

Fiscal Monitoring for the Outlying Areas and Freely Associated States

Background Information

As grantees that receive grants under section 611 of Part B of the Individuals with Disabilities Education Act (IDEA) (the Grants to States program), Outlying Areas and Freely Associated States (Entities) must comply with the programmatic and fiscal requirements of all applicable Federal laws, including Part B of the IDEA and its implementing regulations (34 CFR Part 300), the Education Department General Administrative Regulations (EDGAR) (34 CFR Part 76) and the Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) (2 CFR Part 200). In addition to complying with programmatic requirements, including the requirement to make a free appropriate public education (FAPE) available to all eligible children with disabilities, the Entities must also comply with fiscal requirements related to financial management and internal control systems and the proper use, accounting, and documentation of expenditures made from IDEA Part B section 611 funds (IDEA Part B funds). This protocol examines how the Entities are meeting a number of key fiscal requirements and is intended to identify areas of strength and weakness, and support Entities in developing financial management and internal control systems that are reasonably designed to ensure that IDEA Part B funds are used in accordance with the requirements of Part B of the IDEA, EDGAR, and the OMB Uniform Guidance.¹

The Office of Special Education Program's (OSEP's) fiscal monitoring of the Entities is different than its monitoring of State educational agencies (SEAs) that flow through IDEA Part B funds to local educational agencies for several reasons. First, with the exception of the Virgin Islands (VI),² the Entities are unitary systems. Second, two of the Outlying Areas (American Samoa and Guam) are currently high-risk, and all three of the Freely Associated States have specific conditions on their IDEA Part B grant award due to concerns regarding their use of funds for travel. Third, for some Entities, IDEA Part B funds are the sole source of funding for special education and related services, and, as a result, the importance of IDEA Part B funding is heightened. For these reasons, there is an increased need for OSEP oversight to ensure that IDEA Part B funds are used in accordance with applicable requirements.

Under Part B of the IDEA, EDGAR, and the OMB Uniform Guidance, the Entities are responsible for oversight of the use of IDEA Part B funds. Under 34 CFR §76.702 and the financial management, internal controls, and monitoring requirements in 2 CFR §§200.302, 200.303, and 200.328, each Entity must provide for:

1. Records that identify adequately the source and use of IDEA Part B funds;³

¹ This protocol does not examine how the Outlying Areas are ensuring that IDEA Part C funds are used in accordance with the requirements of Part C of the IDEA, EDGAR, and the Uniform Guidance.

² Because of its high-risk status with the Department, OSEP has elected to monitor VI using this protocol, as a means of determining whether VI has appropriate financial management and internal control systems for ensuring the proper use of IDEA Part B funds.

³ These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

2. Effective control over, and accountability for, all IDEA Part B funds, as well as property and other assets purchased with those funds;⁴
3. Internal controls ensuring that, among other things, expenditures are in accordance with IDEA Part B provisions;⁵
4. Fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds;⁶
5. Written procedures for determining the allowability of costs, in accordance with the cost principles in the Uniform Guidance;⁷ and
6. Monitoring that covers each program, function, or activity.

In order to determine compliance with these requirements, as well as IDEA and other applicable Federal requirements, OSEP will be examining Entity policies, underlying operational procedures, evidence of implementation of those policies and procedures, and related supporting documentation.

Monitoring Objectives

OSEP's monitoring of the Entities is intended to be collaborative, and designed to assist the Entities in developing financial management and internal controls systems that ensure IDEA Part B funds are used for allowable purposes and in a manner that meets the requirements of IDEA and the OMB Uniform Guidance and promotes improved outcomes for children with disabilities.

While the primary focus of this monitoring activity is to provide technical assistance, OSEP has a responsibility under section 616(a)(1) of the IDEA to monitor implementation of Part B of the IDEA through oversight of the exercise of general supervision by States (including the Entities) and to enforce Part B of the IDEA. Therefore, if OSEP identifies any noncompliance during the course of this monitoring activity, and the Entity does not demonstrate correction of the noncompliance before OSEP issues a finding, OSEP will notify the Entity in writing of the noncompliance and require the noncompliance is corrected as soon as possible, and in no case later than one year after OSEP's identification of the noncompliance.

Specific technical assistance and monitoring activities include:

1. Provide the Entity with an overview of the requirements for financial management and internal controls;
2. Analyze the Entity's existing systems for financial management, internal controls, and fiscal monitoring;

2 CFR §200.302(b)(3); see also 2 CFR §§200.333 regarding retention requirements for records, 200.336 regarding access to records, and 200.337 regarding restrictions on public access to records.

⁴ The Entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. 2 CFR §200.302(b)(4); see also 2 CFR §200.303 regarding internal controls.

⁵ 2 CFR §200.303. In order to meet this requirement, OSEP is requiring the submission of the Entity's method(s) for ensuring the allowable use of IDEA Part B funds.

⁶ See 34 CFR §76.702.

⁷ See 2 CFR §200.302(b)(7).

3. Review the Entity’s plans for revising its systems in light of the Uniform Guidance, as applicable;
4. Identify any gaps between the Entity’s systems and the requirements in the Uniform Guidance;
5. Examine how the Entity’s financial management and internal control systems ensure that IDEA Part B funds are expended in accordance with the provisions of Part B of the IDEA and its implementing regulations, and that the freely associated states use IDEA Part B funds only for the direct provision of special education and related services to children with disabilities, and to enhance the freely associated state’s capacity to make FAPE available to all children with disabilities;⁸
6. Discuss how the use of IDEA Part B funds can be aligned with the goal of improving outcomes for children with disabilities and achieving the State-Identified Measurable Result (SIMR) described in the Entity’s State Systemic Improvement Plan (SSIP);
7. Highlight best practices identified at the Federal level; and
8. Help OSEP to identify exemplary practices within the Entities.

Monitoring Protocol

I. Establishing and maintaining effective financial management and internal controls systems for ensuring the allowable use of IDEA Part B funds:

The OMB Uniform Guidance requires IDEA Part B grantees to establish and maintain effective internal controls over the IDEA Part B grant award.⁹ For the purposes of this monitoring activity, OSEP will examine how an Entity plans for the use of, and ultimately uses, its IDEA Part B funds.

In order to demonstrate that it has established and maintained effective financial management and internal control systems for planning and tracking the allowable use of IDEA Part B funds, each Entity will:

- a. Provide OSEP with the method(s) that it uses for ensuring that IDEA Part B funds are used in accordance with applicable requirements. That 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. The Entity’s method should be sufficient in detail to provide reasonable assurance that its IDEA Part B funds will be used for allowable purposes.

⁸ See IDEA section 612(a)(17)(A) and 34 CFR §§300.162(a) and 300.701(a)(1)(ii)(A) and (a)(2)(ii) of the IDEA Part B regulations.

⁹ 2 CFR §200.303 requires that Entities “establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States or the *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

- b. Ensure that it maintains documentation related to the development, tracking, and revision of the Entity's internal controls method(s).

Documents Needed:

OSEP may request and review a sample of the following:

- a. Documentation related to the Entity's method(s) for ensuring effective internal controls over the planning and allowable use of IDEA Part B funds.
 - 1. Documents related to the method(s) that the Entity uses for planning and tracking the use of IDEA Part B funds (e.g., a budget or spending plan).
 - 2. Policies and procedures related to planning and tracking actual expenditures to ensure the allowable use of IDEA Part B funds.
- b. Organizational information regarding the offices/divisions/agencies involved in the planning process.
- c. Documentation of any mechanisms used by the Entity to track expenditures and ensure consistency with the Entity's established planning method.
- d. Communications between budget/planning office and program staff (e.g., approvals of budgets and expenditures from the Entity office responsible for budgeting/planning processes).
- e. Evidence of monitoring activities ensuring that the Entity is tracking expenditures of IDEA Part B funds on a regular basis.
- f. Forms or other evidence demonstrating that the Entity has internal controls mechanisms for making changes to its intended/planned use of IDEA Part B funds.
- g. As applicable, examples of actual revisions to the planned use of IDEA Part B funds.

Sample Questions:

- a. What method does the Entity use for planning the use of IDEA Part B funds?
- b. How does the Entity use its method(s) to develop priorities that are consistent with IDEA?
- c. How does Entity staff across different programs/divisions/offices/agencies communicate regarding the method for planning expenditures, and the need for revisions to that plan where IDEA Part B funds are concerned?
- d. What is the Entity's process for comparing actual IDEA Part B expenditures against planned/budgeted amounts?
- e. What procedures/process does the Entity follow in revising its plan for the use of IDEA Part B funds?
- f. How does stakeholder input from the Entity's State Advisory Panel inform the Entity's planning process, specifically with regard to the Panel's duties under 34 CFR §300.169?
- g. How does the Entity monitor for the consistent implementation of its policies, procedures, and practices related to its method(s) for ensuring the allowable use of IDEA Part B funds?

II. Written procedures for determining the allowability of costs, in accordance with the cost principles in Subpart E of the OMB Uniform Guidance:

Each Entity must:

- a. Develop written procedures for determining the allowability of costs using IDEA Part B funds in accordance with the cost principles in Subpart E of the Uniform Guidance and the terms and conditions of the Federal award consistent with 2 CFR §200.302(b)(7).
- b. Procure goods and services with IDEA Part B funds consistent with the general considerations for allowability in 2 CFR §§200.403-200.405.
- c. Ensure that goods and services procured with IDEA Part B funds are allowable under the specific items of cost included in the cost principles at 2 CFR §§200.420-200.475.
- d. Develop a system of internal controls for personnel expenses paid for with IDEA Part B funds. These controls must provide reasonable assurance that the personnel expenses are accurate, allowable, and properly allocated, consistent with 2 CFR §200.430(i).
- e. Ensure that expenditures of IDEA Part B funds for equipment, or the construction or alteration of facilities, is consistent with IDEA section 605 and 2 CFR §200.439, and OSEP's guidance. This includes submitting a request to OSEP and receiving prior approval prior to expending IDEA Part B funds on equipment and the construction or alteration of facilities. 2 CFR §200.407.
 1. Equipment is defined under 2 CFR §200.33, and means tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes, or \$5,000.
 2. Capital expenditures is defined under 2 CFR §200.13, and means expenditures to acquire capital assets or expenditures to make additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations, or alterations to capital assets that materially increase their value or useful life.
- f. Ensure that it generates and maintains documentation related to the allowability of IDEA Part B expenditures, consistent with 2 CFR §200.403(g).

Documents Needed:

OSEP may request and review a sample of the following:

- a. The Entity's policies and procedures for determining allowability for expenditures of IDEA Part B funds;
- b. Organizational information regarding the offices/divisions/agencies involved in the Entity's procurement and/or payroll processes for IDEA Part B expenditures.
- c. Documentation of any mechanisms used by the Entity to track IDEA Part B expenditures and ensure consistency with the cost principles.

- d. Communications between the Entity’s program office and other offices involved in the Entity’s procurement and payroll processes for IDEA Part B expenditures (e.g., authorizations from the procurement office, approval of payroll).
- e. Evidence of monitoring activities directed at ensuring that the Entity is tracking the allowable use of IDEA Part B funds on an ongoing basis (e.g., sample approvals, reports)

Sample Questions:

- a. What processes does the Entity use to ensure that its IDEA Part B funds are used for allowable purposes?
- b. What Entity programs/divisions/offices/agencies are involved in implementing those processes and underlying policies?
- c. What Entity staff is involved in:
 - 1. Assigning and processing payroll costs for the IDEA Part B program?
 - 2. Determining the allowability of goods/assets purchased with IDEA Part B funds?
 - 3. Determining the allowability of services obtained with IDEA Part B funds?
- d. How does Entity staff across those different programs/divisions/offices/ agencies communicate with one another regarding these controls?
- e. How does the Entity monitor for the consistent implementation of its policies, procedures, and processes?

III. Review effective control over, and accountability for, all IDEA Part B funds, as well as property and other assets purchased with those funds:

With regard to controls over IDEA Part B funds and assets purchased with those funds, each Entity must ensure the following:

- a. That the Entity is adequately safeguarding assets purchased with IDEA Part B funds, and ensuring that they are used solely for authorized purposes, consistent with the requirement in 2 CFR §200.302(b)(4);
- b. That the Entity is using, managing, and disposing of equipment¹⁰ purchased with IDEA Part B funds in accordance with the requirements in 2 CFR §200.313(c) through (e);
- c. That the Entity has a system of internal controls that is provides reasonable assurance that the Entity is managing the IDEA Part B award in compliance with Federal statutes, regulations, and the terms and conditions of the IDEA Part B award, including safeguard supplies, including vulnerable assets,¹¹ purchased with IDEA Part B funds, in accordance with 2 CFR §200.303(a);
- d. That the Entity’s financial management , internal controls, and monitoring systems include components addressing:
 - 1. The budgeting/planning the use of IDEA Part B funds (See also section I);

¹⁰ See 2 CFR §200.33 of the Uniform Guidance for the definition of equipment.

¹¹ Under the Standards for Internal Control in the Federal Government, vulnerable assets include assets such as cash, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use.

2. The timely obligation and liquidation of IDEA Part B funds;¹²
3. The documentation of personnel expenses charged to the IDEA Part B award;¹³
4. The determination of allowable costs for goods and services purchased with IDEA Part B funds (See also Section II).

Documents Needed:

OSEP may request and review a sample of the following:

- a. The Entity's policies and procedures related to:
 1. The inventory, management, and disposal of equipment and other assets purchased with IDEA Part B funds;
 2. Ensuring the timely obligation and liquidation of IDEA Part B funds;
 3. Documenting personnel expenses related to salaries and wages charged to the IDEA Part B grant award;
- b. Examples (including completed forms, spreadsheets, screenshots from automated systems, etc.) from the processes used by the Entity for (a)(1) through (a)(3) above.
- c. Evidence of any internal reviews used by the Entity to monitor/verify compliance with its policies and procedures.
- d. Organizational chart depicting the various agencies/offices/divisions involved in the implementation of the Entity's policies and procedures.
- e. General description of the accounting system used by the Entity, including the functions performed by the system.
- f. Policies related to payments that are consistent with 2 CFR §200.305.

Sample Questions:

- a. What accounting and other financial management system(s) are involved in the Entity's effective control over, and accountability for, the use of its IDEA Part B funds?
- b. What system(s)/mechanisms does the Entity use to ensure effective control and accountability over equipment and other assets purchased with IDEA Part B funds?
- c. What offices/staff are responsible for accounting for the use of IDEA Part B funds?
- d. What approval processes are in place over the use of IDEA Part B funds for goods and services?
- e. What offices/staff are responsible for maintaining and safeguarding equipment and other assets purchased with IDEA Part B funds?
- f. What policies and procedures direct the Entity's processes for ensuring effective controls over equipment and other assets purchased with IDEA Part B funds?

¹² See 34 CFR §§76.703, 76.707 and 76.709, and 2 CFR §200.343(b).

¹³ See 2 CFR §§200.430-200.431.

- g. What policies and procedures direct Entity practices related to the timely obligation and liquidation of IDEA Part B funds?
- h. How does the Entity ensure that staff supported by IDEA Part B funds are being funded appropriately (i.e., in proportion with their effort on the special education program)?
- i. How does Entity staff across different programs/divisions/offices/agencies communicate with one another regarding these controls?
- j. How does the Entity monitor for the consistent implementation of its policies, procedures, and processes?

IV. Review of the Entity’s system for record retention and access under the requirements in the OMB Uniform Guidance:

With regard to its financial management system for records, each Entity must ensure the following:

- a. That the Entity’s records adequately identify the source and application of IDEA Part B funds. These records must contain information pertaining to the IDEA Part B award, authorizations, obligations, unobligated balances, assets, expenditures, income and interest, and be supported by source documentation, consistent with 2 CFR §200.302(b)(3);
- b. That the Entity’s documentation of expenditures of IDEA Part B funds is adequate to support the determination of allowability for special education program purposes, consistent with 2 CFR §200.403(g);
- c. That the Entity’s financial records, supporting documents, and all other Entity records pertinent to the IDEA Part B award are retained in accordance with the record retention requirements in 2 CFR §200.333, and that information is collected, transmitted, and stored in accordance with 2 CFR §200.335;
- d. That the Entity is restricting public access to financial records only in those instances where protected personally identifiable information (PII) is involved, in accordance with 2 CFR §§200.303(e) and 200.333 through 200.337.

Documents Needed:

OSEP may request and review a sample of the following:

- a. Examples of documentation routinely maintained by the Entity related to issues under the IDEA Part B program such as:
 - 1. Competitive procurement practices;
 - 2. Budgeting/planning decisions and processes;
 - 3. Determination of allowability of specific costs;
 - 4. Prior approval processes;
 - 5. Maintenance of assets purchased with IDEA Part B funds;
 - 6. Payroll and other personnel practices.

- b. Examples of standard forms used and maintained related to the Entity's fiscal processes (especially those that include decision points, authorizations, justifications, etc.).
- c. Examples of internal reviews of compliance with Entity documentation standards and requirements, related reports, etc.
- d. The Entity's policies and procedures related to documentation/records, including record maintenance and management of PII.

Sample Questions:

- a. What system(s) does the Entity use to maintain documentation related to fiscal processes and expenditures of IDEA Part B funds (paper, scan and file, other automated systems, etc.)?
- b. Who is responsible for ensuring that records related to the Entity's fiscal processes under the IDEA Part B program are properly maintained?
- c. What specific fiscal processes (and what steps and decision points within those processes) under the IDEA Part B program does the Entity document?
- d. What policies direct the Entity's record retention processes under the IDEA Part B program?
- e. What operational procedures direct Entity practices related to access to records under the IDEA Part B program?
- k. How does the Entity ensure that PII is protected?
- l. How does the Entity monitor for the consistent implementation of its policies, procedures, and processes?