



**UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL**

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March 17, 2004

ED-OIG/A09-D0012

Dr. Alfonso R. Anaya
Superintendent
Alum Rock Union Elementary School District
2930 Gay Avenue
San Jose, CA 95127

Dear Dr. Anaya:

This Final Audit Report entitled *Alum Rock Union Elementary School District's Administration of the 21st Century Community Learning Centers Grant No. S287A000487*, presents the results for our audit. The purpose of our audit was to determine whether the Alum Rock Union Elementary School District (1) served the number of students projected in its grant award and reported in its annual reports, and (2) properly accounted for and used 21st Century Community Learning Centers (CCLC) grant funds in accordance with the grant terms and applicable Federal laws and regulations. Our review of the number of students served covered the period from September 1, 2000 through May 31, 2002. For the accounting and use of grant funds, we reviewed amounts charged to the grant from July 1, 2000 through February 28, 2003.

In its response to the draft report, the District concurred with our finding and recommendations concerning the students served by the CCLC program. The District generally agreed with our findings related to the accounting and use of the CCLC grant funds, except for our findings on the allowability of certain personnel, event and food costs. The District agreed with our recommendations for enhancing its procedures, but disagreed with our recommendations on providing additional documentation and returning grant funds expended on disallowed and unsupported costs. The District's comments are summarized in the AUDIT RESULTS section of the report at the end of each finding and the full text of the comments is included as Attachment 2.

BACKGROUND

The CCLC program, which is authorized by Title X, Part I of the Elementary and Secondary Education Act (ESEA), as amended, provides grants to schools for the planning, implementation, or expansion of projects that benefit the educational, health, social service, cultural, and recreational

needs of the community. Local educational agencies are to operate community learning centers in conjunction with local governmental agencies, businesses, vocational educational programs, institutions of higher education, community colleges, and cultural, recreational, and other community and human service entities. The centers must provide no less than 4 of the 13 activities listed in the ESEA § 10905.

The District CCLC grant proposal was prepared in collaboration with the San Jose State University's Pre-College Program. The District's goal for its CCLC program is to improve students' test scores and academic performance. Based on the proposal, the Department awarded the District a 3-year grant, totaling \$1,189,527, to operate the CCLC program at three of the District's six middle schools from June 1, 2000 through May 31, 2003. After the award, the grant performance period was extended through January 31, 2004.

AUDIT RESULTS

We found that the District did not serve the number of students as projected in its proposal and did not retain the attendance records listed in its grant application. We also found that the District did not use and properly account for CCLC grant funds in accordance with Federal regulations. During the period from July 1, 2000 through February 28, 2003, the District charged 1,006 transactions, totaling \$896,104, to the CCLC grant. Our review of 227 of the transactions found that the District had improperly used grant funds for 14 transactions totaling \$65,523. Also, the District lacked required documentation for 48 transactions. As a result, we were unable to determine the allowability of the costs associated with those transactions. The results of our review of the 227 transactions are summarized in Attachment 1.

We recommend that the Department require the District to submit student attendance documentation for the grant extension period, assess whether the District provided services to a sufficient number of students during the grant extension period to warrant the costs incurred on the grant, and take appropriate Departmental action, if warranted. We recommend that the Department obtain a written assurance from the District that student attendance records will be retained for a period of three years from the date of its submission of the grant's final report. In addition, the Department should require the District to return the grant funds (plus related staff benefits and indirect costs) that were improperly charged to the CCLC grant. Also, the District should be required to submit appropriate documentation to support the costs that lacked required documentation or return the funds (plus related staff benefits and indirect costs). We include several procedural recommendations to improve the District's documentation and review of costs charged to the grant.

On May 22, 2003, we informed the 21st Century Community Learning Centers Program staff within the Department's Office of Elementary and Secondary Education, Academic Improvement and Teacher Quality Unit of the results of our audit. Due to the seriousness of the findings, the Department placed conditions on the extension of the grant's performance period.

FINDING NO. 1– The District Did Not Serve the Number of Students Projected in Its Proposal and Did Not Retain Attendance Records For The Required Time Period

The District reported that it served significantly fewer students than projected in its proposal. Also, the District did not retain student attendance documents for the required time period. The regulations at 34 C.F.R. § 80.40(a) state “[g]rantees are responsible for managing the day-to-day operations of grant . . . supported activities. Grantees must monitor grant . . . activities to assure compliance with applicable Federal requirements and that performance goals are being achieved.”

District Did Not Serve Number of Students Projected in its Proposal. None of the centers at the District’s three middle schools met the annual projected number of individuals to be served for any of the three grant years. The following table shows the projected numbers from the District’s proposal and the number of students who the District reported attended at least 30 days in the program year.¹

	Students Served Per Performance Reports			Projected Students to Be Served Each Year Per Proposal
Clyde Fischer Middle School	35	242	87	290
Lee Mathson Middle School	99	55	90	290
Joseph George Middle School	42	20	11	290
Total	176	317	188	870
Reported Grant Funds Expended	\$302,757	\$440,506	\$303,264	
Grant Funds Expended Per Student Served	\$1,720	\$1,390	\$1,613	

Also, as shown above, the average cost per student served far exceeded the \$438 per student amount described in the District’s application as reasonable and cost-effective.

The low number of students served was due in part to the Mathson and George centers not being in operation for 4 of the 8 school terms from Fall 2000 through Spring 2003.³ The two centers were not in operation during the Summer 2001, Fall 2001, Summer 2002, and Fall 2002 terms. Also, the District explained in its Annual Performance Report 2001 that the low student attendance was due to problems at school sites, such as the late arrival of materials, which resulted in activities being canceled or postponed.

District Could Not Provide Complete Student Attendance Records. The District was unable to provide the student attendance records specified in its grant application. Also, the District was unable

¹ The Department-provided form for the annual performance report defines a “regular attendee” as any student who attended 30 days or more during the program year (including summer).

² The numbers of students served in the third year were provided by the District Program Coordinator. We did not review the support for the numbers. The “reported grant funds expended” shown for the third year is a calculated amount based on the grant award, prior years’ expenditures, and the remaining grant award balance in May 2003.

³ The eight school terms were: Fall 2000, Spring 2001, Summer 2001, Fall 2001, Spring 2002, Summer 2002, Fall 2002, and Spring 2003.

to provide the records needed to confirm the number of student participants reported in its performance reports for the first and second years of the CCLC grant. The regulation at 34 C.F.R. § 80.42 requires grantees to retain financial and programmatic records, supporting documents, statistical records, and other records pertinent to an award for a period of three years from the submission date of the grant's final report.

In its application for the CCLC grant, the District stated that each Center Coordinator would maintain sign-in/sign-out sheets for CCLC activities and services offered at the centers. Also, the District would collect records pertinent to each service and grant objective. The following is a partial list of the additional records the District stated it would maintain:

- Number of students attending each tutorial by type, date, and center;
- Number of English Development Computer Tutorials attended by student and center;
- Number of Math Computer Tutorials attended by student and center; and
- Number of Homework Centers attended by student and center.

The District stated in its application that the attendance information would be entered into a database on a weekly basis.

The District was unable to provide complete records for the centers at the three middle schools. For example, the District provided attendance records for the Mathson center for only eight days in each of the first and second grant years.

Due to incomplete attendance records, the contractor hired by the District to prepare the annual performance reports had to extrapolate the number of students served from incomplete records. Based on our review of the contractor's analyses and attendance records for partial periods, we concluded that the number of students reported in the performance reports appeared reasonable.

The District Program Coordinator (current Project Director for the CCLC program) and the District Director of State and Federal Programs both explained that the contractor, who was responsible for operating the centers during the periods from September 2000 through May 2001 and February 2002 through May 2002, did not ensure that student attendance records were collected and retained at the centers. Also, District organizational changes and staff turnover contributed to the lack of student attendance records. In addition, they were unaware of the need to retain student attendance records after submission of the annual performance reports. The Center Coordinators confirmed that the centers are currently collecting daily student attendance records, retaining the records, and entering the attendance information into the center's database on a weekly basis.

Recommendations

We recommend that the Chief Financial Officer in collaboration with the Assistant Secretary for Elementary and Secondary Education:

- 1.1 Require the District to submit certified copies of attendance records for students included in the reported number of students served during the grant extension period. The copies should be submitted with the District's final performance report, which is due within 90-days of the end of the extended performance period.
- 1.2 Assess whether the District provided services to a sufficient number of students during the grant extension period to warrant the total costs incurred on the grant. If the District has not

served a sufficient number of students, consider initiating one or more of the Departmental action(s) authorized under 34 C.F.R. § 80.43 (a), including disallowance of a portion of the grant.

- 1.3 Obtain a written assurance from the District that student attendance records will be retained for a period of three years from the submission date of the grant's final report.

District Comments

The District agreed with the finding and recommendations. In its response to the draft report, the District stated that it has served the proper number of students during the grant extension period and has taken actions to improve grant-related documentation practices.

FINDING NO. 2 – The District Improperly Charged \$65,523 to the CCLC Grant

The District charged the CCLC grant twice for a purchase of computers. Also, the District improperly charged the grant for personnel costs, event costs unrelated to the grant, and unallowed food costs. The regulation at 34 C.F.R. § 80.20 (b)(5) states “[a]pplicable OMB [Office of Management and Budget] cost principles, agency program regulations, and the terms of [the] grant . . . will be followed in determining the reasonableness, allowability, and allocability of costs.” The cost principles applicable to the grant are contained in OMB Circular A-87, *Cost Principals for State, Local, and Indian Tribal Governments*. OMB Circular A-87, Attachment A, Paragraph C.1 lists the factors affecting allowability of costs. These factors include that the cost must—

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular. . . .

Paragraph C.2 defines the term “reasonable cost.”

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Computer Purchase Charged Twice to the Grant. The District charged the grant twice for the purchase of computers for the CCLC program. On June 29, 2001, the District used a journal entry to charge the CCLC grant account \$48,430 for a purchase of computers. The District again charged \$48,430 to the grant on October 25, 2001 for the purchase. The purchase order and invoice that the District provided as support for the October charge contained a handwritten note indicating a previous unsuccessful attempt to pay the vendor. The District agreed that the grant had been erroneously charged twice for the purchase and, in response to our finding, provided documentation showing that the District took corrective action by processing a credit transaction to the grant account for \$48,430 on June 1, 2003.

Personnel Costs For Time Worked Unrelated to the CCLC Grant. The District paid teachers who worked outside their regular contracts (extended-duty teachers) for hours worked based on an Extended Duty Payment Request Form completed by the school principal or other school officials. The District improperly charged \$3,000 to the CCLC grant for hours worked by one extended-duty

teacher in June 2002. The Extended Duty Payment Request Form supporting the payment showed that this teacher had worked the hours on a state grant. The error occurred when the District improperly identified the CCLC grant when preparing an end-of-year accrual transaction for the payment.

The District paid instructional aides, substitute/short-term employees, and part-time employees based on hours the employees recorded on timesheets. The timesheets provided space to record hours worked each day and a description of the services provided.

- The District charged the CCLC grant on August 9, 2002, for a payment to an employee for \$2,250 (4 ½ days at \$500 per day). The July 2002 timesheet provided in support of the payment showed that the employee worked 3 days on CCLC grant activities and 1½ days on another program. The amount charged to the CCLC grant should have been limited to the 3 days worked on grant activities, which is \$1,500 (3 days at \$500 per day). The District agreed that the grant was improperly charged \$750 (\$2,250 less \$1,500) due to an error in the coding of the payment.
- The timesheets for five of the reviewed transactions showed that all or part of the hours reported by the employees were for services provided at Caesar Chavez Elementary School, Arbuckle Elementary School, or Pala Middle School rather than the three locations authorized for the grant – Fischer, George, and Mathson Middle Schools. The Department program staff responsible for monitoring the grant confirmed that CCLC programs are only authorized for the sites listed in the grant proposal and that a change in location would be considered a change in grant scope requiring prior Departmental approval.

According to the District, students participating in CCLC programs at the George and Mathson centers attended the 2001 summer school sessions at other District schools.⁴ We concluded that the CCLC grant was improperly charged \$8,539 for the five transactions since the District did not provide documentation that students participating at George and Mathson centers attended the 2001 summer sessions and the District did not obtain prior Departmental approval for the change in location.

We reviewed 12 of the 52 transactions for payments to instructional aides, substitute/short-term employees, and part-time employees. Given the errors identified by our review and the District's lack of written review procedures, the 40 untested transactions may include additional improper charges to the CCLC grant.

Costs for Event Held Prior to District's Initiation of Program. The District charged the CCLC grant \$3,198 for four transactions related to an event held on July 27, 2000, two months prior to the start of the CCLC programs at the Fischer, George, and Mathson centers. The transactions represented one-half of the invoice amounts for catering and award trophies. According to the District, the transactions were appropriate charges to the grant since students from Fischer, George, and Mathson Middle Schools were invited to attend the event and a reason for having the event was to attract new students. Also, the District's grant application specified that students would participate in the awards banquet, such as the cited event – a Polynesian show and banquet. Awards were

⁴ The District had a separate Department grant to operate CCLC programs at Sheppard, Pala, and Ocala Middle Schools.

presented to graduating students who participated in the CCLC programs at Pala, Sheppard, and Ocala Middle Schools.

We concluded that the four transactions were not an allowable cost of the CCLC grant because (1) the District provided no documentation that students from Fischer, George, and Mathson Middle Schools attended the event, (2) the District did not provide adequate basis for using 50 percent to allocate the charges between the two CCLC grants, and (3) the purchase of award trophies was not a necessary and reasonable charge to the grant since none of the award recipients would have participated in the CCLC programs at Fischer, George, and Mathson Middle Schools.

Food Costs Improperly Charged to the Grant. The District improperly used grant funds for two transactions for food service charges, totaling \$1,606, from the District's Child Nutrition Services.

- One transaction of \$1,000 was for food served at a football tailgate party held on a Saturday at San Jose State University. OMB Circular A-87, Attachment B.18 states that “[c]osts of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, ...) are unallowable.” In addition, the District's grant application did not specify that the students would attend a sports event as a CCLC activity and the approved budget did not include costs for food associated with such an event.
- The other transaction of \$606 was for a luncheon held at Pala Middle School. We concluded that the food costs were not allocable to the CCLC grant since students were still in school during lunch and Pala Middle School was an authorized location under another CCLC grant. OMB Circular A-87, Attachment A, Paragraph C.1.b states that costs must be allocable to Federal awards.

Recommendations

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

- 2.1 Return \$17,093 (\$3,000 + \$750 + \$8,539 + \$3,198 + \$1,606), plus the staff benefits and indirect costs related to improper charges.⁵
- 2.2 Implement appropriate written procedures for reviews of timesheets, invoices, and other payment documentation to ensure that amounts are correctly charged to the proper grant account.
- 2.3 Review timesheets for instructional aides, substitutes, and part-time employees for personnel costs charged to the CCLC grant, which were not examined as part of our audit, to confirm that the hours worked were correctly charged to the grant account, and return any identified improper charges (plus related staff benefits and indirect costs).

⁵ The \$17,093 excludes the \$48,430 that the District credited to the grant account on June 1, 2003 for the duplicate charge for the computer purchase. However, the District needs to return to the Department the indirect costs related to the \$48,430.

District Comments and OIG Response

Computer Purchase. The District agreed with the finding, but stated that it is unaware of indirect costs related to the duplicate charge.

We have not changed our recommendation. To determine the amount of indirect costs⁶ to be charged to the CCLC grant, the District multiplied total expenditures by its approved indirect cost rate. The duplicate charge was included in the total expenditure amount used in the calculation. Since the duplicate charge was an improper charge, the related indirect cost charge was also improper. The indirect costs related to the duplicate charge amount to \$2,581 (\$48,430 times the approved indirect cost rate of 5.33 percent).

Personnel Costs. The District stated that the accrual transaction related to the \$3,000 of personnel costs, which the District agreed was incorrectly recorded to the CCLC grant, had been reversed in the next year.

The documents provided by the District confirmed that the \$3,000 accrual, which the District agreed was improperly charged to the CCLC grant, was reversed in the next fiscal year, but the documents also show that the payroll transaction related to the accrual was charged to CCLC grant. Thus, the CCLC grant was improperly charged \$3,000 for an extended-duty teacher who did not work on the CCLC grant. The transactions shown in the District's documents are as follows:

June 30, 2002	Year End Payroll Accrual	\$3,000	Debit
July 10, 2002	Payroll	3,000	Debit
July 15, 2002	Reversal of Payroll Accrual	3,000	Credit

The accrual transaction was reported in the draft report as an unsupported cost under Finding No. 3. Since the District has provided sufficient documentation to show that the accrual transaction resulted in \$3,000 being improperly charged to the CCLC grant, we have expanded Finding No. 2 to include the amount in the costs improperly charged to the grant.

The District agreed that \$750 was improperly charged to the CCLC grant for the one employee. The District disagreed that the grant was improperly charged for payments to employees who provided services at sites other than the three sites specified in the grant application. The District stated that the personnel costs were proper because students from the Fischer, George, and Mathson Middle Schools attended the Summer 2001 programs held at the other summer school sites. According to the District, only a few District schools remained in operation during the Summer 2001 and, in order to keep the CCLC program accessible to its students, the District decided the programs from George and Mathson Middle Schools would be held at the Caesar Chavez Elementary School, Arbuckle Elementary School, and Pala Middle School. Also, in order to maintain a proper student to teacher ratio, some students from the Fischer Middle School attended other sites during the summer session. The District provided copies of attendance sheets for the programs held at Fischer Middle School, Pala Middle School, and Caesar Chavez Elementary School.

⁶ Indirect costs are costs incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

The District's comments did not change our finding. The District did not obtain Departmental approval to change the location of the CCLC programs authorized for the grant and the District had a separate CCLC grant for the program at the Pala Middle School. Also, the District did not provide attendance sheets for the Arbuckle Elementary School site and the attendance sheets provided for Caesar Chavez Elementary School did not identify that the students participating in the program were from Fischer, George, or Mathson Middle Schools.

Event Costs. The District disagreed that the \$3,198 charged to the grant for costs of the Polynesian show and banquet was improper. The District stated that the grant application specified that students would participate in an awards banquet and that OMB Circular A-87 requires that costs benefiting multiple programs be allocated to the programs in accordance with relative benefits received. The District reiterated that the event was open to all students and parents who qualified under either CCLC grant and stated that evenly splitting the costs was appropriate based the belief that the number of students and parents attending was approximately equivalent for each of the grant programs. The District confirmed that it did not have sign-in sheets to support the allocation of the costs.

The District's comments did not change our finding. District documents show that the event was an annual awards banquet held for graduating students who participated in the CCLC programs at Sheppard, Pala, and Ocala Middle Schools. Given the purpose of the event and the other reasons listed in the finding, we concluded that the costs of the event were not allocable to the CCLC grant awarded for centers at Fischer, George, and Mathson Middle Schools. Award banquet costs would be an allowed use of the CCLC grant funds awarded for the Fischer, George, and Mathson Middle Schools centers only if the event was held after the opening of the centers. In fact, the District held an awards banquet on May 17, 2001 for students attending the Fisher, George and Mathson centers and had documents showing the number of students from the centers who attended the event.

Food Costs. The District disagreed that the \$1,606 charged to the grant for food service charges was improper. The District stated that the food served at the football tailgate party was appropriate because the event provided CCLC participants with exposure to college life and an incentive to stay in school. The District stated that the luncheon provided food to adults attending training on providing CCLC services at the Fischer, George, and Mathson centers.

The District's comments did not change our finding. OMB Circular A-87 prohibits the use of grant funds for meals associated with entertainment, such as attendance at sporting events. A luncheon for adults attending training is not a necessary cost for the proper and efficient performance of the CCLC grant, and thus, is not allocable to the grant. Also, the approved budget for the CCLC grant only authorized food costs for student award ceremonies.

FINDING NO. 3 – The District Lacked Required Documentation for Costs Charged to the CCLC Grant

During the period July 1, 2000 to February 28, 2003, the District did not provide adequate supporting documentation for personnel and other costs charged to the CCLC grant. The factors affecting allowability of costs listed in OMB Circular A-87, Attachment A, Paragraph C.1 include the requirement that “the cost must . . . be adequately documented.” For personnel costs, OMB Circular A-87 specifies the required documentation. We found that the District's documentation for personnel costs did not comply with OMB Circular A-87 requirements and documentation provided on field

trip participation was inadequate. Also, the District was unable to provide timesheets, invoices, and other documentation for other costs charged to the CCLC grant. Without adequate documentation, we were unable to determine whether the costs were allowable charges to the CCLC grant.

Documentation for Personnel Costs Did Not Comply With OMB Circular A-87 Requirements.

The District charged salary costs to the CCLC grant for administrative personnel.⁷ Typically, the administrative employees worked on more than one activity during the pay period.⁸ OMB Circular A-87, Attachment B.11.h (4) states—

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system . . . or other substitute system has been approved by the cognizant Federal agency.

Subsection (5) lists the required elements for personnel activity reports and provisions for using budget estimates for interim accounting.

Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - (i) The government unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - (ii) At least quarterly, comparisons of actual costs to budget distributions based on the monthly activity reports are made. . . ; and
 - (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

The District's documentation for charges to the CCLC grant for administrative employees did not meet the above requirements.

⁷ The term "administrative personnel" is used in the report to refer to personnel salary costs charged under the District's object codes 1300, 2400, and 2499.

⁸ The District also charged the CCLC grant for payments to extended-duty teachers, short-term employees, instructional aides, substitutes, and part-time employees. We concluded that the documentation provided for these employees met the specifications listed in OMB Circular A-87.

The District charged administrative employees' salaries to the CCLC grant based on pre-determined distribution percentages shown on personnel forms. The administrative employees did not prepare personnel activity reports or other equivalent documentation, such as timesheets. OMB Circular A-87, Attachment B.11.h (5)(e) specifically prohibits the use of percentages that are determined before the services are performed as support for charges to Federal grants. We concluded that 27 of the 30 administrative employee transactions that we reviewed were charged to the CCLC grant based on pre-determined distribution percentages.⁹ A total of \$123,622 was charged to the CCLC grant for the 27 payroll transactions for administrative employees.

Documentation Provided on Field Trip Participation Was Inadequate. The District did not provide adequate documentation for three transactions charged to the CCLC grant for field trip costs.

- Two transactions, totaling \$808 (\$108 + \$700), were for admission fees at the Rosicrucian Egyptian Museum for 112 persons (12 adults at \$9 per adult and 100 students at \$7 per student). The documentation provided by the District only showed 11 students on the participation list. The District was unable to provide documentation to support admission charge to the CCLC grant for the 12 adults and remaining 89 students. Thus, we were unable to determine whether \$731 (\$108 + \$623) of the \$808 was properly charged to the CCLC grant.
- One transaction for \$1,173 was for admission fees at the Raging Waters (an amusement park) for 60 students and 15 adults (a total of 75 admissions). The documentation provided by the District only showed 12 students. Since the District was unable to provide documentation to support the charge of the remaining 63 admissions, we were unable to determine whether \$985 was properly charged to the CCLC grant (63/75 times \$1,173).

The District Program Coordinator stated that due to numerous changes in personnel at the district and project levels, the records were not well-maintained and the supporting documentation was either lost or misplaced.

District Was Unable to Provide Documentation on Other Charges. The District was unable to locate timesheets, invoices, special events catering requests, or other supporting documentation for 18 transactions charged to the CCLC grant, totaling \$14,403. The District's accounting system described the transactions as journal entries for personnel and other costs and payment entries for bus trips, film admissions, printers, and supplies.

⁹ For two of the transactions, District financial records included a credit reversing the charge to the grant. The other transaction was a journal entry for which the District was unable to provide documentation. This transaction is included under the caption "District Was Unable to Provide Documentation on Other Charges."

Recommendations

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

- 3.1 Provide additional documentation to support the charges for administrative employees, or return the \$123,622 charged, plus related staff benefits and indirect costs.
- 3.2 Implement procedures requiring administrative employees to complete personnel activity reports or other equivalent documentation, which comply with OMB Circular A-87 requirements, and use the reports to allocate salary costs to Federal grants.
- 3.3 Provide additional documentation to support the amount of admission fees charged to the CCLC grant for field trips, or return \$1,716 (\$731+\$985) plus related indirect costs.
- 3.4 Provide documentation to support the charges to the CCLC grant for which the District was unable to locate during our review, or return the \$14,403 plus related staff benefits and indirect costs.
- 3.5 Improve its documentation, records storage, and retention procedures to ensure that adequate documentation of amounts charged to Federal grants is readily available.

District Comments and OIG Response

Documentation of Personnel Costs. In its response to the draft report, the District agreed that its procedures for documenting personnel costs did not comply with OMB Circular A-87 requirements and stated the District was in the process of revising the procedures. The District agreed that pre-determined percentages were used to charge administrative employees' salaries, but maintained that the payments to administrative employees were proper and provided copies of timesheets for our review. The District stated that it followed OMB Circular A-21, *Cost Principles for Educational Institutions* for documenting personnel costs for extended-duty teachers and maintained that the documentation provided for our review established that the costs were properly charged to the CCLC grant.

The District's comments and the provided documents related to personnel costs of administrative employees did not change our finding. In its response to the draft report, the District provided copies of timesheets for 17 of the 27 administrative employee transactions cited in the draft report as charged to the grant based on pre-determined distribution percentages. We have concerns with the validity of the timesheets because 1) District staff informed us during our audit fieldwork that multi-funded administrative employees were not required to prepare monthly timesheets, 2) the District did not provide us with the timesheets during the audit, and 3) the timesheets provided for one employee contained questionable signatures, signature dates, and dates worked that are contradictory to information in other District documents. The District has not responded to our questions concerning the provided timesheets.

We have eliminated our finding and recommendations related to the personnel costs of extended-duty teachers. The training documents, which the District provided with its response to the draft report, incorrectly refers to OMB Circular A-21 as the cost principles applicable to local educational

agencies. Nevertheless, as we state in the report, the costs principles applicable to local educational agencies, such as the District, are those contained in OMB Circular A-87. However, based on our further review of the District's documents, we concluded that personnel costs for extended-duty teachers met the documentation requirements specified in OMB Circular A-87.

Documentation of Field Trip Costs. The District agreed that it has not been able to provide adequate documentation for the two field trips and provided copies of the available documents. The District stated that the documents show when the field trips took place and the students who attended the field trips.

The District's comments and documents did not change our finding. We found that the submitted documents did not provide adequate support for the field trip costs charged to the CCLC grant.

Documentation of Other Charges. The District provided comments and a document related to personnel costs of \$907.50, which were included in a payroll accrual transaction totaling \$5,141.25. The District did not provide comments or documents related to other costs. The \$907.50 was not included in the amount reported as unsupported costs in the draft report. We had previously reviewed the document and concluded that the document provided adequate support for the charge to the CCLC grant.

Recommendations. The District disagreed with our recommendations to provide additional documentation to support charges or return the amount charged plus related staff benefits and indirect costs. The District stated that it has already provided all known documents. The District agreed with our recommendations to improve its procedures for documenting personnel costs of administrative employees and other costs and improve its records storage and retention procedures. The District listed significant changes that have been implemented in its accounting and administrative procedures and provided a copy of its document retention policy.

As we stated in the report, OMB Circular A-87, Attachment A, Paragraph C.1 required the District to adequately document cost charged to the CCLC grant. The District must return all or a portion of the grant funds used for the costs if the District cannot provide adequate documentation to show that the costs meet factors affecting the allowability of costs (i.e., necessary, reasonable, and allocable).

OTHER MATTERS

District Used Two Project Directors to Perform Similar Services. The District's use of two project directors may not have been an efficient use of CCLC grant funds. The District contracted with the San Jose State University, Pre-College Program (PCP) to be the project director for the CCLC program at the Fischer, Mathson, and George centers during the first grant year (September 1, 2000 through June 30, 2001). PCP was responsible for monitoring the centers' operations, managing the grant funds, and collecting and maintaining information for the annual performance reports. In July 2001, a District employee was assigned as the Project Director and the CCLC grant was charged 75 percent of the employee's salary for the period from July 1, 2001 through the employee's retirement in June 30, 2002. However, after assigning the employee as the Project Director, the District also renewed its contract with PCP for the period January 18 through June 30, 2002. Thus, the District paid both PCP and a District employee as project directors during the period January 18 through June 30, 2002. The CCLC budget included \$71,500 for a full-time project director for the

second grant year. The District charged the CCLC grant over \$155,000 for the project director function for the year (\$80,000 to PCP and \$75,000 plus staff benefits for the District employee).

The District stated that it stands by its staffing decisions. Also, the District cited a statement from the Department's Technical Review of the District's application complimenting the District on the specific roles assigned to staff and partners.

The statement from the Technical Review is not relevant since the District did not implement the CCLC program as described in its application. According to the application, the District planned to hire one full-time Project Director and enter into a partnership with PCP, which promised to provide \$144,000 in in-kind salaries for interns working with students during the three-year grant period. The District did not follow its staffing plan as stated in its approved application. Instead, the District paid PCP to be the Project Director.

Food Purchases May Not Be an Efficient Use of Grant Funds. While the approved budget for the District's CCLC Program included "food" in the list of awards program costs, we concluded that certain food purchases may not have been an efficient use of CCLC grant funds. On six occasions between November 30, 2000 and May 2, 2001, the District ordered pizza from Round Table Pizza for student recognition events at a total cost of \$2,498 to the grant. The District held an award ceremony for the Summer 2002 session of CCLC program at the Red Lobster Restaurant. The restaurant food bill for \$1,064 (including a \$130 gratuity) was charged to the grant. The District used an outside catering service for the CCLC Pre-College Awards Night held in May 2001. The catering service bill for \$3,420 was charged to the grant.

The District believes that the purchases of food on these special occasions were both appropriate and necessary since the approved budget included food in the list of award program costs and the special occasions, for which outside vendors provided food, were designed as incentives for students to participate, remain in the program, and achieve academically related goals. Also, the District stated that the events provided valuable opportunities for their social development.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to determine whether the District (1) served the appropriate number of students at each program center that was projected in its CCLC grant application and reported in its Performance Report, and (2) properly accounted for and used CCLC grant funds in accordance with the grant terms and applicable Federal laws and regulations. Our review of grant funds covered the period from July 1, 2000 to February 28, 2003. For the number of students served, we reviewed the period from September 1, 2000 through May 31, 2002.

To accomplish our objectives, we reviewed the District's CCLC grant application, budget narrative, performance reports, and OMB Circular A-133 audit reports for the year ended June 30, 2001 and 2002. We also reviewed the District's written procurement policies and procedures applicable to purchases paid with CCLC grant funds. We interviewed various District employees responsible for the administration of the CCLC program. We also held phone conversations with Department program staff responsible for monitoring the grant.

To achieve our audit objectives, we relied on a report of CCLC grant expenditures for the period from July 1, 2000 to February 28, 2003, which District staff generated from the financial accounting system. We verified the completeness of the data by comparing totals reported in the District's financial statements to totals on the report. We also compared information in the report to source documents for sampled transactions. Based on these tests, we concluded that the data was sufficiently reliable to be used in meeting the audit's objectives.

We reviewed 227 of 1,006 transactions listed in the CCLC grant expenditures report. We reviewed all 58 transactions recorded in the contractual, travel, and indirect costs categories and 169 of the remaining transactions (91 transactions were randomly selected and 78 transactions were judgmentally selected based on their higher expenditure amounts). In addition, we scanned the 392 staff benefit transactions for unusual amounts. Attachment 1 of this report provides a breakdown of the sample by cost category.

We performed our fieldwork at the District's administrative offices in San Jose, California, on various dates between February 25 and April 17, 2003. An exit conference was held with District officials on June 30, 2003. We performed our audit in accordance with generally accepted government auditing standards appropriate to the scope of audit described.

STATEMENT ON MANAGEMENT CONTROLS

Our assessment of the District's management control structure was limited to those areas of control weaknesses identified while conducting substantive tests of grant expenditures. These weaknesses and their effects are identified in the AUDIT RESULTS section of this report. Based on the identified control weaknesses, we concluded the District needed to improve its management controls related to monitoring its achievement of the projected levels of student served and average cost per student, maintenance and retention of student attendance and financial records, preparation of personal activity reports (timesheets), reviews of transaction charged to grants, and applying applicable credits to grants.

ADMINISTRATIVE MATTERS

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

Jack Martin
Chief Financial Officer
Office of the Chief Financial Officer
U.S. Department of Education
Federal Building No. 6, Room 4E313
400 Maryland Avenue, SW
Washington, DC 20202

Raymond J. Simon
Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
Federal Building No. 6, Room 3W315
400 Maryland Avenue, SW
Washington, D.C. 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 under the Act.

Sincerely,

/s/

Gloria Pilotti
Regional Inspector General for Audit

cc: w/attachments

Edward A.Holtz, Ruiz & Sperow, LLP

Attachment 1

Summary of OIG Review of Selected Transactions

				Number of Transactions and Amounts that Lacked Required Documentation	
					Documentation Not Provided
Extended-duty Teachers	158	38	1 \$3,000		---
Administrative Staff	53	30	---	27 \$123,622	1 \$5,085
Other Employees ^a	52	12	6 \$9,289	---	1 \$3,500
Staff Benefits	392	5	---	---	---
Other Costs	351	142	7 \$53,234	3 \$1,716	16 \$5,818
					18 \$14,403

^a Other employees include short-term and part-time employees, instructional aides and substitute teachers.

Attachment 2

**ALUM ROCK UNION ELEMENTARY
SCHOOL DISTRICT**

COMMENTS ON THE DRAFT REPORT

OIG NOTE

The District's letter contains references to a management representation letter that did not include all suggested statements and an attachment provided with the draft report. The District subsequently provided us with a complete management representation letter. The attachment transmitted to the District with the draft report was provided solely to facilitate preparation of the District's comments and was not included as part of the final report.

Also, our review of the District's comments noted some errors in the dates and amounts used in the District's letter. We replaced the incorrect dates and amounts with the correct information in the summary of the District's comments at the end of each finding. The names of individual employees have been redacted.

The District provided several attachments with its letter. These attachments will be made available upon request.

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OUR FILE NUMBER:
7617

OF COUNSEL:
WILLIAM MICHAEL QUINN, JR.

January 30, 2004

Via Facsimile & Federal Express

Gloria Pilotti
Regional Inspector General for Audit, Region IX
U.S. Department for Education, Office of Inspector General
510 I Street, Suite 9-200
Sacramento, CA 95814

*Re. Alum Rock Union Elementary School District's Response to
Draft Audit Report dated December 19, 2004
ED-OIG/A09-D0012*

Dear Ms. Pilotti

The Alum Rock Union Elementary School District ("District") hereby submits its response to the Draft Audit Report issued in the above-referenced matter on December 19, 2003, by the U.S. Department of Education, Office of Inspector General ("OIG").

Pursuant to our conversation on January 22, 2004, we understand that this response, including the attached documentation and accounting analysis by the District's outside auditor,¹ will be attached to OIG's final audit report entitled *Alum Rock Union Elementary School District's Administration of the 21st Century Community Learning Centers Grant No. S287A000487*.

We believe that this response, as well as the documentation and information provided by the District during the course of this audit, demonstrates the overall fiscal integrity of the administration of the 21st Century Grant. We urge you to review and consider the following prior to the issuance of final audit report.

Introduction

The District serves students in inner city San Jose, an area of great poverty and low academic achievement. Accordingly, the 21st Century Program was developed in collaboration with San Jose State University in order to provide guidance and academic incentives for the District's students. Grant funds were provided by two separate grant agreements under the 21st Century Program. The

¹This response includes and incorporates by reference the attached documentation and accounting analysis by the District's outside auditor, Vavrinek, Trine, Day & Co., LLP.

first grant (Grant 1530), in effect from June 1, 1998, funded community learning centers at Pala, Sheppard and Ocala Middle schools. The second grant (Grant 1531) is the subject of the present audit and was awarded for the period of June 1, 2000, through May 31, 2003, to fund community learning centers at George, Fischer and Mathson middle schools.

Management Representation Letter

As you know, Superintendent Alfonso Anaya has provided a management representation letter in which he attests that:

- 1) Any known irregularities involving management or employees who have or had a significant role in the 21st Century Grant had been identified and addressed by the District during the course of the audit;
- 2) Any known irregularities involving other persons that could have a material influence on the 21st Century Grant had been identified and addressed by the District during the course of the audit;
- 3) There were no material transactions that were not properly recorded in the accounting records related to the 21st Century Grant or accounted for by the District during the course of the audit;
- 4) The District had furnished all known documents in its possession requested by the Office of Inspector General related to the 21st Century Grant; and
- 5) The District believes the documents and reports, including computer files and computer-processed data, provided during the course of the audit were accurate and complete.

In your e-mail of January 22, 2004, you state: "The management representation letter did not include the suggested statement regarding compliance with laws and regulations. Why was this statement excluded?" The suggested statement reads as follows: "***We have complied or disclosed any noncompliance with all laws and regulations pertaining to [scope of audit].***" This statement was excluded from the District's management representation letter for two reasons:

First, Dr. Anaya is not an attorney and cannot provide a legal opinion regarding the District's compliance with unspecified laws and regulations.

Second, the phrase "all laws and regulations pertaining to [scope of audit]" is overbroad and vague. If you will be so kind as to identify the specific laws and regulations you believe pertain to the scope of your audit, this Firm will undertake the necessary legal analysis.

Response to Findings

District's Response to Finding No. 1

Finding No. 1 reads as follows: "The District did not serve the number of students projected in its proposal and did not retain attendance records for required time period."

The District agrees that it was unable to serve the number of students projected in its proposal and did not retain attendance records for required time period. Several issues negatively impacted the District's implementation of the 21st Century Program at George, Fischer and Matheson. Among other things, the former superintendent of the District, who was in office during a six-month period from January 25, 2001, until his employment was terminated by the Board of Governors on September 25, 2001, caused an upheaval in the District's administrative staff and procedures and contributed to the end of the relationship with San Jose State University. Due to these problems, the administrative staff at the District and San Jose State were unable to collect and maintain much of the required documentation of CCLC grant-related expenditures.

As discussed more fully below, the District has taken a variety of actions to improve its grant-related documentation practices and expenditure protocols. Among other measures, the District hired a private auditing firm as well as various outside experts to review the District's financial practices and procedures. New management personnel have been hired to monitor and oversee all budget approvals and expenditure protocols, and other significant changes have been implemented within the District based on the consultants' reviews and suggestions.

District's Response to Recommendations

- 1.1 The District agrees with the recommendation.
- 1.2 The District believes it has served the proper number of students during the grant extension period and that the required documentation, which shall be submitted within ninety (90) days, should be sufficient to satisfy this recommendation.
- 1.3 The District agrees with the recommendation.

District's Response to Finding No. 2

Finding No. 2 reads as follows: "The District improperly charged \$61,484 to the CCLC Program." This Finding encompasses four separate matters, each of which is addressed below:

Computer Purchase

The Draft Audit Report states that the grant was erroneously charged twice in the amount of \$48,430 for a purchase of computers. The Draft Audit Report also states that the District has provided evidence that the overcharge was reversed and that the grant was credited in the amount

of \$48,429. Finally, the Draft Audit Report also states (for the first time) that “the District needs to return to the Department the indirect costs related to the \$48,430.” (Draft Audit report, fn. 5.)

The District agrees that the grant was erroneously charged twice for the purchase of computers. The overcharge was due to an inadvertent accounting error. As acknowledged in the Draft Audit Report, the District has provided documentation showing that it took corrective action by processing a credit transaction to the grant account for \$48,430 on June 1, 2003. (See Attachment 1.) The District is unaware of any “indirect costs related to the \$48,430.”

Personnel Costs

The Draft Audit Report identifies two matters under the following heading: “Personnel Costs Were Not Allocated In Accordance with Reported Time.”

The first matter involves an improper charge of \$750 for a payment to an employee due to an error in the coding of the payment. The District agrees with this finding.

On the other hand, the District disagrees with the finding that the grant was improperly charged \$7,500 for payments to five employees (██████████, ██████████, ██████████, ██████████, and ██████████) for services provided during Summer 2001. Each of the questioned transactions reflect 21st Century program services provided during the Summer of 2001 to participants of the Fischer, George and Mathson Middle Schools’ community learning centers.

In order to save funds and maximize resources during the summer months, only a few of the District’s schools remained in operation. As you can see from the Summer School 2001 Handbook excerpts (Attachment 2), Caesar Chavez, Arbuckle and Pala are listed as summer school during the year in question. Therefore, in order to keep the CLC program accessible to its students, the District decided that the CLC programs from Fischer, George and Mathson would be held at Caesar Chavez, Arbuckle and Pala during the summer of 2001. While Fischer is also listed as a summer school, because of the need to maintain a proper student to teacher ratio, some Fischer students were based at the other school sites during the summer session. (Included as Attachment 3 are sign-in sheets for Summer CCLC Program at Fischer, Pala and Chavez.)

Each of the five employees at issue was hired to provide, and provided only, 21st Century program services during the Summer of 2001. This is evidenced by the fact that the five employees at issue were scheduled to work after the regular summer school classes ended at 12:00 noon each day. (See Attachment 4.)

Event Held For Participants Of Both CCLC Grant Programs

The Draft Audit Report states that the District improperly charged the grant \$3,198 in connection with a “Polynesian Show” and banquet at which awards were presented to graduating students who had participated in the 21st Century program at Pala, Sheppard and Ocala middle schools. The District disagrees with this finding.

The 21st Century program award banquet has been a tradition at the District that began in 1999 and has continued each year since. In 1999, only one 21st Century grant (Grant 1530) was in effect. (Attachment 5.) Grant 1531, the subject of the present audit, took effect in June of 2000. Although the centers at Fischer, George and Mathson had not yet opened, the students from those schools were invited to attend the banquet along with their families. In addition to providing an incentive for students already enrolled in the program to stay enrolled, the purpose of the annual banquet is to attract new students. For that reason, students at Fischer, George and Mathson were invited to attend.

The Polynesian show was designed from the start to be open to all students and parents who qualified under either CLC grant and the District planned for up to 250 people to attend. Although no sign in sheets exist, it is believed that the number of students and parents was approximately equivalent from each of the grant programs, and the allocation for the show was therefore split evenly between the two grants.

Further, the District's application for the 21st Century program at the Fischer, George and Mathson centers specifies that students would "participate in college visitations, college workshops, financial aid advising, career exploration, cultural and recreational activities, self-esteem seminars and *awards banquet*." (Attachment 6.)

OMB Circular A-87 provides that costs that benefit multiple programs funded by federal grants must be allocated among the benefitting programs "in accordance with relative benefits received," rather than allocated to a single program. (Cost Principles for State, Local, and Indian Tribal Governments, OMB Circular A-87, Attach. A, ¶ C.3.a (1997).)

For all these reasons, the District believes the cost of the 2001 event was properly split between the two 21st Century grants.

Food Costs

The District disagrees with the findings regarding two transactions for food services charges, totaling \$1,606, from the District's Child Nutrition Service.

The first transaction of \$1,000 was for food served at a football tailgate party held on a Saturday at San Jose State University. The purpose of that event was to provide CCLC participants - many of them leading impoverished lives in the inner city - exposure to college life, and to provide an incentive for students to stay in school.

The second transaction of \$606 was for a 21st Century Community Learning Center training seminar held at Pala Middle School. The Draft Audit Report indicates that the food costs were not allocable to the CCLC grant because students were still in school during lunch and Pala Middle School was an authorized location under the first CCLC grant. However, the food was not served to students, but to adults attending the training for the purpose of providing services under the second CCLC grant. (See Attachment 7.)

District's Response to Recommendations

The District disagrees with the recommendation, for the reasons stated above.

The District agrees with this recommendation.

The District agrees with this recommendation.

FINDING NO. 3:

Documentation of Personnel Costs

Finding No. 3 revolves around the finding that the District has not properly accounted for the 21st Century grant funds at issue in accordance with the cost principles set forth in OMB A-87. The reason is that the District had been informed at a state-wide workshop presentation that the applicable cost principles are those set forth in OMB A-21, "Cost Principles for Educational Institutions," as revised by OMB in the Federal Register of May 8, 1996 (61 FR 20880). (Attachment 8.)

Payments To Administrative Employees Totaling \$131,622

The District agrees with the finding that pre-determined percentages were used to charge administrative employees' salaries. However, the District maintains that the payments at issue were proper. In addition to the documentation reviewed by the auditor, additional documentation of payments to administrative employees is provided herewith. (Attachment 9.)²

Payments To Extended-Duty Teachers Totaling \$55,808

OMB A-87 provides that where a cost or activity benefits multiple activities or programs, those costs must be allocated in accordance with the relative benefits received by each activity or program. OMB A-21, which the District followed, provides that an entity may rely on records showing that the distribution of activity represents a reasonable estimate of the work performed by a specific employee. Although the District relied on OMB A-21, we believe the documentation provided establishes that the costs were properly allocated.

The detail for the timesheets questioned are at Attachment 2 to the Draft Audit Report. Two of the questioned charges were for payroll accruals established at June 30, 2002. In a letter dated September 26, 2004, the District advised OIG that it was unable to locate the accrual for the \$2,350 noted at Attachment 2 to the draft audit report and requested additional information. The District never received a response from OIG on this item.

The District was able to locate the accrual for \$3,000 for [REDACTED]. After reviewing the timesheet the District determined that the accrual had been incorrectly charged to the

²Moreover, the District has implemented new procedures and held an inservice training to familiarize its employees with those procedures. (Attachment 10, Procedures Manual Fiscal Services 2003-2004.)

21st Century Community Learning Centers program. The District provided support charging the program with the actual payment of the \$3,000 on July 10, 2002, and the journal entry reversing the July 10, 2002 accrual and offsetting the July 10th charge. (Exhibit C to VTD accounting analysis, Attachment 11).

The District will need additional information from OIG to research the questioned accrual of \$2,350. The District inadvertently accrued the \$3,000 to the 21st Century Community Learning Centers program at June 30, 2002 resulting in an overcharge to the program for the fiscal year ended June 30, 2002. The actual payment on July 10, 2002 was offset by the reversal of the June 30, 2002 accrual so the charges to the program for fiscal year ended June 30, 2003 were not affected by the error.

Field Trips

The District agrees that it has been unable to provide adequate documentation regarding charges for the two field trips in question. However, the District has provided substantial supporting documents showing when the field trips took place and students who attended. (See Attachment 12.)

Other Charges Amounting to \$11,047

The Draft Audit Report indicates that the District was unable to locate a timesheet, invoices or other supporting documentation for 15 transactions charged to the CCLC grant, totaling \$11,047. These transactions were accounted for as journal entries for personnel and other costs and payment entries for an instructional aide.

The detail for the timesheets questioned are at Attachment 2 to the draft audit report. The questioned costs related to accruals are listed on the attachment under Personnel Costs.

A Payroll Accrual of \$5,141.25 was listed with \$907.50 listed as a questioned cost for lack of documentation. The District provided its outside auditor with a Time Sheet for Substitute/Short-Term Employee for [REDACTED] for the month of June 2002 supporting the \$907.50 charged (Exhibit D to VTD accounting analysis, Attachment 11). The time sheet lists hours by day, indicating the charges were for the CLC Program and indicating the appropriate account to be charged. The time sheet was signed by the employee and District program manager.

As stated in the accounting analysis conducted by the District's outside auditor, the actual payment on July 10, 2002 was offset by the reversal of the June 30, 2002 accrual so the charges to the program for fiscal year ended June 30, 2003 were not affected (Exhibit E to VTD accounting analysis, Attachment 11).

District's Efforts to Improve Grant-Related Documentation

As stated above, the District has taken a variety of actions to improve its grant-related documentation practices and expenditure protocols. Significant changes have been implemented within the District based on the consultants' reviews and suggestions, including the following:

- 1 Accounting for restricted funds is now performed by accountants under the direct supervision of the Director of Fiscal Services; who is supervised by the Assistant Superintendent for of Fiscal Services. Director and State and Federal works directly works directly with accountants and Director of Fiscal Services.
2. The accountants for special programs are required to maintain a special project file for each project; the special project file must contain all grant letters, budgets, final expenditure reports, claims, and other information necessary to audit the project.
- 3 The preparation of the J390 and claims to funding agencies are prepared by the Director of Fiscal Services.
4. All reports to funding agencies must now be approved by Business Services, and these reports are mailed directly to the funding agencies by Business Services.
5. Administrative regulations have been developed specifying that payments may not bypass the accounts payable system.
6. Procedures have been modified to prohibit the persons responsible for initiating or approving payments for special projects from having access to checks after they are printed.
7. Procedures have been modified to require mailing of checks directly by persons in the Business Services office not directly involved in the initiation, approval or release of payments.
8. Special project accountants are no longer permitted to initiate payments to vendors until compensating controls have been fully documented.

Finally, a copy of the District's document retention policy is attached as Attachment 13.

District's Response to Recommendations

- 3.1 The District disagrees with the recommendation, for the reasons stated above.
- 3.2. The District agrees that its current payroll reporting procedures are out of compliance with OMB A-87 and is in the process of revising its personnel activity reports to comply with OMB A-87.
- 3.3 The District disagrees with this recommendation on the ground that all known documentation has already been provided. In the event any additional documentation is discovered, the District agrees to submit those documents.
- 3.4 The District disagrees with this recommendation for the reasons stated above.

3.5 The District agrees with this recommendation.

OTHER MATTERS

Project Managers

The Draft Audit Report states that the District's use of two project managers, one from San Jose State University, Pre-College Program, and a District employee assigned as project director from July 2001 through June 2002 "may not have been an efficient use of CCLC grant funds."

The District stands by the staffing decisions that were made in implementing the 21st Century program. The District's objectives and priorities in this regard were clearly stated in the application submitted to and approved by the U.S. Department of Education. (Attachment 14, Letter from Robert M. Stonehill, Director, 21st Century Community Learning Centers Program dated August 3, 2000 ["Of the 2,235 applications rated, yours was ranked at number 295."]) In fact, the Department's Technical Review of the District's application states:

Your proposal is appropriate for your needs. Your plan is efficient and seems like it will be effective. Your goals are clearly stated and measurable. Specific roles are assigned to staff. This is realistic. Roles of partners are clear.

(Attachment 15.)³

Food Purchases

The Draft Audit Report questions the District's purchase of food from outside vendors for several 21st Century program events.⁴

As stated above, the special occasions on which outside vendors were engaged to provide food for CCLC-related functions were designed as incentives for students to participate, to remain in the program, and to achieve academically related goals. On each of the occasions when the District ordered pizza from Round Table Pizza, the event was a "Students of the Month" Pizza Party. (Attachment 17.) Those students invited to the Pizza Parties were honored for perfect attendance, good participation, good behavior and/or improved grades. The events were highlights of the 21st Century program for the students, and provided valuable opportunities for their social development. In addition, the Pizza Parties were an important incentive for the student participants, some of whom had never been recognized for any achievement before. (Attachment 18, "Success Story".)

³ Another reviewer stated: "Excellent use of Institutes of Higher Education" (Attachment 16.)

⁴ These events included six occasions when the District ordered pizza from Round Table Pizza for student recognition events at a total cost of \$2,498; an award ceremony at Red Lobster at a total cost of \$1,064; and a bill for outside catering amounting to \$3,420 for the 21st Century Pre-College Awards program held in May 2001. With the exception of the awards banquet at Red Lobster, these events were held at San Jose State University.

In the judgment of the program administrators, the After School Snack offerings would not have accomplished the purposes and effect of the "Students of the Month" Pizza Parties and annual award banquets. Therefore, the District believes the purchases of food from outside vendors on these special occasions were both appropriate and "necessary."⁵

In any event, as noted in the Draft Audit Report, the approved budget for the District's 21st Century program included "food" in the list of award program costs. In approving the District's grant application, the reviewer for the U.S. Department of Education noted: "Budget is precise and concise. Narrative explains the "why's" in an easy to comprehend manner." (Attachment 19.)

Conclusion

Please contact this firm with any questions or if you need additional information.

Very truly yours,

Ruiz & Sperow, LLP



Edward A. Holtz

⁵ The term "necessary" must be considered "in the connection in which it is used, as it is a word susceptible of various meanings." (Black's Law Dictionary 928 (5th ed. 1979).) OMB A-87 uses the term "necessary" in conjunction with the term "reasonable," which is defined as "[f]air, proper, just, suitable under the circumstances" and "[f]it and appropriate *to the end in view*." (*Id.* at 1138 (emphasis added).) In this context, "necessary" imports not "absolute physical necessity or inevitability," but rather "that which is ... appropriate, suitable, proper, or conducive *to the end sought*." (*Id.* at 928 (emphasis added).)