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Control Number
ED-OIG/A06-F0001

June 1, 2005

Mr. Ron McMichael, Interim Director
Center for State Scholars
400 West 15th Street, Suite 408
Austin, Texas, 78701

Dear Mr. McMichael:

This **Final Audit Report** presents the results of our audit of the State Scholars Initiative Grant for the period October 1, 2002, through September 30, 2004. Our objectives were to determine if the Center for State Scholars (Center): (1) used grant funds in accordance with the requirements of the cooperative agreement and Federal regulations, and (2) had the administrative capability to administer the program according to the cooperative agreement.

We provided a copy of this report to the Center. In its response to our draft report, the Center generally agreed with both of our findings. We have summarized their comments after the recommendation sections of the report and have included the response as an Attachment.

BACKGROUND

The State Scholars Initiative (Scholars Initiative) Grant is designed to better prepare high school students academically by encouraging them to take more rigorous courses that reflect the National Commission on Excellence in Education (NCEE) recommendations. The Scholars Initiative is managed jointly through a partnership (cooperative agreement) with the Center located in Austin, Texas and the Department of Education's Office of Vocational and Adult Education (OVAE). The Scholars Initiative is authorized under the Carl D. Perkins Vocational and Technical Education Act of 1998, Section 114.

In June 2002, the Texas Business and Education Coalition (TBEC) provided U.S. Department of Education (Department) officials with a presentation of the Texas Scholars program. The Texas Scholars program encourages high school students to complete rigorous courses in math, science, and foreign language. The Texas Scholars program also teaches local Scholars Coalitions how to fund local programs, which in turn provides mentors to students.

Shortly after the June presentation, TBEC submitted an undated, unsolicited proposal to the Department to operate the Scholars Initiative on behalf of the Federal government. TBEC's proposal was to create a national program using the Texas Scholars program as a model, and included the creation of a Center for State Scholars to help states systematically create self-sustaining, successful, localized versions of the Scholars Initiative.

In August 2002, the Department awarded the Center a four-year grant totaling \$9.6 million. The grant funds were to be used for administrative purposes and to provide start-up funds to participating states for their scholar programs. During our audit period, 12 States received funding through the Scholars Initiative.

Although TBEC created a separate entity to administer the national initiative, the Center contracted with TBEC for administrative, and advisory and assistance services. Specifically, TBEC performed administrative functions at the Center, including, but not limited to, accounting functions; maintaining records, time and effort sheets, and payroll; filing the required administrative reports to the Department; and setting up administrative functions for a new office. TBEC also provided advice and assistance to the Center on a myriad of other areas, including, but not limited to, the vision, direction and organization of the Center; contractual relationships with sponsoring organizations; a methodology to collect state-based and national interim performance measures; an evaluation of the state-based Scholars Initiatives; and Center operations.

In November 2002, OVAE entered into a cooperative agreement with the Center to oversee and monitor the project to ensure that the Center complied with applicable regulatory requirements and the requirements of the cooperative agreement, and to ensure proper accountability for the grant funds by the Center and by each state participating in the pilot.

The amounts per grant award year, covered by our audit, were—

08/28/02—09/30/03	\$2,400,000
10/01/03—09/30/04	\$2,400,000
Total	<u>\$4,800,000</u>

AUDIT RESULTS

The Center did not properly account for and use over \$1.09 million of State Scholars Initiative funds in accordance with applicable Federal regulations and the requirements in the cooperative agreement with the Department. Additionally, we determined that the Center did not have the administrative capability to administer the grant during the first two years, and may not have the administrative capability to continue to administer this grant. Specifically, the Center did not maintain adequate supporting documentation for grant expenses relating to payroll (\$656,819), fringe benefits (\$83,899), contract services (\$340,409), travel (\$6,418), and general expenses

(\$5,881).¹ In addition, the Center did not have adequate grant funds to cover the contract obligations incurred during the first two years of the grant. As a result, the Center was \$173,587 short in its ability to cover all of the States' contracted obligations with grant funds for the period in question.

FINDING No. 1 – Expenditures Were Not Adequately Documented

The Center did not provide adequate supporting documentation (receipts) for expenditures totaling \$1,093,426 for FYs 2002-2003 and 2003-2004. The categories with the largest amount of unsupported costs were personnel and fringe benefits, totaling \$740,718, and TBEC contractor charges, totaling \$340,409. Other categories that lacked supporting documentation were travel (\$6,418), and general expenditures (\$5,881). A detailed summary of the unsupported costs, by fiscal year, is shown in the Attachment at the end of this report.

In addition, the Center was unable to provide adequate support for the expense reports submitted by the state contractors, which totaled \$1,673,262. We visited 3 of the 12 States participating in the Scholars Initiative (New Mexico, Oklahoma, and Maryland) to review support for the expense reports they submitted to the Center. Because these three States were able to provide supporting documentation for most of their expenses, we are not questioning the \$1.6 million in expenditures to the State contractors.

OMB Circular A-122, *Cost Principles for Non-Profit Organizations, Attachment A.2.* (1998), provides in part, that—

To be allowable under an award, costs must meet the following general criteria: . . .
(g) Be adequately documented.

Personnel and Fringe Benefits: The Center was unable to provide either approved time-and-effort sheets or timesheets for personnel employed at the Center. Because the Center did not have adequate documentation to support the payroll costs, nor written policies and procedures regarding timekeeping documentation and requiring employees to keep track of their time, we have considered the entire payroll and associated fringe to be unsupported (\$740,718).

OMB Circular A-122 *Cost Principles for Non-Profit Organizations Attachment B.7.m.* (1998) addresses the support of salaries and wages and provides in part that—

- (1) Charges to awards for salaries and wages . . . will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports . . .
- (2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged . . .

TBEC Contract: The Center was unable to provide receipts for 11 transactions totaling \$340,409 (\$332,507 for grant award year 2002-2003 and \$7,902 for grant award year 2003-2004). These costs primarily consisted of salary and travel costs. During our audit period, the

¹ General expenses included such things as supplies, indirect costs, equipment, and miscellaneous expenses.

Center had two different management contracts with TBEC. The first contract was from January 8, 2003, through September 30, 2003, in the amount of \$312,270. Under this contract, the Center was to pay TBEC for administrative, advisory and assistance services, and reimburse TBEC for all reasonable travel costs incurred by its staff. The Center paid TBEC \$345,250 under this contract.

The second contract was for \$450,000 and covered the period October 1, 2003, through September 30, 2005. Under this contract, the Center was to pay TBEC for administrative, advisory and managerial services, and reimburse TBEC for travel costs not to exceed \$40,000. During the first year of the second contract, the Center paid TBEC \$183,271. By mutual agreement, the contract between the Center and TBEC was terminated on September 23, 2004.

Travel: The Center was unable to provide receipts for 12 of 20 travel transactions, totaling \$6,418. The unsupported transactions primarily applied to airfare and lodging expenses.

General: The Center was unable to provide receipts for 7 of 70 general expense transactions, totaling \$5,881. These unsupported transactions primarily applied to office rent and credit card expenses.

State Contracts: The Center was unable to provide receipts for 145 expense reports submitted by the 12 participating State contractors, totaling \$1,673,262. While the Center did not require the States to submit supporting documentation with the expense reports, it did require them to maintain this documentation. We visited three States--New Mexico, Oklahoma, and Maryland--and found that they had support for most of the expenses the Center paid them. We considered the amount not supported to be immaterial.

We determined that the unsupported costs above occurred because the Center did not have proper policies and procedures in place to require approval for expenditures and did not retain supporting documentation for all expenditures. The lack of internal controls was, in part, due to the Center operating without an adequate policies and procedures manual. However, during our review, the Center was in the process of developing a policies and procedures manual to address the deficiencies found in our audit.

RECOMMENDATIONS

We recommend the Assistant Secretary for OVAE instruct the Center to—

- 1.1 Provide sufficient documentation to support the \$1,093,426 in expenditures for the period of our review or refund this amount to the Department.
- 1.2 Establish a formal written system of internal controls to ensure costs charged to the Scholars Initiative grant are properly accounted for and used in accordance with applicable laws and regulations and the cooperative agreement. These controls should include policies and procedures to implement approval procedures for all expenditures, including payroll and contractors, and retain supporting documentation for all expenditures, including expenditures from the participating state subcontractors.

The Center's Comments

The Center intends to provide adequate documentation, including time and effort reports, payroll reconciliations, receipts, and other documentation to support the questioned amount. The Center agreed that time and efforts reports were not approved in writing by a designated authority; however, the Center proposes to provide existing documentation bearing contemporaneous approval signature by a Center Board designated authority.

The Center stated they have already made changes and that as of July 24, 2004, the Center requires contractors to submit time and effort reports on at least a monthly basis. All current state partners were notified that as of October 1, 2004, all requests for reimbursement must have copies of receipts and invoices. Additionally, the Center advised that it has implemented stronger internal controls in response to this report.

OIG's Response

After reviewing the Center's response, we did not change our finding or recommendation.

FINDING NO. 2 – Administrative Capability

The Center did not have the administrative capability to administer the grant during award years 2002-2003 and 2003-2004, and may not be able to continue administering the grant in the future. We determined the Center did not have sufficient grant funds to cover State contracted obligations for the first two grant award years. We compared the amount of State obligations remaining to the amount of grant funds available and determined that the Center was \$173,587 short.

EDGAR, as of November 26, 2003, 34 C.F.R. § 75.702, *Fiscal Control and Fund Accounting Procedures*, states, "A grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds."

OMB Circular A-110,² states, Federal award recipients shall compare outlays with budget amounts for each award and have written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award; and where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period.

² OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Amended 9/30/99, SUBPART C - Post-Award Requirements, Financial and Program Management, .21(b)(2,6) and .28.

EDGAR Title 34 C.F.R. § 75.700, *Compliance with Statutes, Regulations, and Applications*, provides that “A grantee shall comply with applicable statutes, regulations, and approved applications, and shall use Federal funds in accordance with those statutes, regulations, and applications.”

EDGAR Title 34 C.F.R. § 74.21, *Standards for Financial Management Systems*, provides in part:

(b) Recipients’ financial management systems shall provide for the following:

(1) Accurate, current, and complete disclosure of the financial results of each federally-sponsored project in accordance with the reporting requirements established in Sec. 74.52...

(3) Effective control over and accountability for all funds, property, and other assets.

Recipients shall adequately safeguard all assets and assure they are used solely for authorized purposes.

(4) Comparison of outlays with budget amounts for each award. Whenever appropriate, financial information should be related to performance and unit cost data . . .

(6) Written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.

(7) Accounting records including cost accounting records that are supported by source documentation.

In June 2004, OVAE conducted a monitoring visit of the Center. This visit revealed several areas of concern, which resulted in the Department placing the Center on Special Terms and Conditions. These included, but were not limited to: (1) documentation that accounting policies and procedures in place must fully comply with all requirements in Parts 74 and 75 of the Education Department’s General Administrative Regulations (EDGAR); (2) a full accounting, supported by contemporaneous documentation, for all expenditures of Federal funds by the Center during the first two years of the Scholars Initiative; (3) restricting draw downs of FY 2003 funds and FY 2002 carryover funds; and (4) providing assurance that the Center will repay all Federal funds expended in which it cannot provide satisfactory accounting and cannot show that the expenditures were allowable and allocable to the Federal grant.

During our audit period, we noted that the Center had a policy and procedures manual that lacked policies on procurement, travel, cash management, and documentation of work schedules. Additionally, payroll costs were not supported with approved time sheets or, in some cases, any other type of documentation. We identified several internal control weaknesses, such as, having only one authorized employee sign checks, costs not reconciling to payroll time sheets, time and effort not approved, working with an incorrect budget amount, and not having an accounting system in place to account for funds that were obligated but not yet expensed. Also, the Center uses one bank account for its Federal funds and all of the Center’s Scholars Initiative expenses are paid from this one account. When the State contracts were obligated, funds were not set aside for future use by the contractors.

Center officials stated that before March 2003, there was no written cash management policy in its policy manual. A cash management policy was written but was not included in a new draft of the policy manual until after OVAE’s June 2004 visit. In July 2004, the Center started putting some draft policies in place but did not put all new policies in place until October 2004. The

Center's Board of Directors approved the new policies in December 2004. However, the controls had not been in place long enough for us to evaluate the effectiveness or adequacy of the Center's implementation of the new controls.

These serious deficiencies occurred because the Center did not exist prior to the awarding of this grant and did not have adequate expertise, personnel, or accounting systems in place during the first two years of the grant. After receiving the grant, the Center contracted with TBEC to provide many of the administrative services, such as accounting functions, and maintaining records, time and effort sheets, and payroll. However, TBEC: (1) did not maintain an adequate accounting system, for the Center, that was consistent with Grant Accounting and Payment Systems (GAPS) guidelines because expenses were not tracked by GAPS budget categories, (2) did not maintain adequate documentation for salary and travel expenses incurred under the TBEC contract, and (3) did not maintain time and effort sheets and payroll data on Center employees and TBEC employees working on the grant (see Finding No. 1). Additionally, the Center did not establish accounting procedures to manage its budget, were unable to track line item spending for each budget category, and overspent in certain budget categories leaving a deficit in their State contract obligations. As a result, there may not be sufficient funds in the future to meet the \$173,587 shortfall.

RECOMMENDATIONS

We recommend that the Assistant Secretary for OVAE—

- 2.1 Determine whether the Center is administratively capable of administering the State Scholars Initiative Grant in the future, and if not, take the appropriate action.
- 2.2 Determine whether the Center is financially solvent and can continue to be financially solvent.
- 2.3 Work with the Center to identify how the \$173,587 shortfall can be addressed without using future grant funds.
- 2.4 Continue to apply the Special Terms and Conditions to the Center.

The Center's Comments

The Center agreed that it might not have had the administrative capacity to handle the grant in the beginning. The Center has now hired an executive director that is experienced in managing government and school district funds, as well as additional staff to administer the program. The Center believes that the problems noted in the audit were due to the fact the Center was a new entity that had not completely developed all of its controls and procedures. The Center believes all funds have been disbursed in a proper manner and can be adequately documented. Additionally, the Center has developed and will continue to develop the necessary accounting and administrative controls to properly administer the grant funds.

With regards to the shortfall, the Center stated that three of the state contracts contained language, which erroneously provided for their contracts to automatically renew at the end of the initial contract period, of which two contracts erroneously did not specify separate contract amounts for each funding period. The Center acknowledged that the omission of the contract language unintentionally created a greater obligation of funds, and the Center proposes to amend the two state partner contracts in question to include the omitted language specifying the contract period and the funds available for each period.

OIG's Response

After reviewing the Center's response, we did not change our finding or recommendations.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine if the Center: (1) used Federal funds in accordance with the requirements of the cooperative agreement and Federal regulations, and (2) has the administrative capability to administer the program according to the cooperative agreement.

To accomplish our objectives, we—

- Reviewed the Cooperative Agreements for FY 2002-2003 and FY 2003-2004 between the Center and the Department;
- Reviewed the Center's general ledger transactions for fiscal years ending September 2003 and September 2004;
- Reviewed the Center's grant application and budget narrative;
- Reviewed contracts with TBEC and participating States;
- Reviewed various reports submitted to the Department, including the Center's Monthly and Quarterly Progress Reports and the States' sustainability reports;
- Reviewed the A-133 audit report ended September 30, 2003, the internal audit report by Eastman Chemical, and a Departmental monitoring visit report;
- Reviewed the Center's Board of Directors' minutes for the meetings held January 2003, March 2003, August 2003, January 2004, April 2004, and July 2004;
- Reviewed written policies and procedures for budgeting, accounting, procurement, payroll, and fringe benefits;
- Judgmentally selected 150 of 1268 transactions from the general ledger and traced them to supporting documentation, focusing our selections on large dollar amounts and transactions paid to individuals. The transactions reviewed accounted for \$984,984 or 27 percent of the total dollars expended by vendors (\$3,666,671). We reviewed 80 of 529 transactions for FY 2002-03 and 70 of 739 transactions for FY 2003-04;
- Reviewed 100 percent of TBEC transactions, tracing them to supporting documentation;

- Reviewed all expense reports and accompanying supporting documentation for the three States visited, which were judgmentally chosen based on their location and the total expenses; and
- Interviewed various Center officials and State Scholar employees.

To achieve our audit objectives, we relied, in part, on computer-processed general ledger transactions related to the Scholars Initiative contained in the Center's accounting system. We verified the completeness of the data by comparing source records to computer-generated data, and verified the authenticity by comparing computer-generated data to source documents. Based on these tests, we concluded that the data were sufficiently reliable to use in meeting our objectives.

We conducted our fieldwork at the Center for State Scholars Headquarters in Austin, Texas between November 1, 2004, and December 3, 2004. In addition, we conducted fieldwork at the Scholars Initiatives in Oklahoma, New Mexico, and Maryland between December 13, 2004, and January 5, 2005. We discussed the results of our work with Center officials on March 1, 2005.

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

STATEMENT ON INTERNAL CONTROLS

As part of our review, we relied on substantive testing of costs charged to the Scholars Initiative Grant to test internal controls. Our testing disclosed several instances of non-compliance with Federal regulations, grant and cooperative agreement terms, and cost principles. Our audit disclosed a significant lack of internal controls, which adversely affected the Center's ability to administer the Scholars Initiative Grant. Specifically, we concluded, the Center needs to improve its internal controls related to the maintenance and retention of payroll, personnel, and financial records, as well as reviews and approval of transactions charged to the Scholars Initiative Grant. These weaknesses and their effects are 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 additional comments or information that you believe may have bearing on the resolution of this audit, you should send them directly to the following Department of Education officials, who will consider them before making final Departmental action on the audit:

Jack Martin
Chief Financial Officer
Office of the Chief Financial Officer
U.S. Department of Education
400 Maryland Avenue, SW, Room 4E313
Washington, DC 20202

Dr. Susan Sclafani
Assistant Secretary
Office of Vocational and Adult Education
U.S. Department of Education
400 Maryland Avenue, SW, Room 11139 (PCP)
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.

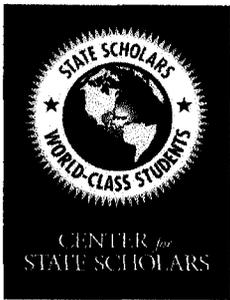
Sincerely,

/s/
Sherri L. Demmel
Regional Inspector General
for Audit

Attachments

**Summary of Unsupported Costs for the State Scholars Initiative
Administered by the Center
For the Period August 28, 2002, through September 30, 2004**

Unsupported			
Fiscal Year	2002-03	2003-04	Totals
Personnel	\$320,578.17	\$336,241.32	\$656,819.49
Fringe	\$31,131.79	\$52,767.51	\$83,899.30
Payroll Total	\$351,709.96	\$389,008.83	\$740,718.79
Travel	\$2,479.85	\$3,937.81	\$6,417.66
TBEC	\$332,506.77	\$7,902.13	\$340,408.90
General	\$1,428.47	\$4,452.25	\$5,880.72
Non-payroll Total	\$336,415.09	\$16,292.19	\$352,707.28
Unsupported Expenditures	\$688,125.05	\$405,301.02	\$1,093,426.07



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BOARD OF DIRECTORS

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April 11, 2005

Sherri L. Demmel
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
1999 Bryan Street, Suite 2630
Dallas, Texas 75201-6817

Ref: ED-OIG/A06-F0001

Dear Ms. Demmel:

Attached you will please find the response from the Center for State Scholars to the Draft Audit Report referenced above. It is the Center's belief that we have responded appropriately to each of the findings included in the Draft Audit Report. Should you need additional information or clarification in regard to our response, please feel free to contact me.

We look forward to the issuance of your final audit report.

Sincerely,

A handwritten signature in black ink, appearing to read "Ron McMichael". The signature is fluid and cursive, with a large loop at the end.

Ron McMichael
Interim Executive Director

Center for State Scholars
Remedies for Findings of
Office of Inspector General
Revised: March 31, 2005

	FINDING	RECOMMENDATION	RESPONSE AND CURRENT CORRECTIVE ACTION	FUTURE CORRECTIVE ACTION
1.	<p>Expenditures were not adequately Documented.</p> <p>The Center did not provide adequate supporting documentation (receipts) for expenditures totaling \$1,093,426 for FYs 2002-2003 and 2003-2004. The categories with the largest amount of unsupported costs were personnel and fringe benefits totaling \$740,718, and TBEC contractor charges totaling \$340,409. Other categories that lacked supporting documentation were travel (\$6,418) and general expenditures (\$5,881).</p> <p><i>Personnel and Fringe Benefits:</i> The Center was unable to provide either approved time-and-effort sheets or timesheets for personnel employed at the Center. Because the Center did not have adequate documentation to support the payroll costs, nor written policies and procedures regarding timekeeping documentation and requiring employees to keep track of their time, we have considered the entire payroll and associated fringe to be unsupported (\$740,718).</p>	<p>We recommend the Assistant Secretary for OVAE instruct the Center to –</p> <p>1.1 Provide sufficient documentation to support the \$1,093,426 in expenditures for the period of our review or refund this amount to the Department.</p> <p>1.2 Establish a formal written system of internal controls to ensure costs charged to the Scholars Initiative grant are properly accounted for and used in accordance with applicable laws and regulations and the cooperative agreement. These controls should include policies and procedures to implement approval procedures for all expenditures, including payroll and contractors, and retain supporting documentation for all expenditures, including expenditures from the participating state subcontractors.</p>	<p>The Center intends to provide adequate documentation, including time and effort reports, payroll reconciliations, receipts, and other documentation to support the \$1,093,426 in question.</p> <p><i>Personnel and Fringe Benefits:</i> For the period of Center operations that were audited, payroll reconciliations and time and effort reports existed, but were not approved in writing by a designated authority. The Center proposes to provide existing documentation to support the \$740,718 in personnel and fringe benefits paid during the audit period in question, bearing contemporaneous approval signature by a CSS board designated authority.</p> <p><i>Travel and General:</i> The Center will submit receipts for the unsupported transactions in question and will repay any remaining amount that cannot be supported by adequate documentation.</p>	<p><i>Personnel and Fringe Benefits:</i> Documentation to be submitted within 30 days of the date of this response.</p> <p><i>Travel and General:</i> In-house documentation to be submitted within 30 days of the date of this response. Documentation ordered from vendors to be submitted within 90 days of the date of this response.</p>

<p><i>Travel:</i> The Center was unable to provide receipts for 12 of 20 travel transactions, totaling \$6418. The unsupported transactions primarily applied to airfare and lodging expenses.</p> <p><i>General:</i> The Center was unable to provide receipts for 7 of 70 general expense transactions, totaling \$5,881. These unsupported transactions primarily applied to office rent and credit card expenses.</p> <p><i>TBEC Contract:</i> The Center was unable to provide receipts for 11 transactions totaling \$340,409 (\$332,507 for grand award year 2002-2003 and \$7,902 for grant award year 2003-2004). These costs primarily consisted of salary and travel costs.</p>		<p><i>TBEC Contract:</i> The Center will provide supporting documentation and receipts for the amount in question.</p> <p>As of July 24, 2004, the Center requires that contractors submit time and effort reports on at least a monthly basis. Employees are required to submit time and effort on a bi-weekly basis in concurrence with each payroll period. These reports are required to reflect work block segments in relation to grant/award activities and efforts. Designated staff verifies that the report has been submitted and approved for the appropriate payroll period. This procedure has been added to the policy manual.</p> <p>As of July 26, 2004, all invoices are submitted to a designated authority for approval. Additionally, the accountant examines every invoice for proper approval. All current state partners were notified on September 30, 2004, that as of October 1, 2004, all requests for reimbursement must have copies of receipts and invoices attached and must bear proper approval signatures for payment. This procedure has been added to the procurement policy.</p> <p>Additionally, the Center has been implementing stronger internal controls,</p>	<p><i>TBEC Contract:</i> In-house documentation to be submitted within 30 days of the date of this response. Documentation ordered from vendors to be submitted within 90 days of the date of this response.</p> <p>Time and Effort reports available upon request.</p> <p>Updated policy manual and internal controls procedures available upon request.</p>
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			including stronger controls over the contracted states, based on the findings and suggested remedies of the audits performed by OVAE and OIG. The policy manual has been updated to reflect these changes and additions and will be presented to the board of directors for approval.	
2.	<p>Administrative Capability</p> <p>The Center did not have the administrative capability to administer the grant during award years 2002-2003 and 2003-2004, and may not be able to continue administering the grant in the future. We determined the Center did not have sufficient grant funds to cover State contracted obligations for the first two grant award years. We compared the amount of State obligations remaining to the amount of grant funds available and determined that the Center was \$173,587 short.</p>	<p>We recommend that the Assistant Secretary for OVAE –</p> <p>2.1 Determine whether the Center is administratively capable of administering the State Scholars Initiative Grant in the future, and if not, take the appropriate action.</p> <p>2.2 Determine whether the Center is financially solvent and can continue to be financially solvent.</p> <p>2.3 Work with the Center to identify how the \$173,587 shortfall can be addressed without using future grant funds.</p> <p>2.4 Continue to apply the Special Terms and Conditions to the Center.</p>	<p>CSS may not have had the administrative capacity to handle the grant in the beginning, therefore some administration was contracted with TBEC. CSS has now hired an executive director that is experienced in managing government and school district funds as well as additional staff to administer the program.</p> <p>In general CSS believes that the problems noted in the audit were due to the fact that CSS was a new entity that had not completely developed all of its controls and procedures. In the Center's opinion, all funds have been disbursed in a proper manner and can be adequately documented. Additionally, CSS has developed and will continue to develop the necessary accounting and administrative controls to properly administer the grant funds. Furthermore, CSS has an experienced executive director and staff that are capable of administering the grant funds in compliance with the statutes, regulations, and applications, and will work to implement the recommendations of the audit team.</p>	<p>With regard to the \$173,587 shortfall, three of the state contracts contained language which provided for their contract to automatically renew at the end of the initial contract period, of which two contracts erroneously did not specify separate contract amounts for each funding period. The Center acknowledges that the omission of contract language unintentionally created a greater obligation of funds for the two state contracts. The Center proposes to amend the two state partner contracts in question to include the omitted language (shown in italics) in paragraph II, Length of Contract and Conditions of Termination: "This contract shall commence on [date] and shall continue for an <i>initial term</i> expiring on [date] (the "Initial Term"). This contract shall automatically be extended [term]</p>

				<p><i>("Renewal Term") upon expiration of the Initial Term." And in paragraph V, Contract Amount: "The total amount of the contract shall be at least [amount], not to exceed \$200,000, for the Initial Term of this contract agreement.</i></p>
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