Rutha E. Gibson, Executive Director  
Future Teachers of Chicago/Illinois  
513 West 72nd Street  
Chicago, IL 60621

Dear Ms. Gibson,

This Final Audit Report presents the results of our audit of the Future Teachers of Chicago/Illinois’ (Future Teachers) Teacher Recruitment Grant No. P336C020025 (Grant) for the period October 1, 2002, through June 30, 2003. Our objective was to determine if Future Teachers expended Grant funds in accordance with the law, applicable regulations, and Grant terms. Specifically, we tested Future Teachers’ (1) management controls, (2) accounting system, (3) draw down procedures, (4) matching contributions, (5) Grant expenditures, and (6) Grant reporting.

Future Teachers did not expend Grant funds in accordance with Title II of the Higher Education Act of 1965, as amended, applicable regulations, and terms of the Grant award. Future Teachers lacked the ability to adequately administer the Grant because it was not familiar with program requirements and, as a result, did not establish or implement an adequate financial management system and adequate management controls. During the period October 1, 2002, through June 30, 2003, Future Teachers drew down $389,240 of the $465,000 awarded for the first year. Future Teachers charged the Grant for costs it did not adequately support and for unallowable costs, and maintained excess cash.

We provided a draft of this report to Future Teachers. In its response, Future Teachers acknowledged there were errors in its general ledger due to the questionable competency of its contracted accountant. Future Teachers’ response included spreadsheet analyses of the accounting records, a management representation letter, and numerous documents related to its programs and partnerships.

Future Teachers stated the spreadsheet analyses supported Grant costs totaling $294,701. However, Future Teachers did not provide any accounting records or other documentation to support its spreadsheet analyses. Because Future Teachers did not provide supporting documentation, we have questioned all unsupported costs cited in the draft report. Based on additional documentation Future Teachers provided regarding its partnership, we removed the Other Matters section. We summarized Future Teachers’ response after the finding. Due to the voluminous nature of Future Teachers’ response,
we did not include it as an appendix to this report. Instead, we sent it under separate cover to the designated officials responsible for resolving this audit.

We recommend that the Chief Financial Officer, Office of the Chief Financial Officer (OCFO), and the Assistant Secretary for Postsecondary Education require Future Teachers to (1) refund questioned costs of $364,235 and (2) pay imputed interest of $1,061. The OCFO should also take appropriate action pursuant to 34 C.F.R. § 74.62 to protect future Grant funds.

AUDIT RESULTS

Finding 1 - Future Teachers Did Not Expend Grant Funds in Accordance with the Law, Applicable Regulations, and Grant Terms

Future Teachers did not expend Grant funds in accordance with Title II of the Higher Education Act of 1965, as amended, applicable regulations, and Grant terms. Future Teachers lacked the ability to adequately administer the Grant because it was not familiar with program requirements and, as a result, Future Teachers did not establish or implement an adequate financial management system and adequate management controls. Without an adequate financial management system and adequate management controls, Future Teachers charged the Grant questioned costs totaling $364,235 ($359,235 for costs it did not adequately support and $5,000 for unallowable costs).

Future Teachers did not establish an adequate financial management system and adequate management controls to ensure it accounted for all Grant fund expenditures in accordance with federal standards. It recorded expenditures of $701,248, but made adjustments of $305,634, resulting in net charges of $395,614. Future Teachers drew down federal funds of $389,240, or $6,374 less than it charged. Based on existing records, we could not determine the specific transactions that made up $109,150 of the adjustments. Except for scholarships totaling $30,005, we were unable to determine the specific costs charged to the Grant. According to Office of Management and Budget (OMB) Circular A-122, Cost Principles for Non-Profit Organizations, Attachment A, General Principles, Paragraph A, Subparagraph A.2.g. (1998), to be allowable under an award, costs must be adequately documented. Because Future Teachers did not adequately document costs charged to the Grant, we consider $359,235 ($395,614 less $6,374 not reimbursed and $30,005 identified as scholarships) to be questioned.

Future Teachers provided scholarships totaling $30,005 to 11 students. However, it did not execute the required scholarship agreements with any of the 11 students prior to providing the scholarships. During our audit field work, Future Teachers executed 9 of the 11 required scholarship agreements totaling $25,005. This amount is considered acceptable. However, it failed to execute 2 scholarship agreements totaling $5,000. This amount is questioned. 34 C.F.R. § 611.49(a) & (b) (2002).

While we could not identify the transactions affected by the $109,150 in undocumented adjustments, the $359,235 included several additional unallowable and questioned costs.
Because Future Teachers did not have an adequate financial management system and adequate management controls it

- allocated $26,622 in various costs to the Grant using an unsupported 14 percent rate. *OMB Circular A-122, Attachment A, Paragraph A, Subparagraph A.2.g. (1998).*

- paid $20,387 for telephone lines, Internet connections, and software not related to the Grant and $2,735 that Future Teachers identified (in writing) as not Grant related. *OMB Circular A-122, Attachment A, Paragraph A, Subparagraphs A.2.a & A.2.g. (1998).*

- paid salaries and stipends of $18,027 for non-Grant employees and participants. *OMB Circular A-122, Attachment A, Paragraph A, Subparagraphs A.2.a & A.2.g. (1998).*

- used Grant funds totaling $11,802 for unallowable items, consisting of $1,507 for t-shirts, $764 for trophies and awards, $1,067 for trinkets (embossed pens, key chains, and squeeze bottles), $2,490 for outings to theme parks and sporting events, $3,481 for food, and $2,493 for an awards dinner. *OMB Circular A-122, Attachment A, Paragraph A, Subparagraphs A.2.a & A.2.g. (1998).*

- charged $3,757 for unpaid invoices that Future Teachers recorded as paid. *34 C.F.R. § 74.21(b)(2) (2002).*

- maintained excess cash from October 29, 2002, through June 5, 2003, ranging from $4,637 to $173,182. We calculated imputed interest of $1,061 on Future Teachers’ excess cash using the Department of Treasury’s Current Value of Funds rate. *34 C.F.R. § 74.22(b)(2) & (3) (2002).* In addition, our analysis of Grant funds Future Teachers received disclosed Future Teachers’ bank balance was less than the amount recorded in the accounting records for 129 of the 164 days we tested. Future Teachers was using Grant funds for other purposes prior to recording expenditures in its accounting records. *34 C.F.R. § 74.21(b) (2002).*

- did not document sources of transactions posted from the payroll journal to the general ledger. In order to complete our audit, Future Teachers prepared supplemental spreadsheets to tie the transactions from the payroll journal to the general ledger. However, these supplemental records did not include all transactions. *34 C.F.R. § 74.21(b) (2002).*

- backdated some of the adjusting transactions, used posting dates instead of check dates to record transactions, and recorded some personnel costs at the net amounts and others at the gross amounts. *34 C.F.R. § 74.21(b) (2002).*

- did not submit two A-133 audit reports for the years ended June 30, 2001-2002 as required. The Federal Audit Clearinghouse has no record of receiving any A-133
audit reports\textsuperscript{1} even though Future Teachers received other federal funding prior to receiving the Grant. 34 C.F.R. § 74.26(a) (2002).

- reported minor inaccurate statements of fact to the Department of Education in its performance report for the period October 1, 2002, through March 31, 2003. 34 C.F.R. § 74.51(d) (2002).

**Recommendations:**
We recommend that the OCFO and the Assistant Secretary for Postsecondary Education

1.1 require Future Teachers to refund $364,235;

1.2 require Future Teachers to pay imputed interest of $1,061; and

1.3 take appropriate action pursuant to 34 C.F.R. § 74.62 to protect future Grant funds.

**Auditee Comments**
Future Teachers generally concurred that it had not established or implemented an adequate financial management system and adequate management controls. It acknowledged there were errors in its general ledger due to the questionable competency of its contracted accounting professional. According to Future Teachers’ response, the accountant’s incompetence resulted in personnel incorrectly recording transactions in the accounting system. Therefore, Future Teachers needed to entirely restructure its accounting function.

Future Teachers stated that attorneys from Sidley Austin Brown & Wood LLP and three consultants (one of whom was a Certified Public Accountant) from Huron Consulting Group LLC analyzed all the accounting records. The analysis consisted of a line-by-line review of all general ledger and journal entries to match expenditures to supporting documentation. This analysis disclosed documents that were missing or unavailable during our audit. Future Teachers’ response contained spreadsheet analyses documenting the results of the line-by-line review and calculation of gross pay, fringe benefits, and indirect costs.

The spreadsheet analyses identified transactions totaling $294,701 as supported for the period October 1, 2002, through June 30, 2003. The $294,701 consists of (1) $254,714 of transactions recorded in the general ledger; (2) $5,294 for the difference between payroll costs recorded at net instead of gross; (3) $9,143 for payroll taxes not previously charged to the grant; (4) $13,256 for fringe benefits calculated using the percentages in the budget; and (5) $12,294 for indirect costs calculated using an 8 percent indirect cost.

\textsuperscript{1} The Clearinghouse records currently indicate Future Teachers has submitted its A-133 audit report for the year ended June 30, 2002.
rate. In addition, Future Teachers stated it could support Grant transactions totaling $64,050 for the period July 1, 2003, through September 30, 2003.

Future Teachers’ response also provided (1) information regarding its partnerships (including its partnership with Chicago State University and Chicago Public Schools); (2) a description of its organization, goals, and programs and how they relate to the Grant; and (3) a management representation letter.

**OIG Response**

We reviewed Future Teachers’ response and have not changed our position regarding the costs cited in the draft report. Future Teachers’ response did not contain any official accounting records or other documentation to support the line-by-line spreadsheet analyses. As a result, we could not determine if Future Teachers had appropriately revised its records to reflect the spreadsheet analyses. Because Future Teachers did not provide supporting documentation, we have questioned all unsupported costs cited in the draft report. Based on additional documentation Future Teachers provided regarding its partnership, we removed the Other Matters section. We also made other minor changes to the report.

Future Teachers’ response identified $294,701 as supportable costs during the October 1, 2002, to June 30, 2003, period. This is $94,539 less than the $389,240 Future Teachers received from the Department of Education during the October 1, 2002, to June 30, 2003, period. In addition, we compared the spreadsheet analyses to records that were available during the audit and found (1) the spreadsheet analyses contained transactions we previously identified as unallowable or unsupported ($34,003); (2) calculations of the difference between payroll costs recorded at net instead of gross included non-grant employees or program participants ($354); (3) fringe benefits calculated using an unsupported rate ($13,256), and (4) indirect costs claimed without an indirect cost agreement ($12,294). Our review indicates that Future Teachers cannot support at least $154,446 ($94,539+$34,003+$354+$13,256+$12,294) that it drew down during our audit period. In addition, Future Teachers would have higher excess cash balances and a higher imputed interest than we originally calculated and reported. We also noted that the spreadsheet analyses included additional transactions totaling $16,406 for the period October 1, 2002, through June 23, 2003, that Future Teachers had not previously provided to us and $20,309 recorded between June 23, 2003, and June 30, 2003, that we did not review during our field work.

The $34,003 that we previously identified as unallowable or unsupported included (1) $13,692 for which Future Teachers did not provide supporting documentation; (2) $5,000 paid for scholarships where Future Teachers had not obtained a scholarship agreement; (3) $211 allocated using an unsupported 14 percent rate (the $211 should be covered by the indirect costs Future Teachers calculated); (4) $14,662 paid to non-grant personnel and program participants; and (5) $438 paid for unallowable items consisting of $138 for food and $300 for an awards dinner.

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2 Future Teachers also stated it is in the process of obtaining an approved indirect cost rate from the Department of Education.
Our review of the spreadsheet analyses showing the difference between payroll costs recorded at net instead of gross disclosed $354 paid for non-grant personnel and program participants. If Future Teachers had provided accounting records and supporting documentation for these costs, we would question $354 of the $5,294 claimed.

Our review of the spreadsheet analyses calculating $13,256 for fringe benefits determined these costs were unsupported. At the time of our field work, Future Teachers recorded transactions and provided documentation for each fringe benefit cost. The spreadsheet analyses use two rates, 21 percent for program employees and 7.56 percent for clerical employees, to calculate fringe benefits. Future Teachers’ response did not provide any documentation to support these rates.

The spreadsheet analyses in Future Teachers’ response included $2,724 of the claimed indirect costs that were unallowable. Future Teachers’ response calculated indirect costs totaling $12,294. This amount was based on the maximum indirect rate of 8 percent allowed for the Grant (34 C.F.R. § 611.61 (2002)). However, 34 C.F.R. § 75.560 (2002) requires a grantee to have a current indirect cost rate agreement before charging any indirect costs to a grant. According to Future Teachers’ response, it is still in the process of obtaining an approved indirect cost rate from the Department of Education. Even if Future Teachers had an approved rate, $2,724 of the calculated indirect costs would be unallowable because they relate to unallowable or unsupported costs.

We did not audit the $64,050 Future Teachers stated it expended during the period July 1, 2003, through September 30, 2003. This was beyond our audit period and, therefore, we cannot comment on the validity of this amount. However, part of the costs Future Teachers identified for this period were for fringe benefits calculated using the unsupported rates in its grant application budget and indirect costs, even though Future Teachers has not obtained an indirect cost rate agreement.

**BACKGROUND**

Future Teachers is a non-profit, community-based organization incorporated in the State of Illinois in 1996. In 2000, the IRS classified Future Teachers as a 501 organization that was exempt from federal income tax. According to the annual report presented on its website, Future Teachers received and expensed $1,652,235 for the period July 1, 2001, to June 30, 2002. Almost $1.4 million of the funds Future Teachers received were public funds. Future Teachers' mission is "To increase the number of teachers in Illinois schools through the development of vibrant Future Teacher programs in learning centers." Future Teachers' definition of learning centers includes, but is not limited to, public and nonpublic schools, colleges, universities, and park sites.

The Teacher Recruitment Grant is authorized by Section 204 of Title II of the Higher Education Act of 1965, as amended. It is subject to the provisions contained in 34 C.F.R. Part 611, Education Department General Administrative Regulations, and OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. The Department of Education
provides eligible applicants Grant funds (1) to award scholarships to help students pay the costs of tuition, room, board, and other expenses of completing a teacher preparation program; (2) to provide support services, if needed, to enable scholarship recipients to complete postsecondary education programs; and (3) for follow-up services provided to former scholarship recipients during the recipients’ first three years of teaching; or to develop and implement effective mechanisms to ensure that high need local educational agencies and schools are able to effectively recruit highly qualified teachers.

The Department of Education awarded a three-year Grant totaling $1,395,000 to a partnership made up of Future Teachers, Chicago State University, and Chicago Public Schools for the period October 1, 2002, through September 30, 2005. Future Teachers, the partnership’s fiscal agent, received $389,240 of the first year’s award of $465,000.

**OBJECTIVE, SCOPE, AND METHODOLOGY**

Our objective was to determine if Future Teachers expended Grant funds in accordance with the applicable law, regulations, and Grant terms. Specifically, we tested Future Teachers’ (1) management controls, (2) accounting system, (3) draw down procedures, (4) matching contributions, (5) Grant expenditures, and (6) Grant reporting.

To accomplish our objective, we


2. Reviewed Future Teachers’ July 25, 2002, Grant application (including budgets), application evaluation reports, Grant Award Notification for award year 2002, and Department of Education Grant disbursement information.

3. Reviewed written policies, procedures, and organizational information, including an organizational chart, incorporation documentation, and approval for tax exemption status.

4. Reviewed various records and documents, including all accounting and payroll records (including supplemental spreadsheets), bank statements, invoices, cancelled checks and other supporting documents for transactions totaling $701,248 recorded in the Grant accounting records for the period October 1, 2002, through June 23, 2003.

5. Reviewed lists of Grant participants, time sheets, and interns’ weekly reports.

6. Reviewed spreadsheets and supporting documentation to support matching contributions.
7. Reviewed 25 randomly selected stipend checks from a universe of 265 stipend checks to ensure stipend checks were cashed by participants.


9. Interviewed various Future Teachers, Department of Education, Chicago Public Schools, and Chicago State University personnel. We also discussed the response to the draft report with an attorney from the law firm Future Teachers engaged and a consultant engaged by the law firm.

We conducted our field work at Future Teachers’ administrative office in Chicago, Illinois, from June 20, 2003, through August 8, 2003. We discussed the results of our audit with Future Teachers’ officials on September 30, 2003.

We asked Future Teachers to provide written representations concerning the competence of the evidence we obtained (paragraph 6.55 of the government audit standards, 1994 revision; paragraph 7.54 of the 2003 revision) at the end of our field work. Future Teachers did not provide representations at that time. However, Future Teachers provided us the written representations with its response to the draft report. Future Teachers qualified its representations regarding irregularities involving other persons (e.g., outside consultants), proper recording of material transactions, and fair presentation of computer-processed data and related records as discussed in its response. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the audit described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to Future Teachers’ administration of the Grant. Our assessment was performed to determine the level of control risk.

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

- Cash Receipts
- Cash Disbursements
- Accounting for Disbursements
- Reporting on Program Results

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 significant management control weaknesses that adversely affected Future Teachers' ability to administer the Grant. 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.

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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,

[Signature]

Richard J. Dowd
Regional Inspector General
for Audit