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UNITED STATES DEPARTMENT OF EDUCATION
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SEP 22 2003

Control Number ED-OIG/A05D0019

Mr. Charles Wilson, Director
C. I. Wilson Academy I
2033 E. Southern Avenue
Phoenix, AZ 85040

Dear Mr. Wilson:

This **Final Audit Report** presents the results of our audit of the C. I. Wilson Academy I's (Academy) use of U.S. Department of Education (ED) funds for the period July 1, 2001, through June 30, 2002 (2001-2002 school year). The objective of our audit was to determine if the Academy expended ED funds according to the law and applicable regulations.

Our audit disclosed that the Academy did not expend Public Charter Schools Program (PCSP) grant funds in accordance with the law and applicable regulations. The Academy charged \$32,783 of the \$170,000 in PCSP funds it received for the 2001-2002 school year for costs that were unallowable. In addition, the Academy was unable to provide documentation supporting its use of an additional \$1,044 received.

We provided a draft of this report to the Academy. However, the Academy did not provide us with comments.

AUDIT RESULTS

Finding No. 1 The Academy Charged \$32,783 in Unallowable Costs to the PCSP Grant

For the 2001-2002 school year,¹ the Academy charged \$32,783 to the PCSP grant for costs that were unallowable. We judgmentally² selected 11 expenses totaling \$114,459 from the 57 expenses totaling \$168,956 charged to the PCSP grant for the 2001-2002 school year. The 11 expenses were selected from 10 cost categories shown in the Academy's general ledger. We reviewed documentation supporting these expenses and

¹ The Academy's second year of funding.

² See Objective, Scope, and Methodology.

noted four were for cellular telephone services,³ accounting services⁴, property taxes, and a bank service fee.⁵ We identified three additional cellular telephone services costs charged to the grant for the 2001 – 2002 school year. We do not consider these costs to be initial operational costs not met by other sources or related to the initial implementation of the Academy.

The Elementary and Secondary Education Act of 1965, as amended by the Improving America's Schools Act of 1994, Title X, Part C, Section 10304(f)(3) and the Charter School Expansion Act of 1998,⁶ allows charter schools to spend funds for activities related to post award planning and design of the educational programs and initial implementation of the charter school. Activities related to initial implementation may include (a) informing the community about the school, (b) acquiring necessary equipment and educational materials and supplies, and (c) acquiring or developing curriculum materials. Charter schools are allowed to pay for other initial operational costs not met by other sources provided that those costs are directly related to the intended purpose of the grant. The intent of the PCSP grant is to pay for necessary items and services that would support the initial implementation and operations of the school while also allowing the school to become financially independent.

The Academy did not have policies and procedures in place to provide reasonable assurance that federal funds were expended on activities allowable under the law. Instead, Academy officials relied on their own interpretation of the charter school law when purchasing items and services with PCSP funds. The costs we identified as unallowable were not included in the Academy's PCSP grant budget. Had Academy officials reviewed their PCSP grant budget or contacted an ED charter school program official before charging general operational costs to the grant, the Academy may not have expended PCSP funds on unallowable costs.

Because Academy officials used \$32,783 in PCSP grant funds to pay for general operational costs, the Academy was unable to use those funds to purchase items that would increase the chances of the Academy becoming financially independent.

Recommendations

We recommend that the Chief Financial Officer, Office of the Chief Financial Officer, in conjunction with the Deputy Under Secretary for the Office of Innovation and Improvement, instruct the Academy to

³ According to the Academy's Director, Academy staff used cellular telephones to communicate with administrators and for security purposes.

⁴ The Academy hired a service provider to perform accounting and consulting services. The services performed for the Academy consisted of general financial consulting and accounting services related to the day-to-day operations of the school.

⁵ The cost category for the cellular telephone charges consisted of four transactions. The cost category for the accounting charges consisted of three transactions. The cost categories for property taxes and the bank service fee each were comprised of a single transaction.

⁶ The law was amended by the No Child Left Behind Act of 2001, Title V, Part B.

- 1.1 refund \$32,783 to ED; and
- 1.2 develop and implement policies and procedures that provide reasonable assurance that federal funds are expended on activities that are allowable under the law.

Finding No. 2 The Academy Cannot Support Its Use of \$1,044 in PCSP Funds

The Academy was unable to provide documentation supporting its use of \$1,044 in PCSP funds. The Academy drew down \$170,000 in PCSP funds for the second year (2001-2002 school year) of the grant but provided support for only \$168,956.

According to 34 C.F.R. § 75.702 and 75.730(b),⁷ a grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for federal funds. The grantee must keep records that fully show how it used federal funds.

For the 2001–2002 school year, the Academy did not have policies and procedures for reconciling the amount of PCSP grant funds received to the amount spent. In addition, at the start of our audit in December 2002, the Academy’s current controller had only recently started working for the Academy. At that time, he was not completely familiar with the computer system and related codes for financial transactions.

Without supporting documentation, the Academy did not demonstrate that it used \$1,044 (\$170,000 - \$168,956) for the intended purposes of the PCSP grant.

Recommendation

We recommend that the Chief Financial Officer, Office of the Chief Financial Officer, in conjunction with the Deputy Under Secretary for the Office of Innovation and Improvement, instruct the Academy to

- 2.1 refund \$1,044 to ED.

BACKGROUND

The purpose of the PCSP is to provide grants for the planning, design, and initial implementation of charter schools created by members of the local community. Grants may be made for a period of up to three years. Funds may be used to plan and design the education program of the charter school and evaluate the effects of charter schools.

Charter schools are governed by the charter school legislation enacted in the Elementary and Secondary Education Act of 1965, as amended by the Improving America’s Schools Act of 1994, Title X, Part C, Section 10304(f)(3), and the Charter School Expansion Act of 1998.⁸ Charter schools that receive a grant directly from the federal government also must adhere to regulations listed in 34 C.F.R. Parts 75, 82, and 99.

⁷ Unless otherwise specified, all regulatory citations are to the July 1, 2001, volume.

⁸ The law was amended by the No Child Left Behind Act of 2001, Title V, Part B.

The Academy received its charter from the Arizona State Board of Education and opened in September 1999. The Academy applied for a PCSP grant and received approval from ED on May 3, 2000. The grant provided the Academy with startup funding for a three-year period. For the 2001-2002 school year, the second year of funding, the Academy received \$170,000.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine if the Academy expended ED funds according to the law and applicable regulations. Our audit covered the award ED made on July 24, 2001, for \$170,000 and costs charged to the PCSP grant for the 2001-2002 school year.

To accomplish our objective, we

- interviewed Academy personnel;
- reviewed accounting records and identified 57 expenditures totaling \$168,956 charged to the PCSP grant;
- judgmentally selected 11 expenditures totaling \$114,459. We selected large dollar expenditures and/or those with descriptions that, in our opinion, were inconsistent with the intent of the PCSP grant;
- reviewed supporting documentation (invoices and canceled checks) to determine if the 11 expenditures charged to the PCSP grant were supportable and allowable.

We also relied, in part, on the Academy's computerized accounting records maintained using Peachtree[®] software. We compared the Academy's accounting records with information from ED's Central Automated Processing System. We also compared the Academy's supporting documentation, consisting of invoices and canceled checks, with its computerized accounting records. Based on our tests, we concluded the accounting records were sufficiently reliable to be used in meeting the audit's objectives.

We performed our audit work between December 2002 and March 2003. We visited the Academy on December 11, 2002, and discussed the results of our audit with Academy officials on March 24, 2003.

Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of audit described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we did not assess the adequacy of the Academy's management control structure applicable to all ED awards because this step was not necessary to achieve our audit objective. Instead, we relied on our testing of the Academy's compliance with the PCSP law and applicable regulations. Our testing disclosed a material weakness in the Academy's management controls over federal awards. The

Academy did not have policies and procedures in place to provide reasonable assurance that PCSP funds were expended according to the law. This weakness is 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 ED officials.

If you have 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 ED officials, who will consider them before taking final action on the audit.

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

Nina Shokraii Rees, Deputy Under Secretary
Office of Innovation and Improvement
U.S. Department of Education
400 Maryland Avenue, SW, Room 4W317
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, if requested; to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,



Richard J. Dowd
Regional Inspector General
for Audit