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December 6, 2006

Control Number
ED-OIG/A09G0010

Mr. Richard Barth
KIPP Foundation
Chief Executive Officer
345 Spear Street, Suite 510
San Francisco, California 94105

Dear Mr. Barth:

This **Final Audit Report**, entitled *KIPP Foundation's Administration of the Fund for the Improvement of Education Grants*, presents the results of our audit. The purpose of the audit was to determine whether the KIPP Foundation conducted six Congressionally-directed grants provided under the Fund for the Improvement of Education (FIE) in accordance with the authorizing legislation, approved grant applications, and applicable Federal regulations. Our review covered the period July 1, 2004 through August 24, 2006.

BACKGROUND

The Knowledge Is Power Program (KIPP) is an educational program used to operate a nationwide network of free open-enrollment college-preparatory public schools in under-served communities (KIPP schools). The KIPP Foundation (Foundation) is the national non-profit organization established in 2000 and located in San Francisco, California that supports the network. The Foundation recruits, trains, and supports educators through its KIPP School Leadership Program, which provides a training program for future KIPP school leaders and other training events (i.e., retreats, conferences, summits, etc.). The Foundation reported that 8,835 students were enrolled at the 45 KIPP schools in school year 2005-2006.

The U.S. Department of Education's Office of Innovation and Improvement (OII) awarded the six FIE Congressionally-directed grants to the Foundation. In addition to the FIE grants included in our review, the Foundation received an unsolicited FIE grant for \$1,462,422 (grant period from September 17, 2001 through September 16, 2004) and a Credit Enhancement for Charter School Facilities Program grant for \$6,805,891 (grant period from June 14, 2006 through June 14, 2021). The Foundation's Office of Management and Budget (OMB) Circular A-133 single audit reports show that the Foundation did not receive funds from other Federal agencies during the period covered by our audit.

- Grant Number U215K040068, which provided \$3,976,400, was the first Congressionally-directed grant awarded to the Foundation. Of the total award, approximately half was used by the Foundation for the KIPP School Leadership Program. The remaining amount (approximately \$2,000,000) was disbursed among 35 KIPP schools to support school leader and teacher training, professional development, and sharing of best practices activities for school year 2004-2005. Because the Congressional language for the grant did not provide for subgrants, the Foundation used vendor agreements to provide grant funds to the schools. Under the terms of the vendor agreements, KIPP schools submitted invoices to the Foundation for activities performed each quarter. The Foundation paid the invoiced amounts with grant funds on a reimbursement basis.
- Grant Number U215K050531 was a Congressionally-directed grant for \$2,976,000. The Foundation used \$873,800 to support the KIPP School Leadership Program activities and events. The remaining \$2,102,200 was subgranted to 47 KIPP schools for extended learning programs conducted at the schools.¹ The Foundation continued to require schools to submit detailed invoices, but added the requirement for schools to include supporting documentation for their grant-related expenses. The Foundation paid the invoiced amounts to KIPP schools on a reimbursement basis, just as they had done in the previous year for U215K040068 grant funds.
- The Foundation was awarded four additional Congressionally-directed grants for subgrants to KIPP schools specified in the award documents. The funds for these school-specific grants were primarily budgeted for personnel costs for extended learning time, teacher training, and curriculum development. The Foundation provided the grant funds to these schools in the same manner as described above for the U215K050531 grant.

The table below summarizes the characteristics of each grant.

Table 1: FIE Grants Awarded to the Foundation			
			Use of Funds
U215K040068	10/1/2004 through 9/30/2005	\$3,976,400	KIPP leadership training program and KIPP school leader and teacher development activities.
U215K050531	10/1/2005 through 9/30/2006	\$2,976,000	KIPP leadership training program and extended learning time at all KIPP schools.
U215K050511	8/23/2005 through 11/23/2006	\$24,800	Sub-grant to one KIPP school in Philadelphia for extended learning time personnel and supplies.
U215K050516	8/23/2005 through 11/23/2006	\$198,400	Sub-grant to nine KIPP schools in California for curriculum development and teacher training.
U215K050519	8/23/2005 through 11/23/2006	\$148,800	Sub-grant to two KIPP schools in Tennessee for extended learning time personnel and supplies.
U215K050524	8/23/2005 through 11/23/2006	\$49,600	Sub-grant to one KIPP school in Oklahoma City for curriculum development and teacher training.
(a) The U215K040068 and U215K050531 grant awards provided for indirect costs at 6.26 percent and 6.63 percent of direct costs, respectively. The other grant awards did not provide for indirect costs.			

¹ Congress included language in the authorizing legislation for the Federal fiscal year 2005 grants that allowed the Foundation to subgrant funds to KIPP schools.

AUDIT RESULTS

The Foundation generally conducted the FIE grants in accordance with the authorizing legislation, approved grant applications, and applicable Federal regulations. We concluded that the Foundation and KIPP schools were conducting activities in accordance with the goals and objectives of the project. We also determined that the Foundation's financial management system generally met the standards for proper administration of FIE funds. However, the Foundation did not fully comply with the applicable regulations when it included unallowable costs and costs lacking required supporting documents or budget approval in its charges to the FIE grant accounts. The Department intended the FIE funds awarded to the Foundation to be used to support the KIPP School Leadership Program, curriculum development, teacher training, and extended learning time at KIPP schools. While we did not identify any serious deficiencies that prevented the Foundation from achieving the grant goals, improvements to the financial management system are needed to ensure that FIE grant funds are used only for allowable and allocable costs.

In its comments to the draft report, KIPP concurred with our finding and agreed to implement our recommendations. The full text of KIPP's comments is included as an attachment to the report.

FINDING - KIPP's Financial Management System Needs Improvement

The Foundation's financial management system generally met the requirements specified in the Education Department General Administrative Regulations (EDGAR) 74.20 through 74.28. The Foundation used accounting software to process and record financial transactions and maintained separate records of accountability for each FIE grant. The Foundation also had policies and procedures in place for handling Federal grant funds at the Foundation and the individual KIPP schools (subgrantees). However, our review of selected expenditures found that the Foundation included unallowable costs in its charges to two grant accounts and did not have required supporting documentation for other costs charged to the accounts. We also found that the Foundation reimbursed a school for staff costs not included in the school's approved budget.

Table 2: Drawn Funds, Recorded Expenditures, and Results of OIG Review						
						050524 Oklahoma School
Grant Funds Drawn as of August 24, 2006	\$3,976,400	\$1,379,650	\$24,800	\$73,596	\$58,218	\$49,600
Expenditures Recorded in Grant Accounts as of August 24, 2006	\$4,600,523 (b)	\$1,401,382 (c)	\$24,800	\$78,155	\$58,218	\$49,600
Expenditures Reviewed By OIG	\$601,206	\$344,425	\$24,800			
Unallowable Costs Included in Recorded Expenditures	\$7,762	\$7,778	---			
Expenditures Lacking Required Documentation (d)	\$18,059	\$15,316	---			
Reimbursement for Staff Costs Not Included in School Budget	---	(e)	---			
<p>(a) Expenditures for the Philadelphia school were selected for review because the school could receive reimbursement from three grants during our audit period (U215K040068, U215K050531, and U215K050511).</p> <p>(b) For U215K040068, recorded grant expenditures exceeded amounts drawn by \$624,123.</p> <p>(c) For U215K050531, the Foundation reduced travel costs for the School Leaders Retreat by \$21,732 in order to remain within its travel budget. Thus, recorded expenses exceeded the total amount drawn on the grant.</p> <p>(d) Using alternative documentation, we were able to determine that the unsupported employee benefit costs (\$18,059 for U215K040068 and \$2,816 for U215K050531) were reasonable.</p> <p>(e) The reimbursement did not result in an unallowable use of FIE grant funds.</p>						

The Foundation Included Unallowable Costs in Its Charges to FIE Grant Accounts

The Foundation charged the U215K040068 grant account for \$7,762 of unallowable alcoholic beverage and entertainment costs and the U215K050531 grant account for \$7,778 of unallowable costs that comprised \$3,387 in unallowable alcoholic beverage costs, \$3,718 in overcharged employee benefit costs, and a \$673 duplicate charge for travel costs.

Unallowable Alcoholic Beverage and Entertainment Costs Charged to Grant Accounts

The Foundation included unallowable alcoholic beverage and entertainment costs in the amounts charged to FIE grant accounts.

- The Foundation held a Math Retreat in New York City, New York in January 2005 for math teachers to discuss successful teaching strategies used at two high-achieving KIPP schools. The Foundation charged the U215K040068 grant account for \$61,608 in travel-related costs for approximately 70 persons who attended the three-day event. The amount included \$1,919 for alcoholic beverages purchased during a restaurant dinner.

- The Foundation held a School Leaders Retreat in Cancun, Mexico in February 2005 for KIPP school leaders to meet and discuss issues relevant to their professional growth and KIPP schools. The Foundation charged the U215K040068 grant account for \$90,749 in travel-related costs for the approximately 70 persons who attended the four-day event. The amount included \$2,988 for alcoholic beverage purchases, \$2,318 for three hours of DJ and Karaoke services, and \$537 for basketball equipment setup.
- The Foundation held another School Leaders Retreat in Cancun, Mexico in February 2006. The Foundation charged the U215K050531 grant account for \$68,147 in travel-related costs for the approximately 70 persons who attended the four-day event. The amount included \$3,387 for alcoholic beverage purchases.²

EDGAR 74.27 requires that private non-profit organizations determine the allowability of costs charged to grants in accordance with the cost principles contained in OMB Circular A-122. OMB Circular A-122 Attachment B, paragraph 3 (Alcoholic beverages) and paragraph 14 (Entertainment costs) prohibit the use of Federal grant funds for alcoholic beverage and entertainment costs. Foundation staff did not thoroughly review expenditure documentation to ensure that only allowable costs were charged to the FIE grant accounts.

The unallowable alcoholic beverage and entertainment costs charged to the FIE grant accounts did not result in the improper use of FIE funds because the Foundation did not use FIE funds to cover \$624,123 of U215K040068 grant expenditures and reduced its draw of FIE funds for U215K050531 by \$21,732 to stay within the travel budget in the approved grant. However, the Foundation holds several training events each year. Because we did not review all event-related expenditures, there is a risk that other alcoholic beverage and entertainment costs may have been charged to the FIE grant accounts that were not detected by our review. Additionally, there is a risk that FIE funds may be used inappropriately in the future if the Foundation continues to charge alcoholic beverage and entertainment costs to the FIE accounts and does not adjust expenditure totals for the unallowable costs when determining amounts to be drawn from the grant awards.

Employee Benefit Costs Overcharged to the Grant Account

The Foundation charged an amount to the U215K050531 grant account for Foundation employee benefit costs (for the first two quarters of the grant year) that was \$3,718 in excess of the amount allocable to the FIE grant. OMB Circular A-122 Attachment A, paragraph A defines allowable costs as reasonable for the performance of the award and allocable to the grant and requires that the costs charged to grants be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization. The Foundation improperly charged \$3,368 because business office staff used 19 percent for the calculation instead of following the Foundation's methodology, which used a percentage representing the ratio of employee benefits to salaries for all Foundation employees. The Foundation's Controller stated that the different methodology was used due to a misunderstanding of the direction provided to

² The trips to Cancun, Mexico did not require prior Department approval because travel to Mexico is not considered foreign travel under OMB Circular A-122, Attachment B, paragraph 51e. In addition, the travel expenses charged to the grant were less than the per diem allowance established by the U.S. General Services Administration for Cancun, Mexico and were comparable to the allowances established for San Francisco and cities in the Los Angeles area.

the staff by the Controller. We determined that the error was a one-time occurrence. The remaining improper charge of \$350 was due to a math error. Based on our recalculation, we concluded that the Foundation overcharged the U215K050531 grant account by \$3,718 for employee benefit costs and had drawn FIE funds for this amount. The Foundation needs to correct the improper charges in the FIE grant account and adjust future draws from the grant award for the \$3,718.

*Travel Costs Charged Twice
to the Grant Account*

The Foundation charged the U215K050531 grant account twice for \$673 of travel-related costs for the School Leaders Retreat. The business office staff said that the duplicate entry was previously identified and reversed, but then erroneously reentered. The \$673 duplicate charge to the U215K050531 grant account did not result in the improper use of FIE funds because the Foundation reduced its draw for funds from the U215K050531 grant by \$21,732 to stay within the approved travel budget. However, the Foundation needs to correct the duplicate charge in the FIE grant account to ensure that the amount is not included in expenditure totals used to determine future draws from the grant award.

**The Foundation Did Not Have Required
Supporting Documentation for Costs
Charged to FIE Grant Accounts**

The Foundation did not have required supporting documentation for \$18,059 charged to the U215K040068 grant account for Foundation employee staff benefit costs and \$15,316 charged to the U215K050531 grant account for Foundation employee staff benefit costs (\$2,816) and personnel costs incurred at the KIPP Tulsa College Prep School (\$12,500). In addition, Foundation employees did not sign labor allocation worksheets used to support personnel costs charged to the grant accounts for the earlier part of our audit period.

Employee Benefits Not Documented

The Foundation did not provide any documentation to support \$18,059 of Foundation employee benefit costs charged to the U215K040068 grant account and did not provide adequate documentation to support \$2,816 of Foundation employee benefit costs charged to the U215K050531 grant account.³ The employee benefit costs had been calculated by former Foundation staff. Thus, current staff were unable to explain how the employee benefits were calculated or locate supporting documentation.

Since the documentation was not readily available to assess the allowability of employee benefit costs charged to the FIE grants, we used the following alternate methods. For the \$18,059 of employee benefit costs, we compared the 3-month average rate (5.9 percent) used to calculate the \$18,059 to the 6-month average rate (10.1 percent) used to calculate the employee benefit costs for a more recent period. Since the current rate was supported by payroll documentation and was significantly higher than the 5.9 percent, we concluded that the 5.9 percent rate was reasonable.

³ For the \$2,816, the Foundation provided some handwritten notes, but no source documentation. OMB Circular A-122, Attachment A, paragraph A.2.g states that allowable costs must be adequately documented.

To assess the reasonableness of the \$2,816, we calculated the monthly rates using currently available payroll documentation for the same historical period, and then used the rates to recalculate the employee benefit costs. We determined that the amount charged to the grant was less than the amount derived from our calculation. Based on these two analyses, we concluded that the \$18,059 and \$2,816 were reasonable charges to the FIE grant accounts.

This finding applied to calculations and recordkeeping practices performed by the Foundation's previous business office staff. Based on our review of subsequent staff benefit costs charged to the grant accounts, we determined that the current business office staff maintained adequate supporting documentation for employee benefit charges. Thus, no additional corrective action is needed.

School Personnel Costs Based on Budgeted Rather Than Actual Expenditures

The Foundation charged the U215K050531 grant account for \$12,500 paid to KIPP Tulsa College Prep School for personnel costs that were based on budgeted rather than actual school expenditures. The school's invoice package for the first quarter of school year 2005-2006 showed that the school divided the annual budgeted personnel costs of \$50,000 by four and submitted an invoice to the Foundation for the resulting amount of \$12,500.

OMB Circular A-122 does not allow the use of budget estimates as support for charges to Federal grants.⁴ Additionally, the Foundation's internal guidance requires schools to provide copies of the school payroll reports, including annotations of amounts for grant related activities, with the invoices submitted for reimbursement. Tulsa College Prep School staff did not adhere to the internal guidance even though actual expenditures were available from the school's payroll system. Business office staff, who performed the review of Tulsa College Prep School's invoice package, did not identify the school's non-adherence to the Foundation's guidance. Because the \$12,500 was based on budgeted rather than actual costs, there is no assurance that the amount was, in fact, used for allowable personnel costs. Our review of selected school invoice packages found that other schools' packages contained payroll reports to support personnel costs included in the school's invoice.

Unsigned Labor Allocation Worksheets

Neither Foundation employees nor their supervisors signed the Labor Allocation Worksheets (employee monthly timesheets) that were used to support personnel costs charged to the U215K040068 grant account. Specifically, for one three-month sample (January through March 2005), we found that 8 of 18 employee monthly timesheets did not have signatures and for another three-month sample (July through September 2005), we found that 7 of 8 employee monthly timesheets were not signed. While the monthly timesheets provided space for employee signatures, the Foundation's policy allowed the acceptance of unsigned employee timesheets.

⁴ OMB Circular A-122, Attachment B, paragraph 8m(2)(a) requires that support for salaries and wages in payroll records "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."

The Foundation's policy was not in compliance with the wages and salaries documentation requirements of OMB Circular A-122, Attachment B, paragraph 8m(2)(c).⁵ However, except for the lack of employee signatures noted above, we concluded that the employee monthly timesheets appeared to be accurately prepared and we had no reason to doubt that they represented a reasonable accountability of personnel costs charged to the grant account.

A similar finding was reported in the Foundation's OMB Circular A-133 single audit report for the fiscal year ended June 30, 2005. As a result of the audit finding, the Foundation revised its policy to require employee signatures. To assess the effectiveness of the Foundation's corrective action, we reviewed an additional 16 employee monthly timesheets for the period October 2005 through March 2006. We found that all 16 timesheets contained employee signatures. These additional test results indicated that the condition was corrected by October 2005.

The Foundation Reimbursed a School For Staff Costs Not Included in the School's Approved Budget

The Tulsa College Prep School included personnel costs in its invoice for grant account U215K050531 that were not in the school budget approved by the Foundation. The school's approved budget of \$50,000 included allocated amounts for teacher compensation for extended hours (\$40,000), Summer school (\$6,000), and Saturday school (\$4,000). The documentation submitted with the invoice for the first quarter of school year 2005-2006 showed that the school had reallocated budgeted amounts as follows: teachers (\$36,203), secretary (\$12,225), and library personnel (\$1,572). The Foundation paid the school's invoice.

The Foundation's Controller stated that school budget changes are not allowed after the budget has been finalized and approved and that she was not aware that Tulsa had submitted an invoice to the Foundation based on a budget change. OMB Circular A-110, Subpart C, paragraph 51(a) holds award recipients responsible for managing and monitoring each project, program, subaward, function or activity supported by the award.

Recommendations

We recommend that the Chief Financial Officer, in collaboration with the Assistant Deputy Secretary for the Office of Innovation and Improvement, require the KIPP Foundation to—

- 1.1 Ensure that all staff is aware that Federal funds cannot be used for alcoholic beverage and entertainment costs and revise its procedures, as needed, to ensure that FIE funds are not used for such costs.
- 1.2 Review FIE grant accounts to identify any other alcoholic beverage and entertainment costs charged to the accounts, determine whether FIE funds were used for the costs, and, if so, return the funds to the Department or adjust future draws of FIE funds, whichever is appropriate.

⁵ With regard to time and activity reporting in support of employee salaries and wages, OMB Circular A-122, Attachment B, paragraph 8m(2)(c) states, "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...."

- 1.3 Correct the charges to the U215K050531 grant account for the \$3,718 of overcharged employee benefit costs and \$673 of duplicate travel expense and ensure that future draws from the grant award are adjusted for the amounts.
- 1.4 Instruct Tulsa College Prep School to submit annotated school payroll reports to support grant-related personnel costs incurred for the first quarter of school year 2005-2006 and confirm that the school claimed actual personnel costs and submitted the required payroll reports in subsequent invoice packages. If charges to the U215K050531 grant account do not reflect actual personnel costs, the Foundation should adjust future draws from the grant award to reflect the actual costs.
- 1.5 Confirm that budget variances for Tulsa College Prep School have been resolved and that any changes to the school's budget are aligned with program objectives.
- 1.6 Review its policies and procedures and implement changes, if needed, to ensure that sufficient safeguards are in place to prevent accounting errors or unapproved school budget changes, and promptly correct such errors/unapproved changes, if they occur.

KIPP Comments

In its comments to the draft report, KIPP generally concurred with each condition listed in the finding and described the corrective actions taken and planned to address each condition. The actions taken and planned were responsive to our recommendations.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether the Foundation conducted the six FIE grants in accordance with the authorizing legislation, approved grant applications, and applicable Federal regulations. Our review was limited to assessing whether the Foundation's financial management system complied with the standards defined in EDGAR 74.20 through 74.28, activities had been conducted in accordance with the goals and objectives of the grant projects and grant funds were used for grant purposes in compliance with OMB Circular A-122. Our review covered the period from July 1, 2004 through August 24, 2006.

To assess the Foundation's financial management system, we evaluated its written policies and procedures for grant administration. We interviewed Foundation management and staff in the business office (including the current and prior Chief Financial Officers), the School Leadership Program, the Office of General Counsel, Human Resources and Information Technology, as well as officials responsible for monitoring academic and business operations at the KIPP schools.

To assess whether activities had been conducted in accordance with the goals and objectives of the grant projects, we reviewed documentation of the activities, including invoices, event schedules, and performance reports issued by KIPP review teams.

To determine whether grant funds were used for grant purposes and whether the grant expenditures complied with OMB Circular A-122, we reviewed ten judgmentally selected expenditure packages.⁶ The ten expenditure packages were for three of the six grants, and included expenditures for the Foundation (four packages) and four KIPP schools (six packages). We selected eight of the expenditure packages based on assessed risk, such as the possible use of estimated amounts, overlapping grant periods, a high proportion of grant funds expended in the pre-award period, and funding from multiple grants for one school. We selected the remaining two expenditure packages because the packages were the only Foundation packages prepared by the current business office staff. Each selected expenditure package included many individual transactions for activities occurring over a three to six-month period. The Foundation expenditure packages included payroll, employee benefits, travel, and indirect cost expenditures for the KIPP School Leadership Program. The school expenditure packages consisted primarily of salary expenses for extended learning instruction, as well as expenses for training and curriculum development. For the selected expenditure packages, we reviewed documentation that was maintained at the Foundation's business office. We did not review records maintained at the KIPP schools unless such records had been submitted to the Foundation as part of an expenditure package.

To select our sample, we relied on expenditure reports that the Foundation created from information contained in its accounting system. We tested the completeness of the reports by comparing the grant income reported in the Foundation's accounting system to the drawn funds recorded in the Department's Grant and Procurement System (GAPS). For the ten sampled expenditure packages, we confirmed the expenditure amounts to amounts contained in the supporting documentation. Based on these tests, we concluded that the expenditure reports provided by the Foundation were sufficiently reliable to use for our sample selection.

We performed on-site fieldwork at the Foundation's offices in San Francisco, California. We held an exit briefing with Foundation officials on September 21, 2006. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review 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 action to be taken will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department officials, who will consider them before taking final Departmental action on this audit:

⁶ Because we judgmentally selected expenditure packages for our review, testing results may not be representative of all expenditure packages.

Morgan Brown
Assistant Deputy Secretary
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U.S. Department of Education
400 Maryland Avenue, SW
Washington, D.C. 20202

Lawrence A. Warder
Chief Financial Officer
Office of the Chief Financial Officer
U.S. Department of Education
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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 appreciated.

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

Sincerely,

/s/ Beverly Dalman for

Gloria Pilotti
Regional Inspector General for Audit

Attachment: KIPP's Comments to Draft Report



November 8, 2006

Ms. Gloria Pilotti
U.S. Department of Education
Office of Inspector General
501 I Street, Suite 9-200
Sacramento, CA 95814

Dear Ms. Pilotti

The KIPP Foundation has received your Draft Audit Report, entitled *KIPP Foundation's Administration of the Fund for the Improvement of Education Grants*, dated October 12, 2006. Enclosed is the KIPP Foundation's response to these findings:

FINDING – KIPP's Financial Management System Needs Improvement

- 1. The Foundation Included Unallowable Costs in Its Charges to FIE Grant Accounts**
 - A. Unallowable Alcoholic Beverage and Entertainment Costs Charged to the Grant Accounts**

RESPONSE: The KIPP Foundation drew down funds during the 2005-06 grant period related to unallowable costs. The Foundation's Finance Department revised the draw down to exclude all meals from the final draw down to ensure that federal monies were not spent on alcohol or other unallowable costs. In addition, when the original finding was communicated by ED-OIG to the Foundation's Finance Department, the Controller immediately implemented a new policy and procedure whereby Federal monies can not be drawn down for alcohol and entertainment. The Finance Department is in the process of updating all internal control policies and procedures.

- B. Employee Benefit Costs Overcharged to the Grant Account**

RESPONSE: The KIPP Foundation drew down funds during the 2005-06 grant period for employee benefits that were in excess of the amount allocable to the FIE grant. However, in its final draw down and summary of grant expenses, the excess charges have been excluded from the overall costs associated with the grant. These funds were reallocated for other allowable and budgeted expenditures.

- C. Travel Costs Charged Twice to the Grant Account**

RESPONSE: The KIPP Foundation unintentionally drew down funds during the 2005-06 grant period for the same travel costs twice. However, in its final draw down and summary of grant expenses, the Controller excluded the duplicate charges from the overall costs associated with the grant.

2. The Foundation Did Not Have Required Supporting Documentation for Costs Charged to FIE Grant Accounts

A. Employee Benefits Not Documented

RESPONSE: As stated in the finding, the previous business office staff did not complete the requirement for supporting documentation. The current business office staff is fully aware of the importance of adequate supporting documentation and therefore all supporting documentation for all current and future draw downs will be maintained.

B. School Personnel Costs Based on Budgeted Rather Than Actual Expenditures

RESPONSE: As a result of the audit finding, the Foundation's Finance Department immediately contacted KIPP Tulsa College Prep and instructed the school to resubmit their expenses using actual expenditures with appropriate and adequate supporting documentation. The school is in the process of providing the appropriate supporting documentation. No further draw downs will be made for KIPP Tulsa College Prep until the required documentation has been provided.

C. Unsigned Labor Allocation Worksheets

RESPONSE: As stated in the finding, for both grants received, there were instances in which Foundation staff (whose positions are funded by federal monies) did not submit signed labor allocation worksheets. In response to the OMB Circular A-133 single audit for the fiscal year ended June 30, 2005, the Foundation revised its policies and procedures requiring the submission of signed labor worksheets as well as an electronic version. During their audit, ED-OIG staff reported that this procedure has been implemented and Foundation staff have been in compliance since October 2005.

3. The Foundation Reimbursed a School For Staff Costs Not Included in the School's Approved Budget

RESPONSE: As a result of the audit finding, the Foundation's Finance Department immediately contacted KIPP Tulsa College Prep and instructed the school to resubmit their expenses in accordance with their originally approved budget. The school is in the process of providing the appropriate supporting documentation. No further draw downs will be made for KIPP Tulsa College Prep until the required documentation has been provided.