FY 2021 on its website.<sup>8</sup> IDOE's ESSER grant was not included in the agreement. For Federal assistance programs not included in a Treasury-State agreement such as ESSER, interest liabilities to the Federal government are not incurred by the State.

Under 31 C.F.R §205.33, a State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. Funds transfers from a Federal Agency to a State must be limited to the minimum amounts needed by the State and must be timed so that the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out the Federal program. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

#### 2. The Uniform Guidance

The Uniform Guidance requirements in 2 C.F.R. §200.305(b) apply to IDOE's payments to LEAs. Payment methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity (here IDOE) and the disbursement by the non-Federal entity whether

---

<sup>5</sup> IDOE's ESSER GAN included an enclosure entitled "Memorandum to Remind Department of Education (The Department) Grantees of Existing Cash Management Requirements Regarding Payments."

<sup>6</sup> The CMIA regulations in [31 C.F.R. § 205.2](#) define "Federal Assistance" as a program included in the Catalog of Federal Domestic Assistance where funds are transferred from the Federal government to a State. Federal assistance programs include cooperative agreements, but do not include vendor payments or direct loans. CARES Act grants administered by the Department are included in the CFDA and are considered Federal assistance under the CMIA.

<sup>7</sup> The thresholds for major Federal programs are cited in [31 C.F.R. §205.5](#).

<sup>8</sup> See <https://www.fiscal.treasury.gov/cmia/resources-treasury-state-agreements.html>.

the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means. Additionally, 2 C.F.R. §200.305(b)(1) states that IDOE may provide advance payments to LEAs provided it maintains or demonstrates the willingness to maintain both written procedures that minimize the time elapsing between the transfer of funds and disbursement by the non-Federal entity, and financial management systems that meet the standards for fund control and accountability as established in the Uniform Guidance. IDOE has an affirmative responsibility to ensure that advance payments to a non-Federal entity be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project. The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the non-Federal entity for direct or indirect program or project costs.

### **The Iowa Department of Education’s Compliance with Cash Management Requirements**

Based on the documents submitted by IDOE and LEAs, and OESE discussions with LEAs, Iowa did not follow cash management requirements when it drew down 90% of the ESSER funds and provided advance funding through subgrants to LEAs.

IDOE stated that it believed LEAs had allowable costs under ESSER that had already been incurred prior to receiving grant funds<sup>9</sup>, and that the LEAs would reclassify those costs and charge them to ESSER subgrants. However, many LEAs did not immediately expend ESSER funds, and instead gradually expended ESSER funds. Many LEAs had significant balances remaining as of September 4, 2020.<sup>10</sup> On October 16, 2020, IDOE provided to the Department an ESSER balance report showing that 218 of the 328 LEAs in Iowa still had available balances totaling over \$19,509,221.93<sup>11</sup> in available ESSER funds as of September 16, 2020, that were awarded to LEAs on or about May 18, 2020. Further, both LEAs that the Department spoke with had remaining ESSER funds balances for an extended period after receiving the ESSER subgrant on May 13, 2020. For example, of the two subrecipients selected for this review, Des Moines Public Schools still had a balance of \$420,824.43 on June 30, 2020, however \$1,716,838.19<sup>12</sup> of expenditures posted to Des Moines’ accounting system occurred between June 28-30, 2020 at the end of its fiscal year. Sioux City Community Schools had yet to spend over \$1.4 million in ESSER funds as of September 4, 2020. Of note, due to prior experience with the Recovery Act, both subrecipients noted they were familiar with Cash Management principles and placing the

---

<sup>9</sup> See answer 21 of the Department’s ESSER guidance: An SEA and LEA may use ESSER funds for any allowable expenditure incurred on or after March 13, 2020, the date the President declared the national emergency due to COVID-19.

<sup>10</sup> Iowa began tracking unspent funds with anticipated available balances after August 1<sup>st</sup>, 2020 on June 17, 2020. The tracking of unspent funds occurred after a June 9, 2020 conference call when the Department discussed IDOE’s large drawdown of ESSER funds and potential cash management concerns.

<sup>11</sup> The Department recalculated the remaining available balance figures IDOE provided. This amount noted in the report is greater than the available balance Iowa provided to the Department in their submission as the IDOE calculations included negative ESSER balances by some LEAs.

<sup>12</sup> The vast majority of these costs were for personnel expenses that were known costs. It appears that Des Moines shifted these expenses to the ESSER funds before the end of the fiscal year.

funds in an interest-bearing account. The following is a chart of available ESSER balances of LEAs that exceeded \$500,000 as of September 4, 2020.

LEA Name	ESSER Subaward	ESSER Expenditures 9/4/20	Available Balance	% of ESSER funds Available
Clinton	\$ 788,775.00	\$ 144,033.92	\$ 644,741.08	81.74%
Muscatine	\$ 717,845.00	\$ 199,421.46	\$ 518,423.54	72.22%
Ottumwa	\$ 847,790.00	\$ 284,534.02	\$ 563,255.98	66.44%
Cedar Rapids	\$ 3,023,581.00	\$ 1,074,598.87	\$ 1,948,982.13	64.46%
Iowa City	\$ 1,600,395.00	\$ 764,530.45	\$ 835,864.55	52.23%
Sioux City	\$ 2,914,050.00	\$ 1,504,787.32	\$ 1,409,262.68	48.36%
Davenport	\$ 4,234,105.00	\$ 2,376,017.01	\$ 1,858,087.99	43.88%
Dubuque	\$ 1,452,310.00	\$ 816,219.08	\$ 636,090.92	43.80%
Council Bluffs	\$ 1,843,914.00	\$ 1,110,613.38	\$ 733,300.62	39.77%
<b>Totals</b>	<b>\$ 17,422,765.00</b>	<b>\$ 8,274,755.51</b>	<b>\$ 9,148,009.49</b>	

As this data demonstrates, IDOE’s decision to provide advance payments of the entire ESSER subaward is inconsistent with the requirements of the CMIA and the Uniform Guidance because IDOE did not limit the payments to subgrants to actual and immediate needs.

Additionally, when IDOE provided ESSER funds to LEAs, it failed to gather actual information (e.g., estimated reimbursement figures for prior allowable expenditures) from LEAs about whether LEA payments would be “limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project,” consistent with 2 C.F.R. §200.305(b)(1). IDOE did not provide the Department with information disseminated to LEAs on cash management requirements contemporaneously with the subaward<sup>13</sup>, nor did IODE inform LEAs on how to return subgrant funds if the LEAs did not have actual or immediate cash needs until August 24, 2020.

Finally, under 2 C.F.R. §200.305(b)(8)-(9)<sup>14</sup>, many LEAs in Iowa were required to place advance payments from the IDOE in interest bearing accounts and remit interest on advance payments of all

<sup>13</sup> IDOE provided an undated letter referring to a previously sent July 8, 2020 email related to cash management. The Department assumes it was sent to LEAs at some point after July 8, 2020. Also, a subrecipient provided the Department with the urgent assurance IDOE sent through the CASA system related to cash management in June 2020 after the award subgranted.

<sup>14</sup> 2 C.F.R. §200.305(b)(8) states: The non-Federal entity must maintain advance payments of Federal awards in interest-bearing accounts, unless the following apply:

Federal funds that exceeds \$500 through the U.S. Department of Health and Human Services' Payment Management System.<sup>15</sup> As of the date of the Department's monitoring activities involving IDOE, IDOE had yet to determine if any of its LEAs has exceeded the \$500 interest threshold. It is still possible that some LEAs will exceed the \$500 threshold and will be required to remit excess interest.<sup>16</sup>

## **CORRECTIVE ACTIONS**

Within 15 days from the date of this report, IDOE must:

1. Remind LEAs about their requirements in the Uniform Guidance in C.F.R. § 200.305 regarding advance payments and must inform LEAs of two options:
  - a. Obligate and expend all remaining ESSER funds for allowable purposes within 60 days of the date of this report; or
  - b. Return unspent funds to the IDOE (funds that have been returned will still be available to the respective LEAs to draw down when they have immediate cash needs).
2. Provide specific assurances to the Department that IDOE will comply with all requirements under the Cash Management Improvement Act for CARES Act funds unless explicitly told otherwise and will implement the corrective actions in this report.
3. Within 90 days from the date of this report, IDOE must provide to the Department:
  - a. A report detailing available LEA ESSER balances as of 60 days from the date of the report; and
  - b. Return all unspent ESSER funds to the Department's G5 grant management system.
4. By July 30, 2021, IDOE must provide:  
 A report of all interest accrued by LEAs as a result of advance payment of ESSER funds and evidence that interest accrued in excess of \$500 by any LEA was remitted to the Department of Health and Human Services consistent with the requirements of 2 C.F.R. §200.305(b)(9).
5. Moreover, IDOE must meet the following condition as stated in the Grant Award Notification to its FY 2021 ESSER fund (ESSER II) award:
 

*Before the Iowa Department of Education (IDOE) draws down funds allocated in this Grant Award Notification (GAN) from the Department's grants management system (G5), and no later than 30 days after the date of the GAN, it must provide to the Department evidence that it has adopted and implemented procedures to ensure compliance with the Cash Management Improvement Act and 2 C.F.R. §200.305, with respect to these funds, including:*

---

(i) The non-Federal entity receives less than \$250,000 in Federal awards per year.

(ii) The best reasonably available interest-bearing account would not be expected to earn interest in excess of \$500 per year on Federal cash balances.

(iii) The depository would require an average or minimum balance so high that it would not be feasible within the expected Federal and non-Federal cash resources.

<sup>15</sup> See <https://pms.psc.gov/grant-recipients/returning-funds-interest.html>.

<sup>16</sup> The State Treasurer of Iowa Recommended Rates For Public Obligations (74A.3) & School District Warrants (74A.7) is equal to a rate of 75% of the Federal Reserve monthly published indices for U.S. government securities of comparable maturities, see <https://www.iowatreasurer.gov/for-businesses/public-funds-rates>. Based on rates posted on the Federal Reserve's website, this amount would equate to an interest rate of approximately .07% percent.

- a. Advance payments to a non-Federal entity are limited to the minimum amounts required for actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project, and*
- b. Payment methods minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity (here IDOE) and the disbursement by the non-Federal entity.*

## Accounting Systems and Fiscal Management

### ACTION REQUIRED



This section identifies Accounting Systems and Fiscal Management areas where OESE staff has “significant compliance and quality concerns.”

For these issues, OESE will outline the current practice, the nature of noncompliance, and the required action.

### REQUIREMENT SUMMARY

**Description:** A grantee and its subrecipients must use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds. In general, a grantee must expend and account for Federal funds in accordance with State laws and procedures for expending and accounting for State funds. In addition, a grantee and subrecipients, accounting systems must satisfy Federal requirements regarding the ability to track the use of funds and permit the disclosure of financial results. Grantees also must have written procedures for determining cost allowability and must maintain effective control over all funds.

EDGAR

[34 C.F.R. 76.702](#)

Uniform Guidance

[2 C.F.R. 200.302](#)

[2 C.F.R. 200.331](#)

[2 C.F.R. 200.407](#)

### ISSUE

In their ESSER subgrant applications, LEAs in Iowa indicated proposed uses of funds by clicking a box in Iowa’s Consolidated Accountability and Support Application (CASA) system. The CASA system is utilized by LEAs to submit various subgrant applications awarded by the Department to IDOE.<sup>17</sup> In reviewing these applications in CASA, IDOE generally requires LEAs to submit subgrant budgets for each of the Federal grants. IDOE also requires, as part of the application process additional assurances or require LEAs to respond to questions prior to receiving a subgrant.<sup>18</sup>

However, for the ESSER program, IDOE made an exception to their standard procedure. IDOE did not require LEAs to provide a budget of their ESSER funds during the application process prior to

<sup>17</sup> In addition to the ESSER subgrants, LEAs submit subgrant applications for the following programs: McKinney-Vento Application Content: Title I part A; Title I, Section 1003 - School Improvement; Title I Part C; Title I Part D; Title II, Part A; Title III; Title IV, Part A and Part B; and Title V, Part B, Subpart 2

<sup>18</sup> See Title I subgrant application, <https://educateiowa.gov/sites/files/ed/documents/TitleIABasicApplicationContent.pdf>.

universally distribution nor did it require LEAs to report on items of cost that require prior approval under 2 C.F.R. §200.407. This regulation in the Uniform Guidance identifies certain costs where prior approval is specifically required for allowability. IDOE required LEAs to only provide categorical assurances and to identify their use of ESSER funds by clicking on general potential uses of ESSER funds. In the IDOE LEA initial application for ESSER funds, IDOE did not include specific references to cash management component. The assurance was sent through the CASA system in June 2020, after all funds were already subgranted and IDOE was contacted by the Department regarding the draw down. LEAs were also then asked to report the anticipated amount of unspent ESSER funds by August 1, 2020.

IDOE indicates the emergency nature of the ESSER funds as to the rationale for making an exception to its standard reimbursement accounting process. For other Federal awards administered by IDOE in CASA, IDOE requires LEAs to submit general ledger detailing expenditures. However, since IDOE did not require LEAs to submit budgets when approving the ESSER subawards or more detailed information related to actual need, and expenditures, IDOE did not adequately reinforced its internal controls to adjust to cash management requirements or the increased concerns of waste, abuse or fraud when funds are universally advanced. As such in addition to significant unspent account balances, the Department found items of cost, noted in more detail below, where IDOE should have required additional information to grant prior approval, or deny the costs as unallowable expenses.

#### **CORRECTIVE ACTIONS**

- 1) Within 60 days from the date of this letter, IDOE must provide a plan for how it will ensure LEAs comply with prior approval requirements. This might include obtaining budget information from all ESSER subgrantees, which would include any supplemental ESSER funds awarded to IDOE.
- 2) Within 90 days from the date of this letter, IDOE must provide evidence IDOE has implemented the plan noted above for prior approval (e.g., a list of prior approvals granted for equipment and other items of costs, actual documentation of IDOE approvals or denied requests, and a sample of LEA budgets).



## SECTION V

# Internal Controls

### ACTION REQUIRED



This section identifies Internal Control areas where OESE staff has “significant compliance and quality concerns.”

For those issues, OESE will outline the current practice, the nature of noncompliance, and the required action.

### REQUIREMENT SUMMARY

**Description:** A Grantee must establish and maintain a system of effective internal controls over Federal awards that provides reasonable assurance that the Grantee is managing Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of Federal awards. These internal controls should be in accordance with guidance stated in the “Standards of Internal Control in the Federal Government” ([GAO Green Book](#)) or the “Internal Controls Integrated Framework” (Treadway Commission).

Uniform Guidance  
[2 C.F.R. 200.303](#)

### ISSUE

Based on documents submitted by IDOE, the Department found that IDOE performed a “management override”<sup>19</sup> of existing internal controls within IDOE and made the decision to advance ESSER funds to LEAs, instead of its usual practice of reimbursing LEAs for costs incurred, without adequate internal controls or creating a monitoring environment specifically tailored to risks associated with the advanced payment of ESSER funds.

While IDOE provided examples of how it maintains various aspects of an internal controls framework, IDOE did not provide evidence of sufficient internal controls.<sup>20</sup> The five components of internal controls in the *GAO Green Book* (i.e., control environment, risk assessment, control activities, information and communication, and monitoring) must be effectively designed, implemented, and operating, and

<sup>19</sup> According to the Government Accountability Office’s “Standards for Internal Control in the Federal Government,” (i.e. Green Book) Management override circumvents existing control activities and increases fraud risk. The Uniform Guidance states that non-Federal internal controls should be in compliance with the Green Book, see 2 C.F.R. §200.303(a).

<sup>20</sup> 2 C.F.R. §200.61 defines internal controls as a process, implemented by a non-Federal entity, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (a) Effectiveness and efficiency of operations;
- (b) Reliability of reporting for internal and external use; and
- (c) Compliance with applicable laws and regulations.

operating together in an integrated manner, for an internal control system to be effective. If a key component of an internal control system is not effective, or the components are found to not be operating together, then the system cannot be effective (*see e.g., GAO Green Book*, pages 7, 15). The existing internal controls for ESSER within IDOE are not reasonably calculated to create an effective control environment where funds are advanced to subrecipients. For example, IDOE did not revise its risk assessment of LEAs prior to awarding ESSER funds. The risk assessment IDOE provided the Department assigned greater amounts of risk to smaller LEAs with declining enrollment. IDOE did not explain why assigning risk in this manner was relevant to ESSER funds where advance payments would be occurring. The second risk assessment framework provided to the Department by IDOE related specifically to ESSER funds in that it will assign risk based only on track available balances and interest.<sup>21</sup> provides no indication that the risk assessment is designed to determine other risk factors (i.e., amounts of the awards, previous audit findings, etc.) to determine appropriate subrecipient monitoring of LEAs consistent with 2 C.F.R. § 200.332(b) and beyond cash management concerns.

Additionally, IDOE provided advanced payments to LEAs without any knowledge of LEA actual immediate need beyond the general categorical checkboxes in the CASA system (described in the Accounting Systems and Fiscal Controls section) regarding the possible future use of ESSER funds. The funds were released with only assurances on whether those funds would be used for allowable purposes and depended on LEAs to know which costs would require prior written approval by IDOE. Ultimately, this weakened control environment resulted in IDOE approving quarterly reports by LEAs that included potentially unallowable costs being charged to ESSER funds and costs that required prior approval by IDOE.

### **CORRECTIVE ACTION**

Within 60 days from the date of this letter, IDOE must develop a revised risk assessment specific to ESSER funding where IDOE reevaluates each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

## Subrecipient Monitoring

### ACTION REQUIRED



This section identifies subrecipient monitoring areas where OESE staff has “significant compliance and quality concerns.”

For those issues, OESE will outline the current practice, the nature of noncompliance, and the required action.

### REQUIREMENT SUMMARY

**Description:** A Grantee shall monitor subrecipients and any other entities, including external providers, receiving Federal funds from programs to ensure that all applicable fiscal and programmatic performance goals are achieved and that subawards are used for authorized purposes and in compliance with Federal statutes, regulations, and the terms and conditions of Federal awards.

Uniform Guidance  
[2 C.F.R. 200.332\(d\)](#)

### ISSUE

IDOE reported that monitoring of LEAs will consist of a review of interest earned on ESSER funds and a review of ESSER expenses on a quarterly basis. In its submissions to the Department, IDOE did not provide sufficient detail on the scope of subrecipient monitoring review, the process IDOE would take if it found that an LEA had accrued interest over \$500, or if impermissible expenditures were discovered by the IDOE. Both LEAs included their quarterly report for the Department’s review. These reports included actual expenditure reports of ESSER funds, submitted to IDOE by September 30, 2020, and were subsequently approved by the IDOE.

Despite the quarterly submission approval by IDOE, the Department’s review of financial reports from both LEAs found that ESSER funds were used for:

- Expenses associated with parties<sup>22</sup>
- Candy corn for summer school<sup>23</sup>
- Yard signs for high school graduates
- Red carpet rentals

<sup>22</sup> It is unclear if these expenses were for students or staff at schools.

<sup>23</sup> The district purchased \$657.20 of candy corn from Amazon for summer school. The LEA confirmed, in a follow up conversation, IDOE did not question this expenditure on the quarterly report submission that was subsequently approved.

- Equipment including electrostatic cleaning devices that have a per unit cost that exceeds \$5,000.<sup>24</sup>

Other expenses listed were for unknown purchases.<sup>25</sup> These are costs that should have been identified as questionable by IDOE and a determination should have been made whether these and other items of cost charged to the LEA ESSER subaward were allowable. Additionally, IDOE failed to provide evidence to the Department about what steps it would take to address any unallowable costs once identified. Therefore, IDOE is not in compliance with 2 C.F.R.332(d) by failing to adequately monitor the activities of the subrecipient to ensure that the subaward is used for authorized purposes.

Finally, it should also be noted that in the Department's conversations with LEA central office staff, the staff reported that they could not recall the last time IDOE had conducted fiscal monitoring of their LEA.

### **CORRECTIVE ACTIONS**

- 1) Within 60 days from the date of the letter, IDOE must submit to the Department for approval, a subrecipient monitoring plan that includes the following:
  - a) Detailed information on how IDOE intends on monitoring LEAs and their use of ESSER funds.
  - b) A means of tracking LEA available balances and ensuring compliance with the payment requirements in 2 C.F.R §200.305(b)
  - c) A procedure for correcting noncompliance, including a process for LEA to potentially return funds<sup>26</sup> for unallowable expenditures.
- 2) Within 60 days from the date of this report and every 60 days subsequently through September 30, 2022, IDOE must provide information demonstrating which LEAs have been selected for additional monitoring as well as documentation of specific monitoring efforts related to actual expenses of LEA as available balances are spent down.

---

<sup>24</sup> See [2 C.F.R. §200.439\(b\)\(1\)](#) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except with the prior written approval of the Federal awarding agency or pass-through entity (underline added).

<sup>25</sup> An example of this type of expenditure is "WM SUPERCENTER SUPPLIES"

<sup>26</sup> The return of funds must come from non-Federal sources.