



U.S. Department of Education
Office of Inspector General



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June 17, 2004

ED-OIG/A09-D0032

Dr. Peter N. Smits
Executive Director
California State University, Fresno Foundation
4910 N. Chestnut Avenue, M/S OF123
Fresno, CA 93726-1852

Dear Dr. Smits:

This Final Audit Report, entitled *California State University, Fresno Foundation's Administration of GEAR UP Partnership Grant No. P334A990267*, presents the results of our audit. The purpose of the audit was to determine whether the California State University, Fresno Foundation (Foundation) (1) complied with the grant's matching contributions requirement and (2) properly expended funds provided by the grant. Our review covered the first four years of the five-year grant. For the four-year period from September 1, 1999 to August 31, 2003, the Foundation's Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) grant expenditures totaled \$1,401,142 and the required matching contribution was \$600,489 (30 percent of total program costs).

In its response to the draft report, the Foundation generally concurred with our findings. The Foundation agreed to return the costs improperly charged to the grant, described the corrective actions to be taken to address our procedural recommendations, and submitted additional documentation for claimed matching contributions. Based on additional supporting documentation of matching contributions submitted by the Foundation, we revised our conclusions and one recommendation in Finding No. 1. The Foundation disagreed with our recommendation to provide additional documentation or return the amount charged for the original Project Director's salary and related costs. The Foundation'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 an attachment.

BACKGROUND

GEAR UP is a discretionary grant program designed to increase the number of low-income participants who are prepared to enter and succeed in postsecondary education. Under the GEAR UP program, the U.S. Department of Education (Department) provides five-year grants to states and partnerships to provide services at high poverty middle and high schools. Grantees

serve an entire cohort of participants beginning no later than the 7th grade and follow the cohort through high school. The Policy, Planning, and Innovation Office within the Department's Office of Postsecondary Education (OPE) administers the GEAR UP program.

Partnerships are required to provide matching contributions each year of the GEAR UP project. The regulations at 34 C.F.R. § 694.7 specify the percentage of the grant award that must be matched from non-Federal sources. OPE guidance on the GEAR UP program reiterates that the matching amount for an individual year must be met in that year and the grantee cannot "catch up" in later years of the grant. The non-Federal share may be provided in cash or in-kind.

The purpose of the Foundation's GEAR UP project was to prepare and motivate students for postsecondary education opportunities by providing early developmental outreach services, along with career planning and parent workshops on related topics. GEAR UP Partnership Grant No. P334A990267 provided funding for the project for the five-year period from September 1, 1999 through August 31, 2004, totaling \$1,858,546. The grant funds expended and the related expected matching contributions from non-Federal sources¹, for the first four years of the grant, are shown in the following table.

			Total
1999	\$240,000	\$102,857	\$342,857
2000	\$332,758	\$142,610	\$475,368
2001	\$414,981	\$177,849	\$592,830
2002	\$413,403	\$177,173	\$590,576
Total	\$1,401,142	\$600,489	\$2,001,631

AUDIT RESULTS

We concluded that the Foundation did not meet the required matching contributions for any of the four years covered by our review because the Foundation did not have the required documentation for the claimed contributions. Additionally, we found that the Foundation did not use and properly account for the GEAR UP grant funds in accordance with Federal regulations. During the period September 1, 1999 through August 31, 2003, the Foundation charged 2,580 transactions, totaling \$1,401,142, to the GEAR UP grant. Our review of 327 transactions, totaling \$340,670, found that the Foundation lacked required documentation for personnel costs charged to the grant and improperly charged other costs. As a result, we were unable to determine whether \$101,536 of personnel costs were properly allocated to the GEAR UP grant and questioned \$8,940 of other costs.²

¹ In July 2003, the Department approved a reduction of the Foundation's required annual matching percentage from 50 percent to 30 percent of total project costs.

² The sample of 327 transactions included 182 transactions related to non-personnel costs. Of the 182 transactions, we concluded that 17 sampled transactions were improperly charged to the GEAR UP grant. The questioned cost of \$8,940 includes the amount improperly charged for the 17 transactions and other related transactions.

FINDING NO. 1 - Foundation Did Not Meet the Required Matching Contributions for the GEAR UP Grant

At the time of our review, the Foundation claimed to have received \$1,253,799 in matching contributions for the GEAR UP grant. While this amount exceeded the needed total contributions from non-Federal sources of \$600,489,³ the Foundation did not have sufficient documentation for the required contributions.

OMB Circulars Specify the Documentation Required to Accept Donations As Part of the Matching Contributions

The Foundation and other non-profit organizations receiving Federal grants must comply with the requirements set forth in *Office of Management and Budget Circular A-110 Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* (OMB Circular A-110). OMB Circular A-110, Appendix A, Subpart C, paragraph 23(a) specifies the requirements for accepting matching contributions.

All contributions, including cash and third party in-kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following criteria.

- (1) Are verifiable from the recipient's records.
- (2) Are not included as contributions for any other federally-assisted project or program.
- (3) Are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
- (4) Are allowable under the applicable costs principles.
- (5) Are not paid by the Federal Government under another award
- (6) Are provided for in the approved budget when required by the Federal awarding agency.
- (7) Conform to other provisions of this Circular, as applicable.

Paragraph 23(c) states that values for recipient contributions of services and property shall be established in accordance with applicable cost principles. The cost principles applicable to the Foundation are contained in *Office of Management and Budget Circular A-122 Cost Principles for Non-Profit Organizations* (OMB Circular A-122). Both OMB Circular A-110 and OMB Circular A-122 provide specific guidance on the required documents and methods for determining the value of different types of contributions.

In addition, OPE's issued guidance on the GEAR UP program states that documentation of the match should contain adequate source documentation for claimed cost sharing, provide clear valuation of in-kind documentation, and provide support of cost sharing by grant partners.

³ This amount includes the expected matching contributions for award years 1999 through 2002.

The Foundation Did Not Have Required Documentation for Matching Contributions

The Foundation provided an In-Kind Contribution Report for each claimed contribution, which identified the contributor, the nature of the contribution (i.e., volunteer services and travel, office space, equipment, etc.), and the value for each contribution. The Foundation either did not have supporting documents for the claimed contributions or the supporting documents did not meet Federal criteria for accepting contributions for the required match from non-Federal sources.

With regard to in-kind contributions from third parties, OMB Circular A-110, Appendix A, Subpart C, paragraph 23(h)(5) states—

- (i) Volunteer services shall be documented and, to the extent feasible, supported by the same methods used by the recipient for its own employees.
- (ii) The basis for determining the valuation for personal services, material, equipment, buildings and land shall be documented.

OMB Circular A-122, Attachment B, paragraph 7.m (4) states—

Salary and wages of employees used in meeting cost sharing or matching requirements on awards must be supported in the same manner as salaries and wages claimed for reimbursement from awarding agencies.

The following examples show the limited documentation that was available for the contributions that comprised the \$1,253,799 claimed by the Foundation.

- The Foundation claimed \$849,428 of in-kind contributions from the Fresno County Probation Department. The In-Kind Contribution Reports for these contributions (one for each grant year) referred to a Fresno County Probation Department letter, dated October 3, 2003, stating that, during the past four years, its Youth Challenge Community Program (YCCP) served 39 “targeted Gear-Up students” who attended the junior high school included in the Foundation’s GEAR UP application. The letter stated that the allotted yearly per student budget for the YCCP was about \$21,780, which included personnel costs. The Foundation applied about one-quarter of the total contribution to each year of the grant. The letter lists after-school tutoring, recreational activities, and individual therapy as services provided to students. The letter did not identify the students who participated each year, the costs included in the yearly per student budget, or the services provided to each student.
- The Foundation also claimed \$14,337 in contributions of volunteers’ time and travel for participation in career and health fairs. The In-Kind Contribution Reports showed the volunteer’s name, the total hours donated, the rate used to determine the value of the donated hours, and the miles that the volunteer traveled to participate in the fair. To meet the requirements in OMB Circulars A-110 and A-122, the Foundation should have maintained documentation similar to that used for the Foundation’s hourly employees. The Foundation required hourly employees to submit timesheets twice per month showing their

daily arrival and departure times, total hours worked, type of work, rate of pay, and the project to be charged.

Of the remaining \$390,034 of claimed matching contributions, most were only supported by an In-Kind Contribution Report. Some claimed contributions had other documentation, such as invoices or activity listings, but none of the documentation was sufficient to meet the requirements.

In its response to the draft report, the Foundation submitted additional supporting documentation. We concluded that the additional documentation was sufficient to support \$214,884 of the claimed matching contributions. This amount consisted of \$190,584 in salary and benefits paid to the probation officer in charge of the YCCP and \$24,300 in salary and benefits paid to the principal of one of the schools participating in the GEAR UP project.

Since the Foundation did not have the necessary evidence to document the remaining \$385,605 (\$600,489 less \$214,884) of the required contributions, the Foundation has not met the required 30 percent match from non-Federal sources. The Federal regulations at 34 C.F.R. § 694.7(a) state that “[a] Partnership must (1) State in its application the percentage of the cost of the GEAR UP project the Partnership will provide for each year from non-Federal funds, . . . and (2) Comply with the matching percentage stated in its application for each year of the project period.” In order to meet the above regulation, a portion of project costs paid by Federal funds must be converted to match. The table below shows the amount for each grant year that should be converted by subtracting the amount from the project costs paid from Federal funds and returning the total amount to the GEAR UP grant account.

Calculation of Required Match and Refund Amount					
					Refund to GEAR UP grant account^b
1999	\$280,262	30%	\$84,079	\$40,263	\$43,816
2000	\$392,714	30%	\$117,814	\$59,956	\$57,858
2001	\$480,190	30%	\$144,057	\$65,209	\$78,848
2002	\$462,859	30%	\$138,858	\$49,456	\$89,402
Total					\$269,924
^a Actual project costs multiplied by the required match percentage					
^b Required match less the documented match (this amount is converted from Federal to non-Federal funds to comply with required match percentage)					

The Foundation Needs to Ensure Its Staff Adhere to the Foundation’s Process for Documenting Matching Contributions and Are Knowledgeable of Documentation Requirements

The Project Director was responsible for maintaining documentation of contributions used to meet the grant’s matching requirement and providing the information necessary for Foundation staff to record the contribution amounts in the Foundation’s accounting system. The Interim Project Director informed us that the Foundation did not have documentation for the GEAR UP grant because the original Project Director left the Foundation without providing other GEAR UP staff

with the documentation. Also, the Project Director did not provide Foundation staff with the information for entry into the accounting system.

At the time of our review, the Interim Project Director for the GEAR UP grant and the other grant staff were attempting to recreate documentation for the contributions by reviewing calendars and schedules. Based on our discussions with the Interim Project Director and staff, we concluded that they were not familiar with the documentation required by the OMB Circulars.

Recommendations

We recommend that the Chief Financial Officer, in collaboration with the Assistant Secretary for Postsecondary Education, require the Foundation to—

- 1.1 Provide documentation supporting at least \$385,605 of the remaining claimed matching contributions or return \$269,924 to the GEAR UP account, the amount of Federal expenditures required to be converted to match in order to conform to the regulation requiring the Foundation to comply with the required match percentage for the grant.
- 1.2 Establish procedures to ensure that contributions used to meet the matching requirements are properly documented in accordance with OMB Circular requirements and OPE guidance.

Foundation's Comments

The Foundation submitted additional documentation for \$843,055 of the claimed matching contributions. The Foundation stated it is drafting procedures for review and approval of documentation for matching contributions.

OIG's Response

We revised our finding and Recommendation 1.1 to reflect the additional documentation submitted by the Foundation. We concluded that the documentation was sufficient to confirm \$214,884 of the claimed matching contributions. The documentation provided for the remaining \$628,171 did provide detailed lists of amounts used to derive the claimed matching contributions (i.e., salaries, number of classrooms, unit costs, etc.), but the Foundation did not provide documentation to support the listed amounts. Also, some of the listed amounts were based on budgeted rather than actual costs. We encourage the Foundation to work with the Department on acceptable methods for adequately supporting the claimed matching contributions.

FINDING NO. 2 - Foundation Lacked Required Documentation for Personnel Costs Charged to the Grant

The Foundation did not require employees, who were paid on a salary rather than an hourly basis, to prepare personnel activity reports.⁴ All salaried employees who worked on grant activities were required to submit monthly attendance reports. However, these reports did not show an accounting of the actual time spent on grant activities. Instead, the Foundation allocated salaries to the grant based on predetermined distribution percentages shown on the employees' personnel action forms.

OMB Circular A-122, Attachment B, paragraph 7.m (2) requires monthly personnel activity reports for all employees who work on grant activities.

Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards

The paragraph also lists the required elements for personnel activity reports and specifically states that percentages determined before the services are performed do not qualify as support for charges to Federal grants, as follows—

- (a) The reports must reflect an *after-the-fact* determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.
- (b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
- (c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.
- (d) The reports must be prepared at least monthly and must coincide with one or more pay periods.

The Foundation's Director of Financial Services stated that having employees submit an after-the-fact annual certification of the time worked was sufficient to meet the requirements. The Director did not provide us with such certifications and, even if the annual certifications were completed, the documentation would not have met the requirement for reporting at least monthly.

The original Project Director was the only employee charged to the grant whose salary was funded by more than one source. Except as noted in the following paragraph, her salary was charged

⁴ The Foundation required employees who were paid on an hourly basis to prepare timesheets. We concluded that the documentation provided for these employees met the requirements listed in OMB Circular A-122.

50 percent to the GEAR UP grant and 50 percent to another OPE grant. The other employees' salaries were charged 100 percent to the GEAR UP grant. While the Foundation did not have the required documentation, we concluded that salaries charged 100 percent to the grant appeared reasonable based on our observations and interviews with current employees. The current staff, whose salaries were charged 100 percent to the GEAR UP grant, are representative of the number of staff whose salaries were charged to the grant during the four years reviewed in our audit. During interviews, the current staff stated they provided before school, after school, and lunchtime tutoring, as well as being available to the students throughout the day. Also, we observed at the school sites that the staff were located in a room dedicated to GEAR UP activities. However, we have no assurance that the \$101,536 charged to the grant for the original Project Director's salary represents a proper allocation of costs based on her GEAR UP program activities.

During our testing, we identified an error in recording a journal entry used to transfer a portion of the original Project Director's salary and benefits costs for the period September 1, 1999 to July 31, 2000, to the GEAR UP grant. As recorded, the journal entry resulted in 52 percent of the salary and 61 percent of the benefits being charged to the GEAR UP grant. If the Foundation provides sufficient documentation to support the 50 percent distribution of salary costs for the original Project Director, the overcharges caused by the erroneous journal entry would total \$1,854 (\$734 in salary costs and \$1,120 in benefits costs).⁵

Recommendations

We recommend that the Chief Financial Officer, in collaboration with the Assistant Secretary for Postsecondary Education, require the Foundation to—

- 2.1 Provide documentation supporting the allocation percentage used to charge the GEAR UP grant for personnel costs of the original Project Director, or return \$101,536, plus related benefits and indirect costs. If sufficient documentation is provided to support the allocation percentage, the Foundation should return the \$1,854 of overcharges for the original Project Director's salary and benefits, plus related indirect costs.
- 2.2 Implement a personnel activity report for employees paid on a salary basis that complies with OMB Circular A-122 requirements.

Foundation's Comments

The Foundation agreed with our finding, but disagreed with Recommendation 2.1. The Foundation provided a letter stating that, based on its review of the original Project Director's calendar, the original Project Director spent 20 percent of her time on scheduled GEAR UP activities and an additional 30 percent of her time on administrative and other activities related to the GEAR UP project. The original Project Director's supervisor signed the letter, certifying that the original Project Director spent 50 percent of her time on the GEAR UP project. The Foundation did agree to return the excess salary and benefit amounts charged, plus related indirect

⁵ The \$101,536 amount mentioned in the previous paragraph represents the entire amount charged to the grant for the original Project Director's salary, which does not include benefits or indirect costs. The \$101,536 includes the \$734 salary overcharge.

costs, totaling \$2,002. To address our procedural recommendation, the Foundation stated that a personnel activity report for salaried employees would be developed and implemented.

OIG's Response

We did not change Recommendation 2.1. The Foundation's response to the draft report and the supervisor's certification were not sufficient for us to conclude that the salary costs charged to the grant for the original Project Director were reasonable. The Foundation did not provide copies of the calendar used to conclude that approximately 20 percent of her time was spent on scheduled GEAR UP activities and we have no basis for assessing the Foundation's conclusion that it is reasonable to conclude that an additional 30 percent of her time was spent conducting administrative and other activities related to the GEAR UP project. The supervisor's certification was prepared on April 16, 2004, for activities of the original Project Director that were conducted during the period from September 1999 to June 2003.

FINDING NO. 3 - Foundation Improperly Charged \$8,940 to the GEAR UP Grant

The Foundation charged the GEAR UP grant for costs that were unnecessary or not properly allocated to the grant. OMB Circular A-122, Attachment A, paragraph A.2.a states that to be allowable under a grant, costs must "be reasonable for the performance of the award and be allocable thereto under these [cost] principles."

Foundation Used GEAR UP Funds for Purchases and Services That Were Not Necessary for Performance of the Grant Purpose

The Foundation used grant funds for costs of computer equipment, cell phone service, and food that were not necessary for performance of the GEAR UP program. OMB Circular A-122, Attachment A, paragraph A.3 defines reasonable costs—

In determining the reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.

Computer Equipment Costs. We identified purchases, totaling \$4,157 for a Macintosh PowerBook computer, a portable zip drive, and a Pocket PC that the Foundation could not locate and the GEAR UP staff did not recall receiving for the grant.⁶ The original Project Director, who is no longer with the Foundation, purchased these three items and the documentation does not contain any explanation of the purpose for the purchases. The Macintosh PowerBook (\$3,397) and zip drive (\$247) were purchased in October and December 1999, respectively. The

⁶ The Foundation maintains a Federal Equipment Listing of property purchased under each grant with a value of \$5,000 or more. Although none of the three purchases met the \$5,000 threshold, the Macintosh PowerBook was on the Federal Equipment Listing for the GEAR UP grant. The GEAR UP staff also maintained its own inventory for the GEAR UP program, but none of the items were on the list.

GEAR UP staff advised us that they do not use Macintosh products and they had no need for an external zip drive since their computers were equipped with zip drives. The Pocket PC (\$513) was purchased in January 2001. The OPE GEAR UP Director and assigned OPE Program Officer advised us that the Pocket PC was not necessary for performance of the GEAR UP grant.

Cell Phone Costs. We identified service costs totaling \$2,630, charged to the GEAR UP grant for the original Project Director's cell phone that were not ordinary and necessary costs for performance of the grant. The budget for the GEAR UP grant did not list cell phone expenses and the OPE GEAR UP Director and assigned OPE Program Officer advised us that cell phones would only be approved under GEAR UP grants in rare cases when the grantee has several sites that are not located near each other and the staff spend significant time traveling between sites. The school sites under the grant were located just blocks apart, and thus, the cell phone expenses were not necessary costs for performance of the grant.

Food Costs. We identified food expenses, totaling \$382, that were not necessary costs for performance of the grant purpose.

- The Foundation charged the grant for staff to attend a California K-16 Partnerships and Student Success Conference in June 2001. The amount charged included additional amounts, totaling \$90, for attendees' dinners on the RMS Queen Mary cruise ship. The dinner was an option offered to attendees and was not a part of the conference agenda.
- The Foundation charged the grant \$292 for food for a holiday open house held in December 2000. The purpose of the open house was stated as "a Holiday Open House for all GEAR UP partners and supporters. It was an [o]ppportunity to thank them for their support and for them to see our office. The University is seen as reaching out to the community and has a positive image in the Community[.] This is good for potential enrollments to the [U]niversity." Neither students participating in the GEAR UP program nor their parents attended the event.

The dinner and food were for activities not related to the purpose of the GEAR UP grant, which is to prepare and motivate students for postsecondary education opportunities by providing early developmental outreach services, along with career planning and parent workshops on related topics. Thus, the costs were not necessary for performance of the grant.

Foundation Did Not Properly Allocate Costs to the GEAR UP Grant

The Foundation did not properly allocate charter bus and banner costs to the GEAR UP grant. OMB Circular A-122, Attachment A, paragraph A.4.a defines allocable costs—

A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

- (1) Is incurred specifically for the award.

- (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received

Charter Bus Costs. The Foundation improperly charged \$1,364 to the grant for charter bus expenses related to two student field trips.

- The first trip, which occurred in February 2001, included students participating in the GEAR UP and Talent Search programs. The GEAR UP grant was charged for the entire \$679 cost for the charter bus (\$150 deposit and \$529 balance). According to the Interim Project Director, the cost of the charter bus should have been split between the two programs. The amount improperly allocated to the grant was \$339 (50 percent of \$679).
- The second trip occurred in April 2001. The GEAR UP grant was charged for the charter bus expense of \$1,025 even though the Foundation's documentation showed the trip was for Talent Search participants only. The \$1,025 charge was mistakenly allocated to the GEAR UP grant.

Banner Costs. The Foundation improperly charged \$407 to the grant for the purchase of two vinyl banners. The Foundation's documentation identified the logos shown on each banner and the vendor's separate charges for each logo. The full amount of the purchases (\$449 and \$448) was charged to the GEAR UP grant even though the banners contained logos for programs and organizations unrelated to the Foundation's GEAR UP project. The costs of the unrelated logos improperly allocated to the GEAR UP grant were \$192 and \$215, respectively.

Foundation Needs to Improve Procedures For Ensuring Costs Are Properly Charged to Grants

The Foundation's policies and procedures required supervisory review of payment authorizations initiated by the project directors that exceeded \$100, but the policies and procedures were not consistently followed. Also, the Foundation's policies and procedures did not provide for supervisory review of purchase orders or invoices approved without a payment authorization.

We found that several documents reviewed for our sampled transactions contained no evidence that a supervisor had reviewed the purchases or services to ensure that the costs were reasonable costs of the grant and properly allocated to the grant. For example, the purchase order for the Macintosh PowerBook was prepared and approved by the original Project Director and was not reviewed by her supervisor. Then, the same Project Director approved payment of the invoice with no review from her supervisor. Another example is the cell phone service. The supervisor stated that he was not involved in the selection of the phone and service plan and did not review invoices to determine if the phone was being used strictly for GEAR UP activities. The improper use of GEAR UP funds may not have occurred if the supervisor had reviewed purchase orders, invoices, and payment authorizations.

Recommendations

We recommend that the Chief Financial Officer, in collaboration with the Assistant Secretary for Postsecondary Education, require the Foundation to—

- 3.1 Return the \$8,940 (\$4,157+\$2,630+\$382+\$1,364+\$407), plus related indirect costs, that was improperly expended for costs that were not necessary for performance of the GEAR UP grant or were not properly allocated to the grant.
- 3.2 Implement procedures requiring supervisory reviews of purchase orders initiated by project directors and invoices for equipment or services used solely by project directors.
- 3.3 Ensure that required supervisory reviews are conducted and that reviews confirm purchases and services are necessary for performance of the grant purpose and costs are allocated in proportion to the benefits received.

Due to the extent of our testing and the small percentage of reviewed transactions identified as improperly charged to the grant, we have not recommended that the Foundation review the untested transactions for allowability.

Foundation's Comments

The Foundation agreed with our finding and concurred with our recommendations. The Foundation stated it would return \$9,655 for the improper charges (amount includes related indirect costs). The Foundation stated that management controls would be instituted that include supervisory reviews of purchases of services or equipment used solely by project directors and ensuring required reviews are performed.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to determine whether the Foundation (1) complied with the grant's matching contribution requirement and (2) properly expended funds provided by the GEAR UP Partnership Grant No. P334A990267. Our review covered the first four years of the five-year grant period from September 1, 1999 to August 31, 2003.

To accomplish our objectives, we reviewed the Foundation's GEAR UP grant application, budgets, performance reports, and OMB Circular A-133 audit reports for the years ended June 30, 2001 and June 30, 2002. We also reviewed the Foundation's written policies and procedures applicable to charges made to the GEAR UP grant and matching contributions. We interviewed Foundation officials and staff responsible for implementing the financial and program portions of the GEAR UP grant. We also communicated with OPE staff responsible for monitoring the grant.

To achieve our audit objectives, we relied on reports of GEAR UP grant expenditures for the period September 1, 1999 through August 31, 2003, which Foundation staff generated from its financial accounting system. We verified the completeness of the data by comparing the total expenditures on the report to the total amount drawn down as shown in the Department's Grants Administration and Payment System. We also compared report information to information on

source documents for sampled transactions. Based on the results of these tests, we concluded that the reports were sufficiently reliable to be used in meeting the audit's objectives.

For the first grant year of our audit period, we reviewed all 44 payroll transactions over \$100 shown on the Foundation-provided report. For the remaining three years, we reviewed all 71 payroll transactions for the original Project Director that were over \$100 and reviewed an additional 30 payroll transactions randomly selected from the remaining 433 payroll transactions. We scanned all transactions related to the staff benefits costs for unusual amounts. For non-payroll transactions, we reviewed 182 of the 1,106 transactions listed on the Foundation-provided report. We judgmentally selected 92 non-payroll transactions with the highest dollar amounts or identified as high risk. We then randomly selected an additional 90 non-payroll transactions.

We performed our fieldwork at the Foundation in Fresno, California during the period September to October 2003. We held an exit briefing with Foundation officials on February 4, 2004. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described.

STATEMENT ON MANAGEMENT CONTROLS

Our assessment of the Foundation's management control structure was limited to those areas of control weaknesses identified while conducting substantive tests of grant expenditures. Our review found that the Foundation lacked the following management controls: standard procedures for documenting matching contributions, personnel activity report system for salaried employees, and sufficient supervisory reviews of purchasing and payment documents. These weaknesses and their effects are discussed in the AUDIT RESULTS section of this report.

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:

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Chief Financial Officer
Office of the Chief Financial Officer
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Federal Building No. 6, Room 4E313
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Sally L. Stroup
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1990 K Street, N.W.
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It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions under the Act.

Sincerely,

/s/

Gloria Pilotti
Regional Inspector General for Audit

ATTACHMENT**CALIFORNIA STATE UNIVERSITY, FRESNO FOUNDATION'S
COMMENTS ON THE DRAFT REPORT**

Because of the voluminous number of attachments included in the Foundation's response, we have not included them in this Attachment. Copies of the attachments have been provided to the Department's Office of the Chief Financial Officer and Office of Postsecondary Education and are available to others on request.



Auxiliary Services

California State University, Fresno Foundation

April 20, 2004

Gloria Pilotti
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
501 I Street, Suite 9-200
Sacramento, California 95814

Dear Ms. Pilotti:

We have reviewed the draft audit report, entitled *California State University, Fresno Foundation's Administration of GEAR-UP Partnership Grant No. P334A990267*, which covers the period of September 1, 1999 to August 31, 2003. Our responses are listed below. We have included the corrective actions corresponding to your recommendations.

Finding No. 1 – Foundation Did Not Meet the Required Matching Contribution for the GEAR UP Grant

Recommendation

- 1.1 Provide documentation supporting at least \$607,317 of the claimed matching contributions or return \$1,396,383 it received for the first four years of the grant.

Response

- 1.1 Management has enclosed detailed documentation from third parties to support matching contributions in the amount of \$843,055.

Recommendation

- 1.2 Establish procedures to ensure that contributions used to meet the matching requirements are properly documented and in accordance with OMB Circular requirements and OPE guidance.

Response

- 1.2 Management concurs. Management is drafting procedures for review and approval of properly documented matching. The completion date of the draft will be 12/31/04. The implementation date will be 06/30/05.

Finding No. 2 – Foundation Lacked Required Documentation for Personnel Costs Charged to the Grant

Recommendation

- 2.1 Provide documentation supporting the allocation percentage used to charge the GEAR UP grant for personnel costs of the original Project Director, or return \$101,536, plus related staff benefits and indirect costs. If sufficient documentation is provided to support the allocation percentage, The Foundation should return the \$1,854 of overcharges for the original Project Director's salary and benefits, plus related indirect costs.

Response

- 2.1 We have analyzed the project director's calendar and have determined that the project director spent approximately 20% of her time on scheduled GEAR-UP activities, such as, conferences, meetings and training sessions. It is reasonable to conclude that an additional 30% of her time was spent conducting administrative and other duties relating to the GEAR-UP project. The deliverables of the contract including the programmatic reports and fiscal reports, were submitted as required and the project continues to operate successfully. We conclude that the Project Director spent 50% of her time on the project and the entire costs of salary, benefits and indirect related to the Project Director should not be disallowed. We have enclosed a letter from the Project Director's supervisor certifying that 50% percent of her time was spent on the GEAR UP project. Management does concur with the overcharge of \$1854, plus related indirect costs. Management agrees to reimburse the amount of \$2002 for these overcharges.

Recommendation

- 2.2 Implement a personnel activity report for employees paid on a salary basis that complies with OMB Circular A-122 requirements.

Response

- 2.2 Management concurs. Management will work with Human Resources to develop an activity report to be completed by employees paid on a salary basis. The implementation date will be 07/01/04.

Finding No. 3 – Foundation Improperly Charged \$8,940 to the GEAR UP Grant

Recommendation

- 3.1 Return the \$8,940 (\$4,157+\$2,630+\$382+\$1,364+\$407), plus related indirect costs, that was improperly expended for costs that were not necessary for performance of the GEAR UP grant or were not properly allocated to the grant.

Response

- 3.1 Management concurs. Management agrees to reimburse \$9,655 for the disallowed costs.

Recommendation

- 3.2 Implement procedures requiring supervisory reviews of purchase orders initiated by project directors and invoices for equipment or services used solely by project directors.

Response

- 3.2 Management concurs. The Foundation will have the appropriate supervisor of the GEAR-UP program review purchase orders and invoices for equipment or services used solely by the project directors. The implementation date will be 07/01/04.

Recommendation

- 3.3 Ensure that required supervisory reviews are conducted and that reviews confirm purchases and services are necessary for performance of the grant purpose and costs are allocated in proportion to the benefits received.

Response

- 3.3 Management concurs. The Foundation will implement a procedure to ensure GEAR UP supervisory reviews have been performed to determine purchases and services are necessary for the grant purpose and allocated in proportion to the benefits received. The implementation date will be 07/01/04.

If you have any questions or if you wish to discuss the contents of the report, please call Randy Larson at (559) 278-0838 or Linda Christian at (559) 278-0852.

Sincerely, 

Dr. Peter N. Smits
Executive Director
California State University, Fresno Foundation

Enclosures