



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

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August 4, 2005

**Control Number
ED-OIG/A09F0011**

Mr. Scott Shakespeare
Interim Superintendent
Sanders Unified School District No.18
P.O. Box 250
Sanders, Arizona 86512-0250

Dear Superintendent Shakespeare:

This Final Audit Report, entitled *Sanders Unified School District No. 18's Administration of 21st Century Community Learning Centers Grant No. S287A010956*, presents the results of our audit. The purpose of the audit was to determine whether Sanders Unified School District No.18's (Sanders USD's) draw of the 21st Century Community Learning Centers (CCLC) grant funds on June 8, 2004 exceeded its immediate needs and, if so, whether the excess funds were held and used solely for program purposes.

BACKGROUND

The CCLC program, which was authorized by Title X, Part I of the Elementary and Secondary Education Act, as amended, provided grants to local educational agencies for the planning, implementation, or expansion of projects that benefit the educational, health, social service, cultural, and recreational needs of the community. On July 5, 2001, the U.S. Department of Education (Department) awarded a CCLC grant to Sanders USD, totaling \$2,398,872, to provide services for its students during the three-year period from June 1, 2001 through May 31, 2004. In May 2004, the Department approved a no-cost extension allowing the use of the grant funds for services provided through May 31, 2005.

Sanders USD is a public school district in northeastern Arizona. During school year 2004-2005, about 1,100 students were enrolled in its elementary, middle, and high schools. The District requested CCLC funds through the Department's Grant Administration and Payment System (GAPS) for deposit with the Apache County Treasurer. The Apache County Office of Superintendent of Schools (County Office) maintained the accounting system used to record CCLC funds received and disbursed by the County Treasurer. Sanders USD maintained the accounting system used to budget and account for grant expenditures.

AUDIT RESULTS

We concluded that Sanders USD's draw of CCLC grant funds on June 8, 2004 exceeded its immediate needs and, previous to that date, the District had made other excessive draws of grant funds. From our limited review of reports generated from the Sanders USD's and County Office's accounting systems, nothing came to our attention to indicate that the grant funds were used for any purpose other than the CCLC program. Sanders USD concurred with the finding and explained the actions it has taken to limit future draws of Federal funds to the District's immediate needs. The text of Sanders USD's comments is included as an attachment to the report.

FINDING – District Made Excessive Draws of CCLC Grant Funds

On June 8, 2004, Sanders USD initiated a request in GAPS for \$599,624 of the CCLC grant award, which was the remaining balance on the award. The County Office's Fund Reports show that the amount was received and made available for payment of CCLC expenditures on June 11, 2004. Of the amount, \$51,034 was used to cover a deficit in the County Office's CCLC funds.¹ The balance of \$548,590 was available for payment of future CCLC costs.

The balance of \$548,590 exceeded the District's immediate needs. Sanders USD did not use the available funds to pay CCLC costs until 13 days later when the County Office recorded expenditures of \$15,227. Also, the funds were not immediately needed after that date. There was generally about a two-week gap between transactions dates on the Fund Reports. The data provided on the Fund Reports for fiscal year 2004-2005 showed that the total dollars for warrants issued during each two-week period ranged from a low of \$2,650 to a high of \$30,040.² On April 21, 2005, the District still had \$347,519 of grant funds on hand in the CCLC funds.³

The June 8, 2004 request was not the only time that Sanders USD initiated requests in excess of its immediate needs. The Fund Reports showed that Sanders USD began fiscal year 2002-2003 with \$390,821 of CCLC grant funds on hand. Our analysis of the Funds Reports for fiscal years 2002-2003 and 2003-2004 and the first 9½ months of fiscal year 2004-2005 showed that Sanders USD maintained an average daily balance of about \$265,000. During that period, Sanders USD made seven draws of grant funds (including the draw on June 8, 2004). The balances held over the period exceeded the immediate needs of the District. Sanders USD requests of funds in excess of its immediate needs caused the Federal Government to incur unnecessary interest costs.

Title 34 Code of Federal Regulations, Part 80 establishes uniform administrative requirements for grants to State and local governments. The regulations at 34 C.F.R. § 80.20(b)(7) require that the grantee's financial management systems meet the following standard:

¹ The County Office maintained two funds for the CCLC grant. Fund 321 covered the period from July 1st through May 31st and Fund 322 covered the period June 1st through June 30th. At the time of the draw, Fund 321 had a deficit of \$57,020 and Fund 322 had an available balance of \$5,986. Thus, the District had a deficit of \$51,034 at the time it requested the funds (\$57,020 less \$5,986).

² The average amount of disbursements in each two-week period was about \$9,600.

³ Amount includes interest earned (net of interest charges) that the County Office credited to the CCLC funds.

Procedures for minimizing the time elapsing between the transfer of funds from the U.S Treasury...When advances are made by...electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements....

To remind grantees of the above requirement, GAPS asks grantees to respond to the following statement when initiating a request for Federal funds:

I certify, by processing this payment request and/or reallocation, that the funds are being expended within three business days of receipt for the purpose and condition of the grant or agreement. Are you sure you want to submit the request?

The District Business Manager acknowledged that Sanders USD was aware that GAPS required a response to the above statement and that she had responded “yes” to the question when initiating the funds requests. Sanders USD did not have written policies or procedures for requesting Federal funds.

In a letter to us dated April 21, 2005, the District Business Manager stated that the requirement to expend drawn funds within three business days was impossible to implement because the procurement procedures specified in the Arizona Revised Statute and the Uniform System of Financial Records for Arizona School Districts (USFR) took at least 30 days from requisition to vender payment.⁴ Also, since the County Office charged interest on deficit fund balances, Sanders USD preferred to have excess cash on hand before submitting the bi-weekly requests to the County Office to pay vender invoices.

Neither the procurement process nor the fact that the County Office charged interest on deficit balances prevented Sanders USD from complying with the requirement to request funds as close as possible to the time of making disbursements. For expenditures included in the budget section of the approved Federal grant application, the USFR allowed Sanders USD to authorize the expenditures regardless of whether sufficient cash is available in the CCLC fund account.⁵ Since payroll and vender payments were generally made on a bi-weekly cycle, Sanders USD could have timed its requests for Federal funds to coincide with the disbursements.

The District Business Manager advised us that the District will return the unused cash balance to the Department after the District closes its accounts for fiscal year 2004-2005.

⁴ The USFR prescribes the minimum internal control policies and procedures used by Arizona school districts for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements. The USFR was developed by the Office of the Auditor General and the Arizona Department of Education pursuant to Arizona Revised Statutes.

⁵ Cited provision contained in item number 3 on Page VI-G-1 of the USFR (December 1996).

Recommendations

We recommend that the Chief Financial Officer, in collaboration with the Assistant Secretary for Elementary and Secondary Education, require Sanders USD to—

- 1.1 Return to the Department the Federal funds and interest earnings remaining in the CCLC accounts after closure of its fiscal year 2004-2005.⁶ At the time of our review, the amount in the CCLC accounts totaled \$347,519.
- 1.2 Implement cash management procedures to ensure that requests for Federal funds, subject to the “three business day rule,” are limited to the District’s immediate needs, that is, expended within three business days of the day the funds are deposited into its accounts.

Sanders USD Comments

Sanders USD concurred with the finding. In its comments on the draft report, the District reiterated its position that spending drawn down funds within three working days was impossible to implement and would require hiring additional personnel. The District stated, in the future, it would request Federal funds on a reimbursement basis.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to determine whether Sanders USD’s draw of CCLC grant funds on June 8, 2004 exceeded its immediate needs and, if so, whether the excess funds were held and used solely for program purposes. After reviewing the County Office’s Fund Reports, we expanded our audit to cover the period July 1, 2002 through April 21, 2005.

To accomplish our objectives, we reviewed the District’s CCLC grant application, budget and budget revisions, performance reports, and Comprehensive Annual Financial Reports and Office of Management and Budget (OMB) Circular A-133 audit reports for the years ended June 30, 2003 and 2004. We gained a general understanding of the District’s accounting policies and procedures and evaluated its procedures for requesting draws of CCLC grant funds. We also interviewed the District Business Manager responsible for requesting CCLC grant funds and accounting for the funds.

To review CCLC grant fund receipts and disbursements, we relied on reports provided by Sanders USD that were generated from the District’s and the County Office’s accounting systems. We also relied on reports generated from GAPS. We verified the completeness of the reports by comparing the receipts and expenditures amounts shown in the 1) OMB Circular A-133 audit

⁶ The County Office credited the CCLC fund accounts with the interest earned on the fund balance. We calculated that the average annual earnings rate was 4.7 percent, which exceeded the Federal Current Value of Funds Rate (CVFR) applicable to the period. The CVFR rate was three percent for the period July through December 2002, two percent for the period January through December 2003, and one percent for the later periods. Thus, the earnings posted to the CCLC funds is sufficient to reimburse the Federal Government for any interest costs incurred as a result of the excessive draws of Federal funds.

reports, 2) Sanders USD's Maintenance and Operations - Federal Programs Expenditure Reports and Purchase Order Account History Reports for fiscal year 2003-2004 and the first 9½ months of fiscal year 2004-2005, and 3) County Office's Fund Reports for fiscal years 2003-2004 and the first 9½ months of fiscal year 2004-2005. We scanned the expenditures on these reports and the County Office's Fund Reports for fiscal years 2002-2003 for unusual transactions and confirmed the funds on hand as of April 21, 2005 with the County Office. We did not review supporting documentation for individual transactions. Based on our general understanding of the District's accounting policies and procedures and our limited tests, we concluded that the reports were sufficiently reliable to be used in meeting the audit's objectives.

We performed our fieldwork at the District's administrative offices in Sanders, Arizona. An exit conference was held with District officials on June 3, 2005. We performed our audit in accordance with generally accepted government auditing standards appropriate to the scope of the audit described above.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective 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

Henry L. Johnson
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

ATTACHMENT

Sanders USD Comments on the Draft Report

Sanders Unified School District #18

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25 July 2005

Ms. Gloria Pilotti
Regional Inspector General for Audit
U. S. Dept. of Education
501 I Street, Suite 9-200
Sacramento, CA 95814

Dear Ms. Pilotti,

In response to your draft Audit Reports entitled "Sanders Unified School District #18 Administration of 21st Century Community Learning Centers Grant No. §287A010956," the following are noted;

1. We concurred with your specific Funding that the District made excessive draw of CCLC Grant Funds.
2. The corrective action of Sanders Unified has been taken: "There after Sanders will be on reimbursement basis for funding request." In other words Sanders Unified School District will have to pay Apache County Treasurers' interest expense for those days that program funding (ie. 21st Century Program) are not available at the County Treasurers' office. The Programs requirement of spending draw down money within 3-working days is impossible to implement, due to AZ Procurement procedure per ARS (AZ Revised Statue) and USFR (Uniform System Financial Records). We would have to hire an additional personnel to just monitor all the program cash flow which our Regular Budget can not afford.
3. The excess fund were held and used solely for program purpose. Our Fiscal year 2004/05 ended 06/30/05; However, as of today we are still under Advice of Encumbrance period (60-days after year end closing). We are showing \$294,812.06 refundable amount to U.S. Dept of Education. We will obtain a certification from the County to concur this refund amount.

We thank you for sending your Field Auditor - Mr. Peter Kowalski to Sanders Unified School District to assist us to better understand the 21st Century Program.

Sincerely

Scott Shakespeare, Interim Superintendent

cc: Mei Bigelow, Business Manager
Peter Kowalski, U.S. Dept. of ED