

June 2, 2004

Control Number ED-OIG/A03-D0010

Bonnie S. Copeland, Ph.D.
Interim Chief Executive Officer
Baltimore City Public School System
200 E. North Avenue
Baltimore, MD 21202

Dear Dr. Copeland:

This **Final Audit Report** presents the results of our audit of Baltimore City Public School's (BCPS) Administration of its 21st Century Community Learning Center (21st CCLC) Grant program. Our audit objective was to determine if BCPS's expenditures of 21st CCLC grant funds were reasonable, allowable and allocable in accordance with the Elementary and Secondary Education Act of 1965, as amended (ESEA), Education Department General Administration Regulations (EDGAR), grant terms, and the cost principles in Office of Management and Budget (OMB) Circular A-87. Our audit covered the period June 1, 2001, through February 28, 2003.

We provided a copy of our draft report to BCPS. In its response to the report, BCPS agreed with all our findings and recommendations and plans to offset its next drawdown by an additional \$30,000.¹ We have summarized BCPS' comments in the AUDIT RESULTS section of the report. The full text of the comments is included as Enclosure 2.

AUDIT RESULTS

We identified management control weaknesses that adversely affected BCPS's ability to properly account for expenditures and administer its 21st CCLC program. Specifically, we found that BCPS had inadequate financial management controls and did not keep records of its 21st CCLC program in-kind contributions. In addition, we determined that BCPS's 21st CCLC program expenditures were not always reasonable, allowable, and allocable in accordance with ESEA, as amended, EDGAR, grant terms, and the cost principles in OMB Circular A-87, as BCPS expended \$43,821 for unallowable and unsupported costs.

¹ This amount represents a portion of the remaining unallowable and unsupported costs not refunded to the grant prior to the issuance of the draft report.

Finding No. 1 BCPS's Management Controls Need Improvement

Our audit identified management control weaknesses that adversely affected BCPS's ability to administer its 21st CCLC program. Specifically, BCPS had inadequate financial accounting system controls, failed to inventory computer equipment purchased with grant funds, had inadequate review and approval of accounting forms, and lacked formal written policies and procedures. The details of these weaknesses are discussed below.

INADEQUATE FINANCIAL ACCOUNTING SYSTEM CONTROLSBCPS's Oracle financial management system did not have adequate controls.

BCPS's Oracle financial accounting system allowed any cost center² to post expenditures to any valid budget account, whether or not that cost center was included in the approved grant-spending plan.³ Furthermore, BCPS's Oracle financial accounting system did not prevent employees from posting to accounts with insufficient funds to cover the expenditures. During the audit period, BCPS's Oracle financial accounting system permitted a total of \$170,508 to be charged to the 21st CCLC grant that were either over budget, unallowable, unsupported, or unallocable. According to BCPS's Budget Office personnel, BCPS management minimized validation controls within its Oracle financial accounting system in order to decrease the number of system rejects and exceptions.

BCPS's fiscal year 2003 CCLC budget was not loaded into its Oracle financial management system prior to posting expenditures.

BCPS posted expenses against 21st CCLC grant funds prior to the loading of its FY 2003 21st CCLC grant budget (spending plan) into its Oracle financial management accounting system. BCPS did not prepare or load the spending plan until after January 2003, approximately six months after the start of the fiscal year. BCPS should have approved this spending plan and loaded it into its accounting system prior to July 1, 2002, the beginning of BCPS's fiscal year.

Budgetary controls are a critical part of financial management controls as they help to prevent overspending and improper charges. In addition, according to 34 C.F.R. § 80.20(b)(3) and (4),⁴ BCPS must maintain effective control and accountability for all grant cash and compare actual 21st CCLC expenditures or outlays with budgeted amounts. BCPS must adequately safeguard this cash and assure that it is used solely for authorized purposes.

² A cost center is an organizational unit, such as a school site or departmental office, for which costs are incurred.

³ A spending plan is the budget for the grant.

⁴ Unless otherwise specified, all regulatory citations are to the March 5, 2001 edition of EDGAR.

INADEQUATE CONTROLS OVER EQUIPMENT PURCHASES

BCPS did not maintain adequate inventory records for computer equipment purchased for the Thomas Jefferson Elementary School's (Thomas Jefferson) 21st CCLC program. Additionally, BCPS did not use the equipment to serve its 21st CCLC program. BCPS acquired five computers and five monitors for Thomas Jefferson's 21st CCLC program, but did not inventory them. During our review, school officials could not determine the location of the equipment until a search of the school was performed. We informed BCPS of this finding during our on-site fieldwork and BCPS placed the computer equipment in Thomas Jefferson's 21st CCLC computer lab, so that students in the program could benefit from it.

The regulations at 34 C.F.R. 80.32(d) require the maintenance of inventory records for nonexpendable personal property acquired in whole or in part with federal funds. Property records must be maintained that include among other things, a description of the property, serial number [or other identification number] and the location.

FINANCIAL ACCOUNTING FORMS WERE NOT PROPERLY APPROVED

Failure to follow instructions on Authorization to Pay (ATP) form

BCPS did not properly complete its ATP forms according to the written instructions. All 28 expenditures we reviewed that required the use of an ATP form were approved for payment without having the appropriate signature to authorize the payments. Two of the 28 forms were determined to include \$2,846 in unallowable costs, which may have been avoided had the forms been properly authorized for payment. BCPS processed all invoices under \$5,000 using an ATP form. The instructions on the form required two signatures: (1) one signature to certify that the listed services were rendered in a satisfactory manner and that notice to that effect from the party in charge is on file in their department, and (2) another signature to authorize the payment.

Thomas Jefferson officials did not properly approve the Sundry Education Services Payment Order (SESPO) form

BCPS uses the SESPO form to record payroll data. We reviewed 11 SESPO forms processed by Thomas Jefferson during the pay periods ending November 12, 2002, and November 26, 2002, and determined that the forms were not properly approved. To be proper, the SESPO forms should have been approved by either the grant manager or project director, or the principal if these individuals are absent. Such approval attests to the accuracy of the time reported and confirms that the appropriate budget account number is being charged. The Payroll Department, which receives the original copy of the form and relies upon the information contained on it, should not have processed the forms without the appropriate signature.

Controls over Temporary Employment (TE) form need strengthening

During our analysis of expenditures charged to the grant, we reviewed costs charged for temporary employment. BCPS used the TE form to approve payment of payroll costs for

part-time temporary employment services. The TE form required a budgetary approval signature for positions funded by a grant; however, none of the four TE forms we sampled had this approval. In addition, the form does not require any approval by the 21st CCLC grant manager. BCPS should require the grant manager to review and approve (by signature) all TE forms relating to the 21st CCLC grant to insure that all information is accurate and in accordance with the approved spending plan. Finally, the TE forms we reviewed identified permissible costs for the grant, but these costs were not associated with any BCPS sub-object codes. BCPS should revise the TE form to include sub-object codes, so that the Budget Department knows which sub-object code the payroll costs should be associated with in order to determine if the costs are in line with the approved spending plan.

Completing and properly approving the ATP and SESPO forms and revising the TE form will strengthen management controls and accountability over the costs charged to Federal grant funds.

LACK OF FORMAL POLICIES & PROCEDURES

BCPS had no formal written policies and procedures to properly administer its grants accounting and management, accounts payable, stipend processing, drawdown processing, and budget operations.⁵ Documented policies and procedures are a sound business practice as they set forth an organization's financial and operational management controls. The lack of documented policies and procedures may result in inconsistencies, non-compliance with laws and regulations and processing or procedural errors.

Recommendations:

We recommend the Chief Financial Officer in conjunction with the Assistant Secretary for Elementary and Secondary Education require BCPS to:

- 1.1 Implement validation rules and controls within its Oracle financial accounting system or develop and implement other financial management controls to prevent budget overruns, unallocated, unallowable and questionable expenditures from being paid with federal funds;
- 1.2 Prepare, approve, and load its fiscal budget (spending plan) into its Oracle financial management system, prior to expending any funds for the fiscal year;

⁵ BCPS had recently drafted accounts payable policies and procedures, which were being reviewed. BCPS also recently provided grant managers with general written procedures on applying for, processing, and managing grant awards. We did not review BCPS's recently drafted accounts payable policies and procedures but did review the procedures BCPS provided to its grant managers. We found these procedures to be informal and very general in nature. They did, however, represent an attempt by BCPS to begin implementing and strengthening its management controls.

- 1.3 Perform and maintain an inventory of equipment purchased with 21st CCLC grant funds and ensure that any computer equipment purchased with 21st CCLC grant funds is properly located and used for intended purposes;
- 1.4 Implement adequate management controls over the preparation and approval of the ATP and TE forms, including revising the TE form to include allowable sub-object codes. Also, require the grant manager to review and approve all TE forms relating to the grant. In addition, ensure that all forms receive a budgetary approval signature, as required; and
- 1.5 Develop and implement formal written policies and procedures pertaining to stipend and drawdown processing, grant accounting and management, accounts payable, and budget operations departments.

BCPS' COMMENTS

BCPS agreed with the finding and the recommendations. BCPS plans to develop formal written policies and procedures and implement system and budgetary controls in its Oracle financial accounting system. BCPS stated it has implemented new payroll procedures to address the financial accounting form weaknesses noted during our audit.

Finding No. 2 BCPS Charged Unallowable and Unsupported Costs to the 21st CCLC Grant

BCPS did not properly account for and use 21st CCLC grant funds in accordance with the applicable regulations, grant terms, and cost principles. Of the \$141,848 in grant costs we reviewed, \$42,986 was unallowable and \$835 was unsupported. The unallowable costs were for payroll (\$4,971), fringe benefits (\$280), transportation (\$1,480), computer and office equipment (\$5,430), supplies (\$1,366), and contractual services (\$29,459). The unsupported costs were for payroll (\$776) and fringe benefits (\$59). BCPS refunded \$13,407 of the unallowable costs prior to the issuance of the draft report.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, Paragraph C.1* (1997) provides, in part, that

To be allowable under Federal awards, costs must . . . Be necessary and reasonable for proper and efficient performance and administration of Federal awards . . . Be allocable to Federal awards . . . Be adequately documented.

Furthermore, 34 C.F.R. § 75.730 states that, “A grantee shall keep records that fully show . . . (b) How the grantee uses the funds; (c) The total cost of the project . . . (e) Other records to facilitate an effective audit. ”

BCPS’s inadequate financial management controls addressed in Finding Number 1 allowed the unallowable and unsupported costs to occur. For example, BCPS’s Oracle financial accounting system allowed cost centers to post expenditures to any valid budget account number, whether or not the cost center or even the sub-object code was included in the approved grant-spending plan. As a result of the inadequate financial management controls, employees that did not work on the program were paid with grant funds, payroll costs were processed without the appropriate approvals and did not agree to or were not supported by the time and attendance records. In addition, the school principal at Thomas Jefferson did not appear to have been aware of the 21st CCLC guidance, laws, and regulations. As a result, unallowable payroll and travel costs were charged to the grant.

Details of the unallowable and unsupported costs are discussed in Enclosure 1.

Recommendations:

We recommend that the Chief Financial Officer in conjunction with the Assistant Secretary for Elementary and Secondary Education require BCPS to:

- 2.1 Refund the \$29,579 (\$42,986-\$13,407) for the unallowable expenditures;
- 2.2 Provide adequate supporting documentation for the \$835 in unsupported expenditures or refund the portion that ED determines has not been adequately documented;
- 2.3 Develop and implement financial management controls that will: a) ensure that only individuals participating in the program are compensated with grant funds, b) ensure that employees are only compensated for time actually worked and supported by the time and attendance sheets, and c) identify individuals authorized to approve grant expenses for final payment; and
- 2.4 Ensure that 21st CCLC school principals are aware of and follow 21st CCLC guidance, laws and regulations.

BCPS’ COMMENTS

BCPS agreed with our finding and the recommendations. BCPS stated it would offset its next drawdown by \$30,000 (\$835 and \$29,459).

OIG'S RESPONSE

BCPS should refund \$30,414 (\$29,579 + \$835). This amount represents the unallowable (\$29,459+\$120) and unsupported expenditures (\$835) not previously refunded. The amount BCPS agreed to offset only includes the unsupported expenditures and the unallowable expenditure for the contractual services (\$29,459), totaling \$30,294, which BCPS rounded to \$30,000. BCPS did not include the \$120 stipend payment to one senior citizen volunteer that was not previously refunded (See Enclosure 1, B.).

Finding No. 3 BCPS Did Not Keep Records of In-Kind Contributions

BCPS did not maintain a record of its 21st CCLC in-kind contributions since the grant was awarded on June 1, 2001. Over the lifetime of the grant BCPS estimated it would contribute approximately \$624,000 of local funds in implementing its 21st CCLC program. However, BCPS stopped tracking local contributions for all its grants when its Oracle financial management system was implemented several years ago. According to a BCPS official, the Oracle system did not offer BCPS an effective way of tracking in-kind contributions. Because in-kind contributions were not tracked, we could not determine whether BCPS invested the promised level of local resources to implement its 21st CCLC program.

The regulations at 34 C.F.R. § 75.730(c) and (d) require that a grantee keep records that fully show the total cost of the project and the share of that cost provided from other sources. In addition, BCPS's in-kind contributions must be verifiable and its records must show how the value placed on third-party in-kind contributions was derived [34 C.F.R. § 80.24 (b)(6)].

Recommendation:

We recommend that the Chief Financial Officer in conjunction with the Assistant Secretary for Elementary and Secondary Education require BCPS to:

- 3.1 Develop and implement a method to track its in-kind contributions.

BCPS' COMMENTS

BCPS agreed with our finding and recommendation. BCPS plans to develop and implement an in-kind contribution tracking mechanism.

OTHER MATTERS

In addition to the findings discussed in the Audit Results section of this report, we noted the following issues. We are reporting these issues for appropriate corrective action.

BCPS's FY 2002 Spending Plan and Loaded Budget Were Not in Agreement

During FY 2002,⁶ BCPS did not properly load its 21st CCLC program-spending plan into its Oracle financial accounting system. We noted four instances where sub-object code amounts loaded into the FY 2002 budget did not agree with the amounts listed on BCPS's approved spending plan. BCPS overspent one of these line items by over \$38,000.⁷ We also noted one instance where an amount loaded into a sub-object code in the Oracle financial accounting system was not included in the approved spending plan.

The regulations at 34 C.F.R. § 75.702 require that a grantee " . . . use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds." Budgetary controls are a critical part of financial management controls as they help to prevent overspending and improper charges.

We suggest BCPS properly load its fiscal budget (spending plan) into its Oracle financial management system prior to expending any funds for the fiscal year. BCPS agreed with our suggestion and is currently implementing a new budget process.

BCPS Did Not Obtain Written Authorization to Support the Implementation of Two New 21st CCLC Sites

During FY 2003, BCPS added two schools (Gardenville and Federal Hill) to their 21st CCLC program. However, BCPS did not obtain written authorization from ED to add these schools to its 21st CCLC program. According to 34 C.F.R. § 80.30 (d)(1), grantees must obtain the prior approval of ED whenever they anticipate any revision of the scope or objective of the project (regardless of whether there is an associated budget revision requiring prior approval). The addition of the two schools is a revision of the scope and clearly required prior approval.

We suggest BCPS obtain written authorization from ED prior to making any major changes in its budget. BCPS agreed with our suggestion.

⁶ FY 2002 represents the period June 1, 2001, through May 30, 2003.

⁷ For FY 2002, BCPS budgeted \$31,000 for contractual services, yet expended \$69,870.

BACKGROUND

Title X, Part I, of the ESEA, as amended, authorizes the 21st CCLC grants that fund rural and inner-city public elementary or secondary schools, or consortia of such schools, to enable the implementation, or expansion of projects that benefit the educational, health, social service, cultural, and recreational needs of a rural or inner-city community.

A community learning center (center) is an entity within a public elementary or secondary school building that provides educational, recreational, health, and social service programs for residents of all ages within a local community. The center should be operated by a local educational agency in conjunction with local governmental agencies, businesses, vocational education programs, institutions of higher education, community colleges, and cultural, recreational, and other community and health service entities. The centers must include no less than 4 of the 13 activities listed in Title X, Part I, Section 10905, of the ESEA, as amended.

ED awarded BCPS \$1,226,190 in 21st CCLC grant funds for the three-year period June 1, 2001, through May 31, 2004. The award amounts, by year, are:

<u>Period</u>	<u>Award Amount</u>
06/01/2001-05/31/2002	\$ 224,981
06/01/2002-05/31/2003	\$ 499,790
06/01/2003-05/31/2004	<u>\$ 501,419</u>
Total	<u>\$1,226,190</u>

During our audit period (June 1, 2001, through February 28, 2003), BCPS expended \$330,232 of these grant funds by operating programs at the following schools: Thomas Jefferson, Samuel Coleridge-Taylor Elementary School, and Patapsco Elementary School. BCPS's three 21st CCLC sites operated three days a week, two to three hours per day, immediately following dismissal. The first hour was devoted to academic instruction. During the next one to two hours, students received assistance with homework and participated in enrichment activities. During the second year of its program, BCPS added two additional sites, Federal Hill Preparatory School and Gardenville Elementary School, to its 21st CCLC program.

The goals of BCPS's programs were to improve the academic performance of children, by focusing attention on reading, language, mathematics and science. BCPS's associated activities were structured to develop social skills and teach children to handle conflicts in more socially acceptable ways. The programs also included technological, cultural, and recreational activities to guide learning and engage children in activities identified by BCPS as being wholesome.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine if BCPS's expenditures of 21st CCLC grant funds were reasonable, allowable and allocable in accordance with ESEA, EDGAR, grant terms, and the cost principles in OMB Circular A-87. To accomplish our objective, we:

- Reviewed BCPS's OMB Circular A-133 (Single Audit) audit report for the period ending June 30, 2001, and a draft of BCPS's Single Audit audit report for the period ending June 30, 2002;
- Reviewed BCPS's internal audit reports for the payables and procurement functions;
- Reviewed BCPS's 21st CCLC grant application and budget narrative;
- Reviewed BCPS's 21st CCLC grant performance reports for the periods June 1, 2001, through May 30, 2002; and June 1, 2002, through May 30, 2003;
- Reviewed BCPS's Standard Operating Procedures for accounting, procurement, payroll, and fringe benefits;
- Reviewed ED and BCPS's 21st CCLC drawdown and disbursement records;
- Randomly selected and reviewed 30 other than personnel service (OTPS) expenditures, totaling \$42,940 from a universe of 158 OTPS expenditures, totaling \$156,658;
- Randomly selected and reviewed 20 payroll transactions, totaling \$20,438 from a universe of 299 payroll transactions, totaling \$129,099;
- Reviewed all 14 payroll transactions for the Grant Manager, totaling \$25,732, which were posted to BCPS's payroll account on February 21, 2003;
- Reviewed all 5 payroll transactions, totaling \$1,140 and three stipend transactions, totaling \$360, for all 21st CCLC senior citizen volunteers; and
- Interviewed officials from BCPS and from ED's Office of Elementary and Secondary Education.

To achieve our audit objective, we relied in part on computer-processed data contained in BCPS's financial account system (Oracle). We assessed the reliability of this data including the relevant general controls and found them to be adequate. We tested the accuracy, authenticity, and completeness of the data by comparing source records to computer data. Based on these tests and assessments we concluded that the data were sufficiently reliable to be used in meeting the audit's objective.

We conducted the fieldwork at BCPS's offices in Baltimore, Maryland from March 17, 2003, through April 11, 2003. We also performed fieldwork at Thomas Jefferson in Baltimore, Maryland on March 31, 2003. We reviewed additional documentation that was provided by BCPS in December 2003. An exit conference was held on December 17, 2003.

We conducted the audit in accordance with generally accepted government auditing standards appropriate to the scope of review described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review we assessed the system of management controls, policies, procedures, and practices applicable to BCPS's administration of its 21st CCLC grant program. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objectives.

For the purpose of this report, we assessed and classified the significant controls into the following categories:

- Budgeting;
- Disbursements;
- Records Management; and
- Time and Effort Reporting.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed financial management control weaknesses that existed in BCPS's administration of the 21st CCLC program. These weaknesses and their effects are fully discussed in the AUDIT RESULTS section of this report.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department officials, who will consider them before taking final Departmental action on the audit:

Jack Martin
Chief Financial Officer
Office of the Chief Financial Officer
400 Maryland Avenue, SW, Room 4E313
Washington, DC 20202

Raymond J. Simon
Assistant Secretary for Elementary and Secondary Education
U.S. Department of Education
400 Maryland Avenue, SW, Room 3W315
Washington, DC 20202

It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/

Bernard E. Tadley
Regional Inspector General
for Audit

Enclosures

Enclosure 1

**BALTIMORE CITY PUBLIC SCHOOL'S 21ST CENTURY GRANT
SCHEDULE OF COSTS RECOMMENDED FOR ACCEPTANCE,
UNALLOWABLE COSTS, AND COSTS THAT ARE UNSUPPORTED
JUNE 1, 2001, THROUGH FEBRUARY 28, 2003**

Cost Category	Total Costs Reviewed During Audit	Unallowable Costs	Unsupported Costs	Total Unallowable & Unsupported Costs	Total Costs Recommended for Acceptance
Personnel & Fringe Benefits	\$50,400 ⁸	(A), (B) \$5,251 (C), (D)	(E) \$835	\$6,086	\$44,314
Travel	1,842	(F) 1,480		1,480	362
Equipment	18,218	(G) 5,430		5,430	12,788
Supplies	8,237	(H) 1,366		1,366	6,871
Contractual	63,512	(I) 29,459		29,459	34,053
TOTAL	\$142,208	\$42,986	\$835	\$43,821	\$98,387

- A. **Non-21st CCLC employees.** During our review of all 21st CCLC programmatic costs for the audit period, we noted three instances totaling \$1,485, where individuals were compensated with 21st CCLC grant funds, yet were not 21st CCLC employees.
- B. **Senior citizen volunteers.** During the month of May 2002, BCPS paid three senior citizen volunteers working at Thomas Jefferson a total of \$360 in stipends (\$120 each), in addition to paying them a salary. The project director approved the volunteers to receive stipend payments but was unaware that the school principal had already authorized them to receive salary payments. Since the volunteers were classified as temporary employees, the stipend payments were unallowable.
- C. **Overcompensation of employees.** We identified \$2,740 in unallowable costs for six of the 20 BCPS 21st CCLC payroll transactions we reviewed. For these transactions, BCPS's time and attendance sheets did not support the hours for which BCPS's 21st CCLC employees were compensated.
- D. **Health & pension costs.** During fiscal years 2002 and 2003, BCPS charged a total of \$666 in unallowable health and pension costs to the grant for six employees working in BCPS's 21st CCLC program. Health and pension costs were not allowable grant costs. According to BCPS's policy for temporary employment,

⁸ This amount includes \$360 in stipend costs, \$46,486 in personnel costs, and \$3,554 in fringe benefit costs.

- employees hired for BCPS's 21st CCLC grant program can only be compensated for wages and applicable FICA taxes.
- E. Unsupported payroll costs.** We identified unsupported costs from a judgmentally selected sample of Thomas Jefferson's 21st CCLC program sign-in sheets for the pay period ending November 26, 2002. We noted a total of nine exceptions, eight instances where the employees either did not sign the timesheet at all or signed the timesheet and did not enter the time they began work or the time they ended and one instance where an employee was compensated for more time than was certified by their time sheet. Without employees properly signing in and out, there is no evidence to show that the employees did in fact provide to the school all the services for which they were compensated.
- F. Thomas Jefferson zoo bus trip.** In June 2002, grant funds were expended to pay for bus service for an unallowable fieldtrip for students at Thomas Jefferson. This was a school-wide trip that took place during school hours and was approved by the school principal without the knowledge of the grant manager or project director. According to 21st CCLC non-regulatory guidance, issued in February 2003 by ED (a draft was released in May 2002), community-learning centers must offer services only during non-school hours or periods when school is not in session (i.e., before school, after school, evenings, holidays, school vacation periods).
- G. Computer equipment purchased for BCPS's Title I program.** During FY 2002, BCPS charged unallowable expenses to the 21st CCLC grant for the purchase of a laser printer (\$2,405), projector (\$1,588), copier (\$448), and flat screen monitor (\$989). The equipment was being used to create newsletters and other After School Intervention strategies for BCPS's Title I program.
- H. Thomas Jefferson staff celebration.** BCPS charged an unallowable expense to the 21st CCLC grant for a Thomas Jefferson staff celebration held in June 2002. According to BCPS's grant application, all food cost expenses to the 21st CCLC grant would be incurred for parent workshops only. No parents attended the event and no workshop was held.
- I. Office Team costs charged to the grant were unallowable and questionable.** BCPS charged the 21st CCLC grant a total of \$61,012 for contractual administrative services. We consider \$29,459 (represents costs for one individual) of this amount to be unallowable because the expenditures were unreasonable. From March 2002, through December 2002 [41 pay periods], BCPS hired two individuals from Office Team to perform administrative services. According to one individual, she typed, gathered and created grant program information, and prepared performance reports. For 38 of the 41 pay periods, the two clerical assistants worked in BCPS's Title I office at the same time. The work performed did not support the 2,789 hours charged to the grant. We believe one individual could have performed the work. As further evidence of this, during the exit conference BCPS officials informed us that in addition to adding more schools to its program, administrative services would be performed by one individual.

CITY OF BALTIMORE
MARTIN O'MALLEY, Mayor



BALTIMORE CITY PUBLIC SCHOOL SYSTEM

BONNIE S. COPELAND, Ph.D.
Chief Executive Officer
200 E. North Avenue
Baltimore, MD 21202

April 15, 2004

RECEIVED MAY - 3 2004

Bernard Tadley, Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
The Wanamaker Building
100 Penn Square East, Suite 502
Philadelphia, PA 19107

Dear Mr. Tadley:

I have reviewed the Draft Audit Report for the 21st Century Community Learning Center Grant program covering the period June 1, 2001 through February 28, 2003. The following are the responses for the three findings identified.

AUDIT RESULTS

Finding No. 1 BCPSS's Management Control Need Improvement

- We agree with this finding.

BCPSS will implement the following system controls:

1. Validation rules will be established with the Accounting Director to block unauthorized charges to grants.
2. System check funds control will be turned on to prevent expenditure charging against an unavailable balance.

Loading of the system's Budget:

BCPSS has implemented a new budget process that ensures that all grant budgets are properly loaded in a timely manner and allows for budget revisions, effective FY'05.



In adequate Controls Over Equipment Purchases

BCPSS has a fixed asset management system called Oracle Fixed Assets that interfaces with the financial management system and has the capabilities mentioned in this finding. The fixed asset management system was used to report fixed assets for the June 30, 2003 financial statements. However, BCPSS only began using the fixed assets management system toward the end of Fiscal Year 2003. During Fiscal Year 2004, BCPSS will compile the fixed asset data for entry into the system by Fiscal Year end. After that, fixed asset data will be entered into the system on a monthly basis.

Financial Accounting Forms Were Not Properly Approved

- The new procedures implemented by BCPSS Payroll Office require grant managers to attach proof of financial approval to individual Educational Payment Order forms or for a grouping of payment orders. If grant managers fail to do so, the payment requests are returned unpaid. Payment will then be delayed until proper approval proof is provided.
- BCPSS's Human Resource Office has changed the Temporary Employment Approval Form. Attached is a copy of the new form. The new form compliments the current operating HRMS HR & Payroll System. No individual can be on the payroll without input through IIR and HR requires the appropriate approvals, including Budget.

Lack of Formal Policies & Procedures

BCPSS will develop formal fiscal and management policies and procedures to guide business practices within the system. Policies and procedures will help to streamline the Accounting practices relating to fiscal operations.

BCPSS agrees with recommendation 1.1 through 1.4.

Finding No.2 BCPSS Charged Unallowable and Unsupported Costs to the 21st CCLC Grant.

- **We agree with recommendations 2.1, 2.3, and 2.4.**
- For recommendation 2.2: A journal entry has been processed to reduce the expenditure on the grant by \$30,000 (\$835 + \$29,459). The next drawdown will be offset by this reduction.

Finding No. 3 BCPSS did not keep records of in-kind contributions.

- **We agree with this finding.**

BCPSS's General Accounting department will develop and implement an in-kind tracking mechanism. This will enable BCPSS to account for required in-kind contributions pertinent to grants.

- **We agree with recommendation 3.1.**

Other Matters

Corrective actions will be taken by BCPSS to address the following:

1. The new budget process currently being implemented will ensure that spending plans loaded budgets will match. The new process allows for reconciliation and needed revisions.
2. The previous grant manager received verbal approval to expand the program to a second site. BCPSS will no longer accept verbal authorizations, but will require written notification by grantors before any changes are made to existing programs.

BCPSS will make every effort to comply with all federal regulations and guidelines pertaining to the fiscal management of grants. BCPSS will attempt to implement all recommendations listed in your findings.

Sincerely,



Bonnie S. Copeland, PhD.
Chief Executive Officer
Baltimore City Public School System