



**UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL  
61 FORSYTH STREET, ROOM 18T71  
ATLANTA, GEORGIA 30303**

Telephone: (404) 562-6470

Fax: (404) 562-6509

**MEMORANDUM**

DATE: November 24, 2003

TO: Jack Martin  
Chief Financial Officer  
Lead Action Official

Sally Stroup  
Assistant Secretary  
Office of Postsecondary Education

FROM: J. Wayne Bynum */s/ J. Wayne Bynum*  
Regional Inspector General for Audit  
Office of Inspector General

SUBJECT: **FINAL AUDIT REPORT**  
*North Alabama Center for Educational Excellence's Administration of the  
TRIO Programs Needs Improvement*  
Control Number ED-OIG/A04-D0001

You have been designated as the action officials responsible for the resolution of the findings and recommendations in the attached final report. We have also provided a copy to the auditee and to your Audit Liaison Officers.

The Office of Inspector General is required to review and approve your proposed Program Determination Letter (PDL) and the Audit Clearance Document (ACD) before the PDL is forwarded to the auditee. Please provide these documents for review, electronically if you wish or by mail, to:

J. Wayne Bynum  
Regional Inspector General, Region IV  
U.S. Department of Education  
Office of Inspector General  
61 Forsyth Street, Room 18T71  
Atlanta, GA 30303

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the number of audits unresolved. In addition, any report unresolved after 180 days from the date of issuance will be shown as overdue in our reports to Congress.

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.

If you have any questions, please contact me at 404-562-6477 or Assistant Regional Inspector General Mary Allen at 404-562-6465.

Attachment



**UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL  
61 FORSYTH STREET, ROOM 18T71  
ATLANTA, GEORGIA 30303**

**Telephone: (404) 562-6470**

**Fax: (404) 562-6509**

November 24, 2003

Dr. Harold G. Dickerson  
President/Executive Director  
North Alabama Center for Educational Excellence  
1515 Sparkman Drive, NW  
Huntsville, AL 35816

Dear Dr. Dickerson:

Enclosed is our final audit report, Control Number ED-OIG/A04-D0001, entitled *North Alabama Center for Educational Excellence's Administration of the TRIO Programs Needs Improvement*. This report incorporates the comments you provided in response to the draft report. 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 official, who will consider them before taking final Departmental action on this audit:

Jack Martin  
Chief Financial Officer  
U.S. Department of Education  
400 Maryland Avenue, SW, Room 4E313  
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/ J. Wayne Bynum*

J. Wayne Bynum  
Regional Inspector General for Audit  
Region IV

Enclosure

---

# North Alabama Center for Educational Excellence's Administration of the TRIO Programs Needs Improvement

---

## FINAL AUDIT REPORT



ED-OIG/A04-D0001  
November 2003

---

Our mission is to promote the efficiency,  
effectiveness, and integrity of the  
Department's programs and operations.



U.S. Department of Education  
Office of Inspector General  
Atlanta, Georgia

---

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.

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.

---

---

## TABLE OF CONTENTS

---

---

	Page
<b>EXECUTIVE SUMMARY.....</b>	<b>1</b>
<b>AUDIT RESULTS.....</b>	<b>3</b>
<b>Finding No. 1 - NACEE Improperly Paid For Rental Space Owned         by the Executive Director.....</b>	<b>3</b>
<b>Recommendations .....</b>	<b>4</b>
<b>Finding No. 2 - NACEE Used TRIO Funds to Pay Performance Awards         Without an Institutional Award Plan .....</b>	<b>5</b>
<b>Recommendations.....</b>	<b>6</b>
<b>Finding No. 3 - NACEE Lacked Documentation for a Travel         Expenditure.....</b>	<b>6</b>
<b>Recommendations.....</b>	<b>7</b>
<b>Finding No. 4 - NACEE Failed to Maintain Activity Reports to Support         the Executive Director’s TRIO Salary Distribution.....</b>	<b>8</b>
<b>Recommendations .....</b>	<b>9</b>
<b>Finding No. 5 - NACEE Lacked Documentation to Support Reported         Achievements.....</b>	<b>10</b>
<b>Recommendation.....</b>	<b>12</b>
<b>Finding No. 6 - NACEE Inaccurately Reported TRIO Program         Objectives and Achievements.....</b>	<b>12</b>
<b>Recommendation.....</b>	<b>14</b>
<b>Finding No. 7 - NACEE Did Not Submit OMB Circular A-133 Audits.....</b>	<b>14</b>
<b>Recommendations.....</b>	<b>15</b>
<b>BACKGROUND .....</b>	<b>16</b>
<b>OBJECTIVES, SCOPE, AND METHODOLOGY .....</b>	<b>16</b>
<b>STATEMENT ON MANAGEMENT CONTROLS .....</b>	<b>18</b>
<b>Attachment A - Lack of Documentation and Inaccurate Reporting .....</b>	<b>19</b>
<b>Attachment B – NACEE’s Written Response to the Draft Report .....</b>	<b>22</b>

---

## **EXECUTIVE SUMMARY**

---

The North Alabama Center for Educational Excellence (NACEE) is a non-profit corporation that provides TRIO program services to participants in Northern Alabama. The purpose of the audit was to determine whether NACEE administered the Federal TRIO programs in accordance with Title IV, Section 402A of the Higher Education Act of 1965, as amended, and the Education Department Grants and Administration Regulations (EDGAR). Specifically, we determined whether NACEE adhered to the TRIO program compliance requirements regarding (1) the accounting for Federal funds, (2) program expenditures, (3) participant eligibility, (4) performance objective achievements, and (5) timely submission of performance and audit reports. The audit included award years 2000-2001 and 2001-2002 for the following four TRIO programs: Educational Opportunity Center (EOC), Educational Talent Search (ETS), Upward Bound (UB), and Upward Bound Math & Science (UBMS).

NACEE violated the conflict of interest regulations regarding the payment for rental space at its central office. In March 1996, a corporation owned in part by the Executive Director and his spouse purchased the building and property that NACEE rented as its central office location. During the period May 1996 through September 2002, NACEE paid \$484,847 in rent to this corporation. TRIO program funds were used to pay the rent.

TRIO funds were used to pay performance awards to employees without an established institutional award plan. NACEE improperly used leftover funds allocated for supplies and salaries to pay the awards. TRIO funds totaling \$63,500 were improperly used to pay for the employee performance awards during award years 2000-2001 and 2001-2002. These funds could have been used to provide services to program participants.

NACEE lacked documentation for one expenditure. NACEE could not provide documentation to fully support a \$9,113 check written to the Executive Director for meal reimbursements.

NACEE failed to maintain activity reports to support the Executive Director's TRIO salary distribution. The Executive Director's cumulative salary for award years 2000-2001 and 2001-2002 was \$324,164. Without activity reports, NACEE cannot document that the Executive Director's salary was distributed and supported based on time actually spent on each grant.

TRIO program achievements reported in the 2000-2001 and 2001-2002 performance reports were not adequately supported. NACEE did not have adequate written policies and procedures to maintain supporting documentation for services provided to participants. In addition, the EOC and ETS performance reports did not always accurately represent the established performance objectives. NACEE could not identify the participants that composed the numbers reported in the performance reports. As a result, NACEE cannot assure the Department that they actually provided the services reported. The Department relies on reported performance data to determine whether a grantee is accomplishing its grant objectives and to determine funding.

NACEE did not ensure that Office of Management and Budget (OMB) Circular A-133 audits were submitted to the Federal Audit Clearinghouse. The Federal Audit Clearinghouse did not have any record of NACEE submitting any A-133 audits. Without receiving the audit reports, the Department lacks information to determine whether NACEE is in compliance with the Department's financial and program regulations.

We recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Postsecondary Education, require NACEE to return:

- \$484,847 to the Department for improper rental payments;
- \$63,500 for unauthorized performance awards paid to NACEE employees;
- \$4,873 for an unsupported payment made to the Executive Director for meals reimbursement; and
- \$324,164 in unsupported salary costs, or submit documentation to support the amount of time the Executive Director spent working on each TRIO program.

We also recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Postsecondary Education, require NACEE to:

- Discontinue using TRIO funds to pay for rent at the central office location;
- Ensure that any future employee performance awards are based on an institutional award plan;
- Establish management controls
  - To ensure that adequate documentation is maintained to support allowable costs and
  - For timely submitting completed OMB A-133 audits to the Federal Audit Clearinghouse; and
- Establish policies and procedures
  - For creating and maintaining activity reports to support the Executive Director's salary distributions to the TRIO programs,
  - To ensure that records are maintained for the services provided to participants to clearly demonstrate the specific educational benefits that participants receive, and
  - To ensure that TRIO program objectives and achievements are accurately reported.

Based on the deficiencies identified in this report, we also recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Postsecondary Education, take appropriate action pursuant to 34 C.F.R. § 74.62 to protect future EOC, ETS, UB, and UBMS grant funds.

In its written response to the draft report, NACEE did not agree with all of the findings and recommendations. We summarized NACEE's written response after each finding and included the response as Attachment B to this report. NACEE also provided supporting documentation with its written response, which is available upon request. Our comments to the written response are included after each finding.

---

---

## AUDIT RESULTS

---

---

Our audit objective was to determine whether NACEE administered the Federal TRIO programs in accordance with Title IV, Section 402A of the Higher Education Act of 1965, as amended, and EDGAR. Specifically, we determined whether NACEE adhered to the TRIO program compliance requirements regarding (1) the accounting for Federal funds, (2) program expenditures, (3) participant eligibility, (4) performance objective achievements, and (5) timely submission of performance and audit reports.

We did not identify compliance problems with the accounting for Federal funds, participant eligibility, or timely submission of performance reports. However, we identified problems with NACEE's compliance with program expenditures, performance objective achievements, and submission of audit reports. The audit results are outlined in Findings 1 through 7.

### **Finding No. 1 - NACEE Improperly Paid for Rental Space Owned by the Executive Director**

NACEE violated conflict of interest regulations regarding the payment for rental space at its central office. The Executive Director said it was his interpretation of the regulations that NACEE could make building space rent payments as long as its fiscal agent (Alabama A&M) did not own the property. NACEE paid \$484,847 in rent to a corporation that was owned, in part, by the Executive Director and his spouse.

The regulations at 34 C.F.R. § 75.525(a) and (b) (1995) state:

A grantee may not permit a person to participate in an administrative decision regarding a project if:

- (1) The decision is likely to benefit that person, or a member of his or her immediate family; and
- (2) The person:
  - (a) Is a public official; or
  - (b) Has a family or business relationship with the grantee.

A grantee may not permit any person participating in the project to use his or her position for a purpose that is--or gives the appearance of being--motivated by a desire for a private financial gain for that person or for others.

Since 1996, NACEE improperly used TRIO funds to pay for rental space for its central office. Rental payments were made to American Business, Education, and Industrial Systems, Inc. (ABEIS). However, the NACEE Executive Director was part owner of ABEIS. The Executive Director incorporated ABEIS in 1977 with his spouse and a former NACEE Assistant Director. In March 1996, ABEIS purchased from T&C Builders, Ltd., the building and property that NACEE rented for its central office at 1515 Sparkman Drive in Huntsville, Alabama. Both the

Executive Director and the managing partner for T&C Builders, Ltd., stated that ABEIS was a property management company. The Executive Director said he did not believe that making payments to ABEIS was a conflict of interest.

The Executive Director and his spouse financially benefited when NACEE paid rent for space in which they had a personal interest. From May 6, 1996, to September 12, 2002, NACEE paid ABEIS \$484,847 in rental payments. TRIO funds were used for these rental payments. The September 2002 payment covered the period September 2002 through August 2003.

## **RECOMMENDATIONS**

We recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Postsecondary Education, require NACEE to:

- 1.1 Return \$484,847 to the Department for the improper rental payments.
- 1.2 Discontinue using TRIO funds to pay rent for the current central office location.

## **NACEE RESPONSE**

In its written response to the draft report (see Attachment B), NACEE agreed with the finding. The response stated that no present NACEE employee was aware of any ownership interest in ABEIS on the part of the Executive Director, or that the rental payment of Federal TRIO funds to ABEIS constituted a violation of regulations. The response stated that any action with respect to the recommendations must await the resolution of the U.S. Attorney's investigation and disposition of any criminal complaint. NACEE stated that it has no funds from which to make payment of the amount asserted, and questions its corporate liability for the stated amount or any amount related to the asserted violation.

Pending resolution of the matter before the U.S. Attorney, NACEE recommended that (1) the Department restore funding to NACEE with respect to all TRIO grants, (2) the Department authorize NACEE to establish a non-interest bearing escrow account with its fiscal agent (Alabama A&M) or with a certified public accounting firm to receive and hold all annual rental payments due ABEIS pending resolution of the matter with the U.S. Attorney, and determination of any funds due to the Department/U.S. Treasury, or (3) the Department could withhold an amount equal to the annual rental payment due to ABEIS under the current lease agreement pending resolution of the matter with the U.S. Attorney and the Education Department Inspector General. Delay in insulating the matter before the U.S. Attorney from the program administration concerns in Findings 2-7 could result in the attrition of NACEE staff and the denial of services to eligible program participants.

## **OIG COMMENTS**

As indicated in the NACEE response, this issue was referred to OIG Investigation Services for review. The use of TRIO funds to pay for rental space owned by the Executive Director is under

review by the U.S. Attorney, which must be completed before the above audit recommendations can be resolved.

NACEE concurred that TRIO funds were improperly used to pay for building rental space that was owned by the Executive Director. According to NACEE's TRIO grant application, the Executive Director is an employee "operating under the guidelines established by the Board of Directors and . . . has full authority in the execution of the project." The grant application also states that "[t]he overall responsibility for the operation of NACEE is given to the Executive Director." The Department's conflict of interest regulation at 34 C.F.R. § 75.525 states that a grantee may not permit a person to participate in an administrative decision regarding a project if the decision is likely to benefit that person. NACEE violated the regulations by allowing the Executive Director to make rental payments to a company from which he received benefits.

The corrective actions proposed by NACEE would continue to fund rental payments to ABEIS by using an escrow account or a withholding funds method. We do not agree with either method because it could result in the continued use of TRIO funds to make improper rent payments to ABEIS. We did not change our finding and recommendations.

## **Finding No. 2 - NACEE Used TRIO Funds to Pay Performance Awards Without an Institutional Award Plan**

NACEE used TRIO funds allocated for supplies and salaries to pay employee performance awards. The performance awards were not based on an institutional award plan. As a result, TRIO funds totaling \$63,500 were improperly used to pay for employee performance awards during award years 2000-2001 and 2001-2002.

The regulations at 34 C.F.R. § 74.27(a) (2000) state:

Allowability of costs are determined in accordance with the cost principles applicable to the entity incurring the costs . . . . For the cost of a private nonprofit organization other than (1) an institution of higher education; (2) a hospital; or (3) an organization named in OMB Circular A-122 as not subject to that circular, use the principles in OMB Circular A-122.

OMB Circular A-122, Selected Items of Cost, paragraph (7)(i) (1998) states:

Incentive compensation to employees based on cost reduction, or efficient performance, suggestion awards, safety awards, etc., are allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the organization and the employees before the services were rendered, or pursuant to an established plan followed by the organization so consistently as to imply, in effect, an agreement to make such payment.

During award years 2000-2001 and 2001-2002, NACEE used TRIO funds to pay performance awards to NACEE employees without an established institutional plan. When we asked for a

copy of the institutional plan for performance awards during the audit, NACEE did not have one. The NACEE office management staff developed criteria for making the performance awards after we requested it. In addition, the Departmental TRIO program officer said the institutional plan had not been submitted for review.

NACEE did not follow the requirement to establish an institutional plan for paying performance awards. The NACEE Office Manager stated that TRIO funds allocated for supplies and salaries were leftover at the end of the year, and it was decided to pay employee performance awards from the leftover funds. As a result, TRIO funds totaling \$63,500 were improperly used to pay for employee performance awards during award years 2000-2001 and 2001-2002. These funds could have been used to provide services to potential participants.

## **RECOMMENDATIONS**

We recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Postsecondary Education, require NACEE to:

- 2.1 Repay \$63,500 for unauthorized performance awards paid to NACEE employees.
- 2.2 Ensure that any future performance awards are based on an institutional award plan.

## **NACEE RESPONSE**

NACEE did not agree with the finding and recommendations. NACEE stated that it followed the guideline inasmuch as this is an allowable cost and followed the guideline as set by its fiscal agent (Alabama A&M), which provides that “Employees who have reached the maximum step in the position classification schedule will receive a bonus based on a percentage if so recommended by the supervisor on performance evaluation reports.” NACEE has since established an independent performance award plan to be submitted to the Departmental Program Officer for approval, and included in the newly revised staff handbook.

## **OIG COMMENTS**

NACEE was not an official sub-entity of its fiscal agent (Alabama A&M) and did not have a performance plan in effect at the time the awards were paid. The performance award costs are allowable only if the awards were based on an established performance award plan. Per its response, NACEE has established a performance award plan that will be submitted to the Departmental Program Officer for approval. The Department’s approval would apply to future award costs, not past costs. We did not change our finding and recommendations.

## **Finding No. 3 - NACEE Lacked Documentation for a Travel Expenditure**

NACEE did not have receipts to support a reimbursement paid to the Executive Director for meals for a TRIO program trip in July 2002. NACEE’s fiscal agent (Alabama A&M) was unable to locate the receipts and NACEE did not keep a copy of the receipts. The fiscal agent did not follow its established procedures for obtaining required documentation prior to payment.

As a result, there was no documentation to fully support a \$9,113 check paid to the Executive Director for program participant meals during a trip. In response to the draft report, NACEE provided meal receipts totaling \$4,240. We adjusted our recommendation to reflect these receipts.

The regulations at 34 C.F.R. § 74.53(b) (2001) state that “[f]inancial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report . . . .”

## **RECOMMENDATIONS**

We recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Postsecondary Education, require NACEE to:

- 3.1 Repay \$4,873 for the unsupported payment made to the Executive Director for meal reimbursement.
- 3.2 Establish management controls to ensure that adequate documentation is maintained to support allowable costs.

## **NACEE RESPONSE**

NACEE agreed that all receipts for the cited trip were not accounted for during the audit. NACEE said the Business Office was going through a reconstruction process during this time and some documents were not readily available for review. Each chaperon on the trip was issued money for each participant’s breakfast, lunch, and dinner for each day. Each participant and chaperon would sign each day for his/her meal money and the signed receipts were turned in to the fiscal agent (Alabama A&M) at the end of the trip. NACEE located receipts totaling \$4,558 and is confident that the remaining receipts will be located. Management has established additional controls whereby additional copies of all documentation will remain with the fiscal agent and NACEE. All revisions have been included in the program manual and staff handbook.

## **OIG COMMENTS**

We reviewed the documentation that NACEE provided and determined that receipts existed for 80 participants. Each of the 80 participants had a receipt for meals in the amount of \$53. Thus, NACEE was able to provide meal receipts in the amount of \$4,240 (80 x \$53). We adjusted our recommendation to require NACEE to repay \$4,873 (\$9,113 original questioned cost less \$4,240 in meal receipts). NACEE’s additional controls whereby additional copies of all documentation will remain with the fiscal agent and NACEE should help ensure that adequate documentation is maintained to support allowable costs.

## **Finding No. 4 - NACEE Failed to Maintain Activity Reports to Support the Executive Director's TRIO Salary Distribution**

NACEE did not maintain activity reports to show the amount of time the Executive Director spent working on the four TRIO programs. As a result, there was no support for the distribution of the Executive Director's salary totaling \$324,164 for award years 2000-2001 and 2001-2002.

OMB Circular A-122, Selected Items of Cost, paragraphs 7m(1) and (2) (1998) states that "the distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph (2)" which states that "reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards."

The Executive Director's salary was paid with funds from each of the four TRIO programs. Our review of the salary distribution for award year 2001-2002 revealed that the Executive Director did not maintain personnel activity reports or other records to support his salary distribution from the TRIO programs. It was NACEE policy for all full-time staff, including the Executive Director, to sign in and out each day. The Executive Director did not maintain activity reports to show the amount of time spent on each TRIO program. Since other NACEE employees were assigned to work 100 percent of their time on one TRIO program, a distribution of their time among programs was not required.

NACEE submitted separate budgets to the Department for each of the four TRIO programs. Our review of the proposed TRIO budgets indicated that the Executive Director was to spend 148 percent of his time working on the TRIO programs. Table 4.1 shows the 2001-2002 budget breakdown of the Executive Director's salary and time by TRIO program.

**Table 4.1 - Executive Director's Budgeted Salary and Time Commitment**

		<b>Time Commitment per Proposed Budget</b>
<b>EOC</b>	\$ 62,038	40.00%
<b>ETS</b>	54,401	50.00%
<b>UB</b>	30,470	33.33%
<b>UBMS</b>	10,816	25.00%
<b>Total</b>	<b>\$157,725</b>	<b>148.33%</b>

According to NACEE personnel action forms, the Executive Director's annual salary for 2001-2002 was actually \$162,556, which was distributed between the four TRIO programs as shown in Table 4.2.

**Table 4.2 - Executive Director's Actual Salary Distribution**

	<b>Salary per Personnel Action Forms</b>
<b>EOC</b>	\$ 66,648
<b>ETS</b>	55,269
<b>UB</b>	22,758
<b>UBMS</b>	17,881
<b>Total</b>	<b>\$162,556</b>

The Office Manager said NACEE was not aware of the regulation regarding maintenance of activity reports. NACEE did not have procedures for creating or maintaining activity reports to document the level of effort by the Executive Director on each grant. As a result, NACEE did not have activity reports for the Executive Director for award years 2000-2001 and 2001-2002 in which the Executive Director was paid \$161,608 and \$162,556, respectively.

NACEE did not have a detailed breakdown of the personnel cost category in its final approved budget. Therefore, we could not determine whether the final annual salary and time percentages for the Executive Director were reasonable. Without creating and maintaining activity reports to support salary distributions, NACEE did not document that the Executive Director's salary was appropriately distributed and supported based on time actually spent on each of the four TRIO programs.

## **RECOMMENDATIONS**

We recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Postsecondary Education, require NACEE to:

- 4.1 Submit documentation to support the amount of time the Executive Director spent on each TRIO program, or return \$324,164 in unsupported salary costs paid to the Executive Director during award years 2000-2001 and 2001-2002.
- 4.2 Establish policies and procedures for creating and maintaining activity reports to support the Executive Director's and any other employees' salary distributions when working on multiple TRIO programs.

## **NACEE RESPONSE**

The NACEE staff has always been required to submit monthly activity reports to the Executive Director highlighting the activities for the month. In addition, all coordinators had daily interaction with the Executive Director regarding each program. The Executive Director also conducted weekly joint coordinators meetings and program reviews. No activities were implemented or executed, or communications transmitted without prior approval from the Executive Director.

The response stated that while OMB Circular A-122 requires the distribution of salaries and wages to awards to be supported by personal activity reports, time cards and documentation of

the work performed by professional and management staff is not required under the Fair Labor Standards Act. Paragraphs 7m(1) and (2) of OMB Circular A-122 imposes a serious paper work burden on executive and supervisory staff that administer Federal grants, despite the fact that such employees frequently work in excess of a 40 hour week. NACEE has reconstructed, using the Executive Director's calendar and program staff activity reports, the Executive Director's monthly activity in support of each TRIO program. The fiscal agent (Alabama A&M) also provided an accurate allocation of the Executive Director's salary based on the actual time committed (based on the proposed budget) to each project. This documentation not only properly allocates the Executive Director's time, but also justifies the hours committed to the supervision of staff, project management, and community outreach in support of the TRIO programs.

It has been the policy for staff members to maintain monthly activity reports. The NACEE staff handbook has been revised to include monthly activity reports for the Executive Director.

## **OIG COMMENTS**

Per EDGAR (34 C.F.R. § 74.27(a) (2000)), NACEE is required to follow the cost principles in OMB Circular A-122, which requires that the distribution of salaries and wages to awards must be supported by personnel activity reports. We reviewed the reconstructed monthly activity reports provided by NACEE and could not determine the percentage of time the Executive Director spent on each program. The fiscal agent's (Alabama A&M) distribution of the Executive Director's salary was based on the salary distribution from each program and not the actual time spent on each program. We did not change our finding and recommendations.

### **Finding No. 5 - NACEE Lacked Documentation to Support Reported Achievements**

TRIO program achievements reported in the 2000-2001 and 2001-2002 performance reports were not adequately supported. NACEE did not have adequate written policies and procedures to maintain supporting documentation for services provided to participants. In addition, the NACEE computer system used to track services provided to participants could not recreate the information previously reported in the performance reports. As a result, the Department cannot be sure that NACEE actually provided the services reported.

The regulations at 34 C.F.R. §§ 643.32(c) and § 644.32 (2000) state that “[f]or each participant, a grantee shall maintain a record of . . . [t]he services that are provided to the participant; and . . . [t]he specific educational progress made by the participant as a result of the services.”

The regulations at 34 C.F.R. § 74.53(b) (2000) state that “[f]inancial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report . . . .”

Title IV, Section 402A(c)(2) of the Higher Education Act of 1965, as amended (1998), states that “[i]n making grants under this chapter, the Secretary shall consider each applicant's prior experience of service delivery under the particular program for which funds are sought.”

NACEE used its BLUMEN system to create performance reports submitted to the Department. However, the system could not identify the specific students that received the services reported in the performance reports (i.e., the system did not preserve historical data). Therefore, the BLUMEN system could not be used to support the results reported in NACEE's 2000-2001 and 2001-2002 performance reports.

NACEE conducted a manual review in an attempt to recreate the support for the 2000-2001 and 2001-2002 performance reports. Our review of this information revealed the following:

- NACEE did not maintain source documentation in EOC participants' files for the 2000-2001 and 2001-2002 program years. In addition, for objectives 2, 4, and 6 in 2000-2001 and 2001-2002, NACEE did not have documentation to support achievements. The participant files reviewed for each objective that did not have supporting documentation ranged from 8 to 54 percent. (See Table 5.1 in Exhibit A for details.)
- NACEE did not have documentation to support reported achievements for ETS objectives 4, 5, and 6 in 2000-2001 and 2001-2002. The participant files reviewed for each objective that did not have supporting documentation ranged from 9 to 73 percent. (See Table 5.2 in Exhibit A for details.)
- NACEE did not have documentation to support reported achievements for UB and UBMS objective 2 to increase participant grade point averages (GPA) by 0.05 percent for award years 2000-2001 and 2001-2002. The participant files reviewed for each objective that did not have supporting documentation ranged from 27 to 93 percent. (See Table 5.3 in Exhibit A for details.)

NACEE lacked adequate written policies and procedures instructing personnel to maintain supporting documentation for services provided to participants. NACEE procedures for documenting EOC services for performance achievements did not require the maintenance of supporting documentation of services in participant files. The EOC program coordinator stated that NACEE received instructions from the Department that it was not necessary to maintain supporting documentation of services provided; however, the coordinator did not provide documentation to support this claim. NACEE documented that it provided services to participants by recording service codes in the participants' files. In some instances, NACEE was able to contact high schools and colleges to obtain some supporting documentation. The Department's program officer for NACEE stated that source documentation must be maintained by NACEE.

By not maintaining supporting documentation for services provided, the Department cannot be ensured that NACEE actually provided the services reported. The Department relies on reported performance data to determine whether a grantee is accomplishing its grant objectives and to determine funding.

## RECOMMENDATIONS

We recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Postsecondary Education, require NACEE to:

- 5.1 Establish policies, procedures, and management controls to ensure that records are maintained for the services provided to participants to clearly demonstrate the specific educational benefit(s) that participants received.
- 5.2 Install a performance reporting system that will provide for the maintenance and recreation of historical data used to support the performance information reported to the Department.

## NACEE RESPONSE

NACEE revised its procedures to show a paper trail of all services provided to each participant. These revisions will be included in the revised staff handbook and program manual. The established policies, procedures, and management controls will ensure that a paper record in addition to the current coding procedure is established for each participant to clearly demonstrate the specific educational benefit(s) that participants receive. NACEE indicated that it has reviewed the necessary procedures required to strengthen its data management system to include a server for historical data backup and on-site training for all staff members.

## OIG COMMENTS

The revised policies, procedures, and management controls should help NACEE ensure that proper documentation is maintained for each participant. We did not change our finding and recommendations.

## Finding No. 6 - NACEE Inaccurately Reported TRIO Program Objectives and Achievements

We reviewed the reporting requirements for the EOC and ETS programs and found that the performance reports did not always accurately represent the established performance objectives. In addition, NACEE could not identify the participants that composed the numbers reported in the performance report. The TRIO program coordinators said they were not aware that there was a list of performance objectives approved by the Department or that they were required to use the approved performance objectives as a guide to report program results. As a result, the Department cannot be sure that NACEE actually provided the services reported.

The regulations at 34 C.F.R. § 74.51(d) (2000) state:

When required, performance reports must generally contain, for each award, brief information on each of the following:

- (1) A comparison of actual accomplishments with the goals and objectives established for the period, the findings of the investigator, or both.  
Whenever appropriate and the output of programs or projects can be

readily quantified, this quantitative data should be related to cost data for computation of unit costs.

- (2) Reasons why established goals were not met, if appropriate.
- (3) Other pertinent information including, when appropriate, analysis, and explanation of cost overruns or high unit costs.

The regulations at 34 C.F.R. § 75.590 (2000) state:

A recipient shall submit a performance report, or, for the last year of a project, a final report, that evaluates at least annually—

- (a) The recipient's progress in achieving the objectives in its approved application;
- (b) The effectiveness of the project in meeting the purposes of the program; and
- (c) The effect of the project on participants being served by the project.

Title IV, Section 402A(c)(2) of the Higher Education Act of 1965, as amended (1998), states that “[i]n making grants under this chapter, the Secretary shall consider each applicant's prior experience of service delivery under the particular program for which funds are sought.”

We reviewed the reporting requirements for the EOC and ETS programs and noted numerous discrepancies in the reported program objectives and achievements. The EOC and ETS partnership agreements containing the Department’s approved performance objectives were dated December 7, 1999.

Our review of the EOC objectives and reported results revealed that NACEE did not always report the correct program objectives. For example, objective 4 for award year 2000-2001 and objective 2 for award year 2001-2002 were reported as 38 percent and 66 percent, respectively; however, the approved objective was 85 percent for both objectives. In addition, other objectives were reported as met (either percentages or numbers completed); however, the number of participant names provided to OIG did not agree with or in some cases support the information in the performance report. (See Table 6.1 in Exhibit A for details.)

Our review of the ETS objectives and reported results also revealed that NACEE did not always report the correct program objectives. For example, objectives 1 and 5 for award year 2001-2002 were reported as 60 percent and 85 percent, respectively; however, the approved objectives were 80 percent and 95 percent, respectively. In addition, other objectives were reported as met; however, the number of participant names provided to OIG did not agree with or in some cases support the information in the performance report. (See Table 6.2 in Exhibit A for details.)

The TRIO program coordinators said they were not aware that there was a list of approved performance objectives received from the Department or that they were required to use the performance objectives as a guide to report program results. We also found that staff made miscalculations when adding the number of participants provided with services from each of NACEE’s five office locations. The staff also said the BLUMEN system used to keep track of services provided to participants had operating glitches, which caused queries to generate inaccurate results.

As a result, NACEE's TRIO performance reports did not accurately represent the established performance objectives or program results. NACEE was not in compliance with regulations that require actual achievements for established objectives to be reported. By not maintaining supporting documentation for services provided, the Department cannot be sure that NACEE actually provided the services reported. The Department relies on reported performance data to determine whether a grantee is accomplishing its grant objectives and to determine funding.

## **RECOMMENDATION**

We recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Postsecondary Education, require NACEE to:

- 6.1 Establish policies, procedures, and management controls to ensure that TRIO program objectives and achievements are accurately reported.

## **NACEE RESPONSE**

NACEE did not agree that it inaccurately reported program objectives and achievements. The response stated that NACEE had established additional policies, procedures, and management controls to ensure that the TRIO program objectives and achievements are accurately reported. The revisions are to be included in the revised staff handbook and program manual.

## **OIG COMMENTS**

The establishment of additional policies, procedures, and management controls should help to ensure that NACEE reports TRIO program objectives and achievements accurately. We did not change our finding and recommendation.

## **Finding No. 7 - NACEE Did Not Submit OMB Circular A-133 Audits**

NACEE did not follow EDGAR and OMB Circular A-133 regulations' regarding the submission of A-133 audits for non-profit organizations. Although NACEE had OMB Circular A-133 audits performed, it did not ensure that the independent auditor submitted the reports to the Federal Audit Clearinghouse. The Clearinghouse did not have any record of NACEE submitting any A-133 audits. NACEE's independent auditor stated that the FY 2000 report was filed with the Clearinghouse, but not the FY 2001 report. The Executive Director said he was unaware of the requirement to submit A-133 audits to the Clearinghouse. Without receiving the audit reports, the Department lacks information to determine whether NACEE is complying with the Department's financial and program regulations.

The regulations at 34 C.F.R. § 74.26(a) (2000) state that "[r]ecipients and subrecipients that are institutions of higher education or other non-profit organizations (including hospitals) shall be subject to the audit requirements contained in the Single Audit Act Amendments of 1996 (31 U.S.C. 7501-7507) and revised OMB Circular A-133."

OMB Circular A-133, Subpart C, section 320(a) (1997), states that “[t]he audit shall be completed and submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection.”

## **RECOMMENDATIONS**

We recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Postsecondary Education, require NACEE to:

- 7.1 Establish management controls to ensure that completed A-133 audits are submitted to the Federal Audit Clearinghouse.
- 7.2 Timely submit the completed FY 2000 and FY 2001 A-133 audit reports to the Federal Audit Clearinghouse.

Based on the deficiencies identified in this report, we also recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Postsecondary Education:

- 7.3 Take appropriate action pursuant to 34 C.F.R. § 74.62 to protect future EOC, ETS, UB, UBMS grant funds.

## **NACEE RESPONSE**

NACEE stated that the OMB Circular A-133 reports were submitted annually by the audit firm along with the fiscal agent reports. NACEE established management controls to ensure that completed Circular A-133 reports are submitted to the Federal Clearinghouse annually. Annual audit reports will be completed by the independent auditors and submitted to the Federal Clearinghouse in a timely manner through NACEE. All previous requested years have been mailed to the Federal Clearinghouse.

## **OIG COMMENTS**

NACEE did not provide any evidence that the Federal Audit Clearinghouse received its FY 2000 and FY 2001 OMB Circular A-133 reports along with the fiscal agent reports. The proposed management controls to submit annual A-133 audits to the Federal Audit Clearinghouse should help to ensure that they submit reports on time.

---

---

## **BACKGROUND**

---

---

The North Alabama Center for Educational Excellence, Inc. (NACEE) is a non-profit corporation that administers four TRIO programs (EOC, ETS, UB, and UBMS). NACEE serves participants in 13 contiguous counties in Northern Alabama from one central office in Huntsville and four extension offices located in Athens, Cullman, Decatur, and Scottsboro, Alabama. NACEE began serving program participants in 1974.

NACEE received \$1.8 million in TRIO grant funds for 2000-2001 and \$1.9 million for 2001-2002. Alabama A&M University served as NACEE's fiscal agent by drawing, disbursing, and recording grant expenditures and revenues.

The grant period for the EOC, UB, and UBMS programs was September 1, 1999, through August 31, 2003, and the grant period for the ETS program was September 1, 1998, through August 31, 2003. Thus, all four TRIO grants expired on August 31, 2003.

According to 34 C.F.R. § 74.62, if a recipient materially fails to comply with the terms and conditions of an award, whether stated in a Federal statute, regulation, assurance, application, or notice of award, the Secretary may take one or more of the following actions as appropriate in the circumstances: “(1) Temporarily withhold cash payments pending correction of the deficiency by the recipient or more severe enforcement action by the Secretary, (2) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance, (3) Wholly or partly suspend or terminate the current award, (4) Withhold further awards for the project or program, (5) Take other remedies that may be legally available.”

---

---

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

---

---

The audit objective was to determine if NACEE administered the Federal TRIO programs in accordance with Title IV, Section 402A of the Higher Education Act of 1965, as amended, and EDGAR. Specifically, we evaluated whether NACEE adhered to the TRIO program compliance requirements regarding (1) the accounting for Federal funds, (2) program expenditures, (3) participant eligibility, (4) performance objective achievements, and (5) timely submission of performance and audit reports. Audit coverage included September 1, 2000, through August 31, 2002 (award years 2000-2001 and 2001-2002).

To accomplish our objectives, we performed the following:

- Reviewed applicable regulations in EDGAR; 34 C.F.R. Parts 643, 644, and 645; and OMB Circular A-122.
- Contacted and obtained program information from TRIO officials in Washington, DC.

- Interviewed NACEE officials responsible for cash management, program expenditures, and program services.
- Interviewed Alabama A&M officials responsible for drawing down TRIO funds and recording and paying NACEE's program expenditures.
- Reviewed the amounts and dates of TRIO grant receipts and expenditures to determine whether they were allowable and properly documented.
- Reviewed TRIO program participants' eligibility.
- Reviewed grant objective achievements reported in annual program performance reports to determine whether they were properly documented and supported.
- Reviewed performance and audit reports to determine whether they were timely submitted.

We reviewed judgmental samples of each of the TRIO programs' expenditures. We selected 10 expenditures for each of the EOC, ETS, and UB programs and 5 for the UBMS program. The expenditures selected for review related to travel, awards, rent, contracts, supplies and equipment, and printing. The sampled expenditures exceeded \$100 for ETS, \$300 for EOC and UB, and \$400 for UBMS.

We also selected a judgmental sample for equipment inventory. We reviewed 26 of 195 items, from non-disposable items consisting of audio/visual equipment, furniture, computers, copiers, and paper shredders. We selected items considered to be high cost.

For personnel expenses, we randomly selected 2 of 12 months of payroll. We reviewed all NACEE employees' payroll expenses for the months selected.

To review performance objective achievements, we randomly sampled participant files for the four TRIO programs as follows:

- For the EOC, we reviewed three of four objectives for award year 2000-2001 that NACEE reported achievements and reviewed the four objectives for 2001-2002. We reviewed a random sample of 50 participants for each objective. The populations ranged from 1,199 to 7,145 participants.
- For ETS, we reviewed the five objectives that NACEE reported achievements for 2000-2001 and 2001-2002. We reviewed a random sample of the population for each objective. The samples ranged from 11 to 26 participants from populations that ranged from 43 to 222 participants. The total number of sampled participants was 175.
- For UB, we reviewed the five objectives that NACEE reported achievements for 2000-2001 and 2001-2002. We reviewed a random sample of the population for each objective. The samples ranged from 8 to 22 participants from populations that ranged from 12 to 86 participants. The total number of sampled participants was 152.
- For UBMS, we reviewed the four objectives that NACEE reported achievements for 2000-2001 and 2001-2002. We reviewed a random sample of the population for each

objective. The sampled populations ranged from 6 to 15 participants from populations that ranged from 11 to 58 participants. The total number of sampled participants was 88.

For participant eligibility, we selected the UB program and reviewed all of the participants' files. For timely performance report submissions, we reviewed the reports for all four programs.

During the audit, we used computer-processed data contained in NACEE's BLUMEN performance reporting system and Alabama A&M's accounting system. We used award and disbursement data from the Department's Grants Accounting and Payment System (GAPS) to corroborate information obtained from the Alabama A&M accounting system. We also reviewed data from NACEE's student participant files and used this data to verify achievements reported to the Department. Based on these tests and assessments, we concluded that the Alabama A&M accounting system data were sufficiently reliable for the purpose of our audit. We also concluded that the NACEE BLUMEN system data were not sufficiently reliable for the purpose of our audit.

Audit work was performed during the period November 2002 through March 2003. The findings were discussed with the NACEE Executive Director and/or the Office Manager during the audit. The audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

---

## **STATEMENT ON MANAGEMENT CONTROLS**

---

As part of the audit, we gained an understanding of the system of management controls, policies, procedures, and practices applicable to NACEE's administration of the TRIO programs. Our assessment was performed to determine the level of control risk for the nature, extent, and timing of substantive tests to accomplish the audit objectives. For the purpose of this report, we assessed and classified the significant controls into the following categories: (1) the accounting for Federal funds, (2) expenditure of Federal funds, (3) TRIO program participant eligibility, (4) program performance achievement, and (5) submission of performance and audit reports.

Due to inherent limitations, a study and evaluation made for the limited purposes described above would not necessarily disclose all material weaknesses in the management controls. However, our overall assessment disclosed management control weaknesses in the expenditure of funds, performance achievements, and submission of OMB Circular A-133 audit reports. These weaknesses are discussed in the AUDIT RESULTS section of this report.

Attachment A - Lack of Documentation and Inaccurate Reporting

**Table 5.1 - EOC Reported Results Lacking Supporting Documentation**

<b>Year and Objective No.</b>	<b>No. Participants Reported in the Performance Report</b>	<b>No. Participant Names Provided to OIG</b>	<b>No. Participant Files Sampled</b>	<b>No. Participant Files with No Supporting Documentation</b>
2000-2001 Objective 2	625	1,674	50	4 (8%)
2000-2001 Objective 4	4,015	6,345	50	27 (54%)
2000-2001 Objective 6	4,150	4,591	50	14 (28%)
2001-2002 Objective 2	1,674	1,199	50	7 (14%)
2001-2002 Objective 4	3,944	5,816	50	27 (54%)
2001-2002 Objective 5	9,675	7,154	50	11 (22%)
2001-2002 Objective 6	1,862	5,698	50	7 (14%)

**Table 5.2 - ETS Reported Results Lacking Supporting Documentation**

<b>Year and Objective No.</b>	<b>No. Participants Reported in the Performance Report</b>	<b>No. Participant Names Provided to OIG</b>	<b>No. Participant Files Sampled</b>	<b>No. Participant Files with No Supporting Documentation</b>
2000-2001 Objective 4	43	45	11	8 (73%)
2000-2001 Objective 5	43	45	11	1 (9%)
2000-2001 Objective 6	43	43	11	1 (9%)
2001-2002 Objective 4	95	87	22	4 (18%)
2001-2002 Objective 5	88	88	22	6 (27%)
2001-2002 Objective 6	45	45	11	1 (9%)

## Attachment A - Lack of Documentation and Inaccurate Reporting

**Table 5.3 - Inaccurate Reported UB and UBMS Performance Results**

<b>Objective # 2. Participants GPA Increased by .05</b>	<b>Year</b>	<b>No. Participants Reported in the Performance Report</b>	<b>No. Participants Sampled.</b>	<b>No. Participants that GPA Did Not Increase by .05</b>
UB	2000-2001	55	14	13 (93%)
UB	2001-2002	23	12	7 (58%)
UBMS	2000-2001	34	9	5 (56%)
UBMS	2001-2002	11	11	3 (27%)

**Table 6.1 - Inaccurate Reported EOC Performance Results**

<b>Objective</b>	<b>Year</b>	<b>No. Participants/Percentage Reported in the Performance Report</b>	<b>No. Participant Names/Percentages Provided to OIG</b>
2. High school seniors who graduated	2000-2001	625	1,674
2. Graduated seniors stated percentage	2000-2001	0% <sup>1</sup>	61%
4. Applied for postsecondary education	2000-2001	4,015	6,345
4. Applied for postsecondary education stated percentage	2000-2001	38% <sup>1</sup>	76%
5. Assistance with financial aid	2000-2001	7,920 <sup>2</sup>	Could not determine
6. Admitted to postsecondary education	2000-2001	4,150	4,591
2. High school seniors who graduated	2001-2002	1,674	1,199
2. Graduated seniors stated percentage	2001-2002	66% <sup>1</sup>	83%
4. Applied for postsecondary education	2001-2002	3,944	5,816
4. Applied for postsecondary education stated percentage	2001-2002	100% <sup>1</sup>	62%
5. Assistance with financial aid	2001-2002	9,675	7,154

<sup>1</sup> NACEE should have achieved 85 percent according to the Department's approved objectives.

<sup>2</sup> NACEE reported the number of services provided, rather than the number of participants served as required by the approved objectives.

## Attachment A - Lack of Documentation and Inaccurate Reporting

5. Assistance with financial aid stated percentage	2001-2002	100% <sup>1</sup>	76%
6. Admitted to postsecondary education	2001-2002	1,862	5,698
6. Admitted to postsecondary education stated percentage	2001-2002	75% <sup>3</sup>	58%

**Table 6.2 - Inaccurate Reported ETS Performance Results**

Objective	Year	No. Participants/Percentage Reported in the Performance Report	No. Participant Names/Percentages Provided to OIG
1. Secondary participants served	2000-2001	302	285
4. Participants applied for postsecondary education	2000-2001	43	45
5. Participants applied for financial aid	2000-2001	43	45
1. Secondary school participants served	2001-2002	272	268
1. Secondary participants that continued in school	2001-2002	177	170
1. Secondary participants stated percentage	2001-2002	60% <sup>4</sup>	65%
3. High school dropouts served	2001-2002	3	1
4. Participants applied for postsecondary education	2001-2002	95	87
5. Participants applied for financial aid stated percentage	2001-2002	85% <sup>5</sup>	93%

<sup>3</sup> NACEE should have achieved 65 percent according to the Department's approved objectives.

<sup>4</sup> NACEE should have achieved 80 percent according to the Department's approved objectives.

<sup>5</sup> NACEE should have achieved 95 percent according to the Department's approved objectives.

## Attachment B – NACEE’s Written Response to the Draft Report



The North Alabama  
**Center for Educational Excellence**  
1515 Sparkman Drive, N.W., Huntsville, Alabama 35816

(256) 858-4600

Fax: (256) 722-9795

Dr. Harold G. Dickerson  
President

Army Daniel, Jr.  
Chairman of the Board

September 19, 2003

Mr. J. Wayne Bynum  
Regional Inspector General for Audit  
U. S. DEPARTMENT of EDUCATION  
61 Forsyth Street Room 18T71  
Atlanta, Georgia 30303

Dear Mr. Bynum:

Please find enclosed the response and comments of the North Alabama Center for Educational Excellence (NACEE) to the August 21, 2003 DRAFT Audit Report (ED-OIG/A04-D0001). We very much appreciate your agreeing to extend the time for our response until September 22, 2003. Our response to each of the draft findings is being sent to your office via facsimile today and the original, plus exhibits is being forwarded to you by overnight messenger service (United Parcel Service) for delivery on Monday, September 22, 2003.

As Chairman of the NACEE Advisory Board, NACEE shares your concern about the seriousness of the potential "conflict of interest" violation reflected in Finding No. 1. We have recommended that an escrow vehicle be established at Alabama A&M University, or with an independent auditor, or that the questioned rental payment for the central office **only** be retained by the Department of Education. We believe that this approach would separate the resolution of Finding No. 1, which may be delayed due to the on-going investigation of this matter by the U.S. Attorney for the Northern District of Alabama, from the other six findings. Separation of the Finding No. 1 matter is critical to restoration of the Federal TRIO Program funding for all five TRIO programs administered by NACEE.

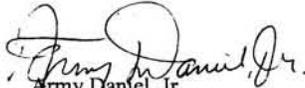
We are very concerned about the ability of the program to survive if the Department continues to withhold grant funds. NACEE is awaiting formal correspondence from the Department regarding its decision to withhold funds. The escrow proposal reflected in NACEE's response to Finding No. 1 is being raised with the Department directly.

## Attachment B – NACEE’s Written Response to the Draft Report

Mr. J. Wayne Bynum Page 2 of 2 Pages September 19, 2003

Thank you again for your consideration for our comments and recommendations with regard to the DRAFT Audit Report. Ms. Evelyn Smith (256-372-4600) and Attorney William A. Blakey (202/289-3900) are available to respond to any questions you may have.

Sincerely,

  
Army Daniel, Jr.  
Advisory Board Chair

AD/eds

c: William A. Blakey, Esq.

## Attachment B – NACEE’s Written Response to the Draft Report

### North Alabama Center for Educational Excellence’s Response to Draft Audit Report Control Number ED-OIG/A04-D0001

#### Finding No. 1

#### NACEE Improperly Paid For Rental Space Owned by the Executive Director

##### We concur with the findings

##### Recommendation

- 1.1 Return \$484,847 to the Department for the improper rental payments.
- 1.2.1 Discontinue using TRIO funds to pay rent for the current central office location.

##### Contact Person Responsible for Corrective Action

Mr. Army L. Daniel, Jr., Advisory Board Chairman  
Ms. Evelyn Smith, Office Manager  
Mr. Arthur L. Henderson, VP Business and Finance (Alabama A&M University)  
William A. Blakey, Esq. (NACEE Legal Counsel)  
Larry Oxendine, Director Federal TRIO Programs

##### Corrective Action Proposed

Finding No. 1 states a violation of 34 CFR 75.525 (a) and (b) and alleges conflict of interest behavior by the President/Executive Director that is presently under investigation by the U.S. Attorney for the Northern District of Alabama, i.e. that \$484,847 in Federal TRIO Project funds were paid in rent to a corporation that may be owned in part by the President/Executive Director of NACEE. No present NACEE employee, other than possibly the Executive Director, was aware of any ownership interest in American Business, Education, and Industrial Systems, Inc. (ABEIS) on the part of the President/Executive Director, or that the rental payment of Federal TRIO Project funds to ABEIS constituted a violation of 34 CFR 75.526 (a) and (b).

- 1.1 Any action with respect to this recommendation must await the resolution of the U.S. Attorney’s investigation and the disposition of any criminal complaint, including the determination of guilt (or plea) and the imposition of punishment, including liability for restitution. NACEE has no funds from which to make payment of the amount asserted, and questions its corporate liability for the stated amount, or any amount related to the asserted violation.
- 1.2 Pending resolution of the matter before the U.S. Attorney, NACEE recommends that: (1) the Department of Education restore funding to NACEE with respect to all five Federal TRIO Program grants; (2) the Department authorize NACEE to establish a non-interest bearing escrow account with Alabama A & M University – to be under the control of the Chief Financial Officer of the University – or with Banks, Finley, and White, CPAs to receive and hold all annual rental payments due ABEIS pending resolution of the matter

## Attachment B – NACEE’s Written Response to the Draft Report

### North Alabama Center for Educational Excellence’s Response to Draft Audit Report Control Number ED-OIG/A04-D0001

with the U.S. Attorney, and determination of any funds due to the Department/U.S. Treasury; or (3) the Department could withhold an amount equal to the annual rental payment due to ABEIS under the current lease agreement pending resolution of this matter with the U.S. Attorney and the Education Department Inspector General.

#### **Anticipated Completion Date**

Implementation of the recommendation with regard to the establishment of an escrow account could occur immediately, or within thirty (30) days. Delay in insulating the matter before the U.S. Attorney from the program administration concerns in Findings 2-7 could result in the attrition of NACEE staff and the denial of services to eligible program participants. This should be avoided at all costs and the highest priority assigned to protecting taxpayer funds from the questioned rental payment, and the restoration of TRiO grant funding to NACEE.

#### **Finding No. 2**

#### **NACEE Used TRiO Funds to Pay Performance Awards Without an Institutional Award Plan**

#### **We do not concur with the finding**

#### **Condition**

During award years 2000-2001 and 2001-2002, NACEE used TRiO funds to pay performance award to NACEE employees without an established institutional plan. NACEE did not follow the requirement to establish an institutional plan for paying performance awards. As a result, TRiO funds totaling \$63,500 were improperly used to pay for employee performance awards during award years 2000-2001 and 2001-2002.

#### **Recommendation**

- 2.1 Repay \$63,500 for unauthorized performance awards paid to NACEE employees.
- 2.2 Ensure that any future performance awards are based on an institutional award plan.

#### **Contact Person Responsible for Corrective Action**

Mr. Arthur J. Henderson, VP Business Finance, Alabama A&M University (Fiscal Agent)  
Ms. Evelyn Smith, Office Manager  
Mr. Robert L. Tibbs, Head Coordinator

## Attachment B – NACEE’s Written Response to the Draft Report

### **North Alabama Center for Educational Excellence’s Response to Draft Audit Report Control Number ED-OIG/A04-D0001**

#### **Corrective Action Taken or Planned**

We do not concur with the finding or the recommendations.

- 2.1 We followed the guideline inasmuch as this is an allowable cost and we followed the guideline as set by the University and indicated in Exhibit A (Annual Merit Step Increases 10.3) and it states as follow. “Employees who have reached the maximum step in the position classification schedule will receive a bonus based on a percentage if so recommended by the supervisor on performance evaluation reports.”
- 2.2 NACEE has since established an independent performance award plan to be submitted to the Program Officer for approval, and included in the newly revised staff handbook. (To be completed October 2003)

#### **Anticipated Completion Date**

Revision completed September, 2003; and will be included in the newly revised NACEE Staff Handbook, October 2003.

#### **Finding No. 3**

##### **NACEE Lacked Documentation for an Allowable Expenditure**

#### **Condition**

NACEE did not have receipts to support a reimbursement paid to the Executive Director for meals for a TRiO program trip in July 2002. NACEE’s fiscal agent, Alabama A&M, was unable to locate the receipts and NACEE did not keep a copy of the receipts. The fiscal agent did not follow its established procedures for obtaining required documentation prior to payment. As a result, there was no documentation to support \$9,113 check paid to the Executive Director for program participant meals during a trip.

#### **Recommendation**

- 3.1 Repay \$9,113 for the unsupported payment to the Executive Director for meal reimbursement.
- 3.2 Establish management controls to ensure that adequate documentation is maintained to support allowable costs.

## Attachment B – NACEE’s Written Response to the Draft Report

### North Alabama Center for Educational Excellence’s Response to Draft Audit Report Control Number ED-OIG/A04-D0001

#### Contact Person Responsible for Corrective Action

Mr. Arthur L. Henderson, VP Business and Finance Alabama A&M University (Fiscal Agent)  
Ms. Evelyn Smith, Office Manager  
Mr. Robert L. Tibbs, Head Coordinator

#### Corrective Action Taken or Planned

We concur that all receipts for this particular trip were not accounted for during the audit. The Business Office was going through a reconstruction process during this time and some documents were not readily available for review. However the participation list for the 85 students and chaperons, pictures, draft, and agenda were provided for review. The process that we used for disbursement is as follows:

Each chaperon was issued money for each participant’s breakfast, lunch and dinner for each day. Each participant and chaperon would sign each day for their meal money and the signed receipts were turned into the University at the end of the trip.

We have located receipts totaling \$4,558.00 and are confident that the remaining receipts will be located. (Copies attached)

- 3.1 We do not concur with the recommendation that the \$9,113 was unsupported and should be reimbursed.
- 3.2 Management has established additional controls whereby additional copies of all documentation will remain with the Fiscal Agent and NACEE. All revisions have been included in the program manual and the staff handbook.

#### Anticipated Completion Date

September 2003 (See Exhibit C, Program Manual)  
October 2003 (Staff Handbook)

#### Finding No. 4

#### NACEE Failed to Maintain Activity Reports to Support the Executive Director’s TRiO Salary Distribution

The Executive Director did not maintain monthly activity reports, but the Coordinators and Staff members do maintain monthly activity reports.

#### Condition

NACEE did not maintain activity reports to show the amount of time the Executive Director spent working on the four TRiO programs. As a result, there was no support for

## Attachment B – NACEE’s Written Response to the Draft Report

### North Alabama Center for Educational Excellence’s Response to Draft Audit Report Control Number ED-OIG/A04-D0001

the distribution of the Executive Director’s salary totaling \$324,164 for award years 2000-2001 and 2001-2002.

#### Recommendation

- 4.1 Submit documentation to support the amount of time the Executive Director spent on each TRiO program, or return \$324,164 in unsupported salary costs paid to the Executive Director during award years 2000-2001 and 2001-2002.
- 4.2 Establish policies and procedures for creating and maintaining activity reports to support the Executive Director’s and any other employees’ salary distribution when working on multiple TRiO programs.

#### Contact Person Responsible for Corrective Action

Mr. Army L. Daniel, Board Chair  
Mr. Arthur L. Henderson, VP Business and Finance Alabama A&M University (Fiscal Agent)  
Ms. Evelyn Smith, Office Manager  
Mr. Robert L. Tibbs, Head Coordinator

#### Corrective Action Taken or Planned

Table 4.1 – Executive Director’s Actual Budgeted Salary as Reported by the Fiscal Agent  
Alabama A&M University 2000 - 2001

TRiO PROGRAM	SALARY PER PROPOSED BUDGET	ACTUAL TIME COMMITMENT PER PROPOSED BUDGET	
EOC	58,803.00	41.0	See Exhibit D
ETS	52,075.00	34.2	Pages 1-6
UB	18,730.00	14.1	
MS	16,000.00	10.7	
TOTAL	145,608.00	100	

Attachment B – NACEE’s Written Response to the Draft Report

**North Alabama Center for Educational Excellence’s  
Response to Draft Audit Report  
Control Number ED-OIG/A04-D0001**

Table 4.2 – Executive Director’s Actual Budgeted Salary as Reported by the Fiscal Agent  
Alabama A&M University 2001 - 2002

TRiO PROGRAM	SALARY PER PROPOSED BUDGET	ACTUAL TIME COMMITMENT PER PROPOSED BUDGET	
EOC	66,644.00	41.0	See Exhibit E
ETS	55,599.00	14.1	Pages 1-6
UB	22,853.00	34.2	
MS	17,460.00	10.7	
<b>TOTAL</b>	<b>162,556.00</b>	<b>100</b>	

The staff has always been required to submit monthly activity reports to the Executive Director highlighting the activities for the month. In addition to the staff monthly activity reports all coordinators had daily interaction with the Executive Director regarding each program. The Executive Director also conducted weekly joint Coordinators meetings and program reviews. No activities were implemented or executed, or communications transmitted without prior approval from the Executive Director.

- 4.1 While OMB Circular A-122 requires that “the distribution of salaries and wages to awards must be supported by personnel activity reports...” traditionally, time cards and documentation of the work performed by professional and management staff – who are not paid on an hourly basis – is not required under the Fair Labor Standards Act (FSLA). Paragraphs 7m(1) and (2) Circular A-122 imposes a serious paper work burden on executive and supervisory staff that administer federal grants and contracts, despite the fact that such employees frequently work far in excess of a 40 hour week and dedicate significant time to the administration and implementation of project/grant activity. NACEE has reconstructed – using calendar and Program Staff Activity Reports – the President/Executive Director’s Monthly Activity in support of each TRiO Program. Alabama A&M University has also provided an accurate allocation of salary based on the actual time committed (based on the proposed budget) to each project. This documentation not only properly allocates time, but also justifies the hours committed to the supervision of staff, project management and community outreach in support of the five programs.
- 4.2 It is and has been the policy for staff members to maintain monthly activity reports as spelled out in the NACEE Staff Handbook. However the handbook has been newly revised to include monthly activity reports from the Executive Director supporting multiple TRiO programs.

## Attachment B – NACEE’s Written Response to the Draft Report

### North Alabama Center for Educational Excellence’s Response to Draft Audit Report Control Number ED-OIG/A04-D0001

**Anticipated Completion Date**  
October 2003

**Finding No. 5**

**NACEE Lacked Documentation to Support Reported Achievements**

We concur that the auditors did not approve of our method of accountability. The coding system we were using would eventually allow us to become paperless. We have revised our procedures to show a paper trail of all services provided to each participant. These revisions will be included in the newly revised staff handbook and program manual.

**Condition**

TRiO program achievements reported in the 2000-2001 and 2001-2002 performance reports were not adequately supported. NACEE did not have adequate written policies and procedures to maintain supporting documentation for services provided to participants. In addition, the NACEE computer system used to track services provided to participants could not recreate the information previously reported in the performance reports. As a result, the Department cannot be sure that NACEE actually provided the services reported.

**Recommendation**

- 5.1 Establish policies, procedures, and management controls to ensure that records are maintained for the services provided to participants to clearly demonstrate the specific educational benefit(s) that participants received.
- 5.2 Install a performance reporting and management system that will provide for the maintenance and recreation of historical data used to support the performance information reported to the Department.

**Contact Person Responsible for Corrective Action**

Ms. Evelyn Smith, Office Manager  
Mr. Robert L. Tibbs, Head Coordinator

**Corrective Action Taken or Planned**

- 5.1 NACEE has established policies, procedures, and management controls to ensure that a paper record in addition to the current Code procedure is established on each participant to clearly demonstrate the specific educational benefit(s) that participant received. (See Exhibit C, Program Manual and Exhibits J-L)

## Attachment B – NACEE’s Written Response to the Draft Report

### North Alabama Center for Educational Excellence’s Response to Draft Audit Report Control Number ED-OIG/A04-D0001

- 5.2 We are currently using BLUMEN as a data management system which require some upgrades. We have reviewed the necessary procedures required to strengthen this system, i.e. to include a server for historical data back-up and on-site training for all staff members.

#### Anticipated Completion Date

October 2003

#### Finding No. 6

#### NACEE Inaccurately Reported TRiO Program Objectives and Achievements

We do not concur. We accurately reported our proposed Objectives and Achievements.

#### Condition

NACEE’s TRiO performance reports did not accurately represent the established performance objectives or program results. NACEE was not in compliance with regulations that require actual achievements for established objectives to be reported. By not maintaining supporting documentation for services provide, the Department cannot be sure that NACEE actually provided the services reported.

#### Recommendation

- 6.1 Establish policies, procedures, and management controls to ensure that TRiO program objectives and achievements are accurately reported.

#### Contact Person Responsible for Corrective Action

Ms. Evelyn Smith, Office Manager  
Mr. Robert L. Tibbs, Head Coordinator

#### Corrective Action Taken or Planned

- 6.1 We have established additional policies, procedures, and management controls to ensure that TRiO program objectives and achievements are accurately reported according to the approved objectives by the Department. These revisions are to be included in the newly revised staff handbook and the program manual (See Exhibit C, Program Manual).

#### Anticipated Completion Date

October 2003 (staff handbook)  
September 2003 (program Manual)

## Attachment B – NACEE’s Written Response to the Draft Report

### North Alabama Center for Educational Excellence’s Response to Draft Audit Report Control Number ED-OIG/A04-D0001

#### **Finding No. 7** **NACEE Did Not Submit OMB Circular A-133 Audits**

We do not concur. The OMB Circulars A-133 were submitted annually by the Auditing firm along with the Fiscal Agents reports.

#### **Condition**

NACEE did not follow EDGAR and OMB Circular A-133 regulations regarding the submission of A-133 audits for non-profit organizations. Although NACEE had OMB Circular A-133 audits performed, it did not ensure that the independent auditor submitted the reports to the Federal Audit Clearinghouse.

#### **Recommendation**

- 7.1 Establish management controls to ensure that completed A-133 audits are submitted to the Federal Audit Clearinghouse.
- 7.2 Timely submit the completed FY 2000 and FY 2001 A-133 audit reports to the Federal Audit Clearinghouse.

#### **Contact Person Responsible for Corrective Action**

Mr. Jeff White, Chief Accountant, Banks, Finley and White  
Ms. Evelyn Smith, Office Manager  
Mr. Robert L. Tibbs, Head Coordinator

#### **Corrective Action Taken or Planned**

- 7.1 NACEE has established management control to ensure that completed A-133 audits are submitted to the Federal Audit Clearinghouse with a return receipt annually.
- 7.2 Annual audit reports will be completed by the Independent auditors and submitted to the Federal Audit Clearinghouse in a timely manner through NACEE with a return receipt requested.

All previous requested years have been mailed to the Federal Audit Clearing House; 1201 E 10<sup>th</sup> Street, Jeffersonville, Indiana 47132 with a return receipt requested.

Attachment B – NACEE’s Written Response to the Draft Report

**North Alabama Center for Educational Excellence’s  
Response to Draft Audit Report  
Control Number ED-OIG/A04-D0001**

We have also enclosed copies to you marked Exhibit M

**Anticipated Completion Date**  
September 2003