



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE INSPECTOR GENERAL

FINAL MANAGEMENT INFORMATION REPORT
State and Local No. 05-01

OCT 22 2004

To: Raymond J. Simon
Assistant Secretary
Office of Elementary and Secondary Education

From: Helen Lew *Helen Lew*
Assistant Inspector General for Audit Services

Subject: Risk Areas Associated with Grantees' Administration of 21st Century
Community Learning Centers
Control Number ED-OIG/X05-E0019

The purpose of this management information report is to notify you of major risk areas associated with 21st Century Community Learning Centers (21st Century) grants and provide suggestions for ensuring the integrity of the program that the U.S. Department of Education (Department) should consider sharing with state education agencies (SEA). This report contains common issues identified in Office of Inspector General (OIG) audits of 10 grantees' administration of 21st Century grants between June 1998 and May 2003. The OIG issued individual audit reports to each grantee (See Attachment A).

We appreciate the cooperation shown to us during this project and during our audits of the 10 grantees. In fact, 9 of the 10 grantees the OIG audited were referrals from the Office of Elementary and Secondary Education (OESE), Academic Improvement and Teacher Quality Programs. The Academic Improvement and Teacher Quality Programs referred these nine grantees to the OIG because of persistent problems it identified through its program oversight efforts. We encourage the Academic Improvement and Teacher Quality Programs staff to continue their diligent efforts to protect the taxpayers' interests.

Review Results

Our audits identified two major risk areas that OESE should address with SEAs¹: monitoring of grantees use of funds and monitoring cash management. Nine of the 10 grantees we audited were referrals from OESE and not randomly selected. Because we did not select a statistically valid sample, the results of our audits should not be considered representative of the entire population of 21st Century grantees.

Risk Area 1 – Use of Grant Funds

Nine of 10 grantees charged unallowable and/or unsupported personnel and non-personnel costs to their 21st Century grants. In general, the 9 grantees could not provide documentation to show that costs charged to the grant were reasonable, allowable, allocable, and adequately documented, violating the cost principles in Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

For example,

- Alum Rock Union Elementary School District (Alum Rock) charged \$65,523 of unallowable and \$139,741 of unsupported costs to its 21st Century grant. The unallowable costs consisted of computer purchases erroneously charged to the grant more than once (\$48,430), salaries paid to employees for non-grant related work (\$12,289), expenditures for an event that occurred before the start of the 21st Century program (\$3,198), and unallowable charges for food (\$1,606). The unsupported costs consisted of payroll charges unsupported by personnel activity reports (\$123,622), undocumented charges for a field trip (\$14,403), and admission fees (\$1,716).

OMB Circular A-87, *Attachment A, Paragraph C.1*, provides, in part, that costs must be (1) necessary and reasonable for proper and efficient performance and administration of federal awards; (2) allocable to federal awards; and (3) adequately documented. In addition, OMB Circular A-87, *Attachment B, Paragraphs 11(h)(4) and (5)(e)*, require periodic certifications for employees who work on multiple activities, and prohibits the use of percentages that are determined before the services are performed as support for charges.

- Gonzales Unified School District (Gonzales) charged \$55,682 of unallowable and \$418,323 of unsupported costs to its 21st Century grant. The unallowable costs consisted of charges for preparing the grant proposal without prior approval from the Department (\$31,211), personnel charges for employees who did not perform grant related activities (\$14,384), unreasonable and unrelated travel (\$7,973), and unrelated supplies (\$2,114). The unsupported charges were for personnel costs for which Gonzales did not have personnel activity reports (\$418,323). OMB Circular A-87, *Attachment A, Paragraph C.1*.

¹ The 21st Century grant is no longer a discretionary grant. It is a formula grant that SEAs oversee.

Gonzales also violated other cost principles. OMB Circular A-87, *Attachment B, Paragraph 34* states proposal costs can be charged directly to a federal award only with approval of the awarding agency. In addition, OMB Circular A-87, *Attachment B, Paragraphs 11(h)(3), (4), and (5)* require periodic certifications for employees who work on a single federal grant, personnel activity reports for employees who work on multiple activities, and specific elements for personnel activity reports.

- Project After School and Community Enrichment for a New Direction (Project) charged \$169,247 of unallowable and \$147,386 of unsupported costs to its 21st Century grant. The unallowable cost was for contractual services that were contingent upon receiving the grant (\$169,247). The unsupported costs consisted of payroll (\$126,699), fringe benefits (\$19,211) and general expenses (\$1,506). OMB Circular A-87, *Attachment A, Paragraph C.1*.
- Mt. Judea Public School (Mt. Judea) charged \$24,786 of unallowable and \$372,714 of unsupported costs to its 21st Century grant. The unallowable charges consisted of severance pay that the Department denied and unrelated suspension pay (\$18,000), fringe benefits associated with the unallowable salary charges (\$3,516), unrelated charges for day care services (\$2,932), employee reimbursement for unsubstantiated expenses (\$224), and excessive and unallowable travel charges (\$114). The unsupported charges consisted of payroll charges unsupported by personnel activity reports (\$314,255) and related fringe benefits (\$58,749). OMB Circular A-87, *Attachment A, Paragraph C.1*.

A lack of controls over the 21st Century program at the grantee level was the primary cause of these instances of noncompliance. One of the 10 grantees we audited agreed that its accounting process was non-compliant and it was in the process of revising the procedures. Another grantee did not know that a contingency contract was unallowable. A third grantee stated its procedures for documenting personnel transactions were governed by its state's accounting system.

The Department has valuable insights that it needs to share with SEAs. Specifically, while the 21st Century program was a discretionary grant program, the Department could have (1) provided expanded guidance to grantees outlining how to maintain adequate documentation to support 21st Century costs, (2) clearly described allowable costs in the regulations, and (3) tested grantees' use of funds as part of its yearly evaluations. To continue improving accountability over and the integrity of the 21st Century program, the Department needs to share its insights with SEAs.

Suggestions

We suggest that the Assistant Secretary for OESE

- 1.1 Issue guidance to SEAs on allowable costs and how to improve grantees' documentation of costs.

- 1.2 Require SEAs to provide all 21st Century grantees guidance on using grant funds.
- 1.3 Require SEAs to include testing of grantees use of grant funds during the SEA's yearly evaluations of the 21st Century grantees.
- 1.4 Develop and distribute, in conjunction with the Office of the Chief Financial Officer, a grant toolbox for all new grantees. The toolbox could be part of the application approval process and outline all the requirements and regulations grantees must follow.

Risk Area 2 – Cash Management

Four of the 10 grantees audited maintained excess cash. The 4 grantees did not comply with the cash management requirements listed in 34 C.F.R. § 80.21(b) and 31 C.F.R. § 205.7(c)(4) and violated the 3-day draw down rule.

For example,

- East Cleveland City Schools took 8, 10, 3, and 2 months to disburse funds made from 4 different draw downs (\$97,292, \$97,291, \$100,000, and \$189,087). It also had not used \$123,074 of \$354,927 drawn down in November 2001 as of March 2002.
- Community Consolidated School District 62 drew down two years of funding, \$799,783, in August 2001. It expended most of the funds between August 2001 and June 2002. However, as of the end of June 2002, the District still maintained \$28,594.
- New York City Department of Education, Manhattan High Schools Superintendent's District, took between 13 and 202 days to expend a draw down of \$137,111. It drew down an additional \$291,990 in June 2001 and took between 4 and 146 days to expend the additional funds.
- Elk Grove Unified School District drew down its entire year's funding (\$1,585,789) in October 2003. Elk Grove reimbursed itself for costs incurred for the grant but maintained \$1,279,250 as advance payments. As of January 2004, Elk Grove still had not expended \$858,918 of the draw down.

The OIG reported that one grantee said it was its practice to draw down money similar to how it drew down state funds, and it was unaware of the federal requirements. Another grantee knew of the three-day draw down rule, but it maintained excess cash even though GAPS required a response to the statement that funds would be expended in three days. Two other grantees lacked proper internal controls over cash management.

Suggestions

We suggest that the Assistant Secretary for OESE

- 2.1 Issue guidance to the SEAs on how to properly monitor grantee draw downs.
- 2.2 Require SEAs to provide guidance to grantees on proper cash management, including draw downs and spending of grant funds.
- 2.3 Review the guidance the SEAs will provide the grantees.

Action Official Comments

OESE concurred with the suggestions and said it will ensure that these topics are discussed at the next meeting with SEA 21st Century coordinators in January 2005. In addition, OESE agreed to issue additional guidance to the SEAs and provide them with appropriate materials to enable them to better monitor their 21st Century sub-grantees.

OESE, however, disagreed with the causes of the risk areas. OESE did not believe that a lack of controls at the Department level and grantee level were the causes of the risk areas. OESE program officers became aware of the problem grantees through program oversight. Also, OESE said that our statement “because our selection process was not statistically valid, we cannot project the results of these 10 audits to the entire population” grossly distorts the fact that OESE program officials provided the OIG with the most problematic grantees out of 1,600 grantees. OESE’s comments are included in their entirety as Attachment B.

We considered OESE’s comments and made changes to the report. Specifically, we added language to the report stating the OESE referrals to the OIG were based on OESE’s program oversight efforts. We also revised the cause in Risk Area 1 and removed the sentence regarding a lack of controls at the Department level being a contributing cause for the instances of noncompliance disclosed by our audits.

Background

We coordinated with OESE to select grantees for review and audited 10, 21st Century grantees. OESE’s Academic Improvement and Teacher Quality Programs referred 9 of the 10 grantees to the OIG. All of the audits had a similar primary objective - to determine whether the grantee properly accounted for and used funds in accordance with the Elementary and Secondary Education Act of 1965, as amended, Education Department General Administrative Regulations, grant terms, and OMB Circular A-87. Three audits also had an objective to determine if the grantee served the number of students projected in its grant award and reported in its annual report. The audit period varied for each audit, but the 10 audit periods fell between June 1998 and May 2003.

The grantees we audited were:

Grantee	Award
Rockford Public Schools	\$ 675,975
East Cleveland City Schools	\$3,254,261
Community Consolidated School District 62 (Des Plaines, IL)	\$1,198,596
Mt. Judea Public School	\$ 915,493
New York City Department of Education, Manhattan High Schools Superintendent's District	\$3,097,918
Gonzales Unified School District	\$1,560,573
Project After School and Community Enrichment for a New Direction (Drew School District, MS)	\$2,820,780
Alum Rock Union Elementary School District	\$1,189,527
Baltimore City Public Schools	\$1,226,190
Elk Grove Unified School District	\$3,341,573

During fiscal year 2002, the Department awarded \$1,000,000,000 to 6,800 grantees.

During our audit periods, Title X, Part I, of the Elementary and Secondary Education Act, as amended, authorized the 21st Century program. The 21st Century program provided three-year grants to rural and inner city schools or consortia of schools to enable them to plan, implement, or expand projects that benefit the educational, health, social services, cultural, and recreational needs of the community. The grant enabled schools to stay open longer and set up community learning centers.

The No Child Left Behind Act reauthorized the 21st Century program. It is now authorized under Title IV, Part B. The focus of the grant is to provide expanded academic enrichment opportunities for children attending low performing schools. The reauthorization now has made the grant a formula grant, and SEAs must apply for the funds. Funds are awarded annually and allocated to the SEAs in proportion to each state's share of funds in the previous fiscal year under Part A of Title I of the Elementary and Secondary Education Act. The funds must be for the purpose of meeting the needs of the residents of rural and inner city communities through the creation or expansion of community learning centers.

Objective, Scope, and Methodology

The objective of this report is to identify common risk areas associated with 21st Century grants and provide OESE with suggestions for ensuring the integrity of the program. We discussed the risk areas identified in this report with OESE officials on May 26, 2004.

To achieve our objective, we compared findings from 10 OIG audit reports and identified common issues. We conducted our work in our regional office from April 2004 to June 2004. We performed our audit in accordance with generally accepted government auditing standards appropriate to the scope of review described above.

If you would like to discuss the information presented in this memorandum or obtain additional information, please call Richard J. Dowd, Regional Inspector General for Audit, at 312-886-6503.

Attachments

cc: Jack Martin, Chief Financial Officer,
Office of Chief Financial Officer

**Grantees' Administration of the 21st Century
Community Learning Centers Grant**

Control Number	Auditee	Report Type	Report Date	Grant Amount	Unallowable Costs	Unsupported Costs
A05-B0039	Rockford Public Schools	Final	2/11/2002	\$675,975	\$0	\$0
A05-C0012	East Cleveland City Schools	Final	9/18/2002	\$3,254,261	\$27,396	\$310,959
A05-C0022	Community Consolidated School District 62 (Des Plaines, IL)	Final	2/24/2003	\$1,198,596	\$0	\$113,766
A06-D0014	Mt. Judea Public School	Final	9/29/2003	\$915,493	\$24,786	\$372,714
A02-D0007	New York City Department of Education, Manhattan High Schools Superintendent's District	Final	11/24/2003	\$3,097,918	\$0	\$61,776
A09-D0015	Gonzales Unified School District	Final	12/19/2003	\$1,560,573	\$55,682	\$418,323
A06-D0017	Project After School and Community Enrichment for a New Direction (Drew School District, MS)	Final	2/11/2004	\$2,820,780	\$169,247	\$147,386
A09-D0012	Alum Rock Union Elementary School District	Final	3/17/2004	\$1,189,527	\$65,523	\$139,741
A03-D0010	Baltimore City Public Schools	Final	6/2/2004	\$1,226,190	\$42,986	\$835
A09-E0010	Elk Grove Unified School District	Final	7/20/04	\$3,341,573	\$15,056	\$643,199



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF ELEMENTARY AND SECONDARY EDUCATION

THE ASSISTANT SECRETARY

MEMORANDUM

DATE:

OCT 1 - 2004

TO: Richard Dowd
Regional Inspector General for Audit
Chicago, IL

FROM: Raymond Simon
Assistant Secretary

Handwritten signature of Raymond Simon in cursive.

SUBJECT: Comments on Office of the Inspector General (OIG) Draft Management Information Report: "Risk Areas Associated with Grantees' Administration of 21st Century Community Learning Centers" Control Number ED-OIG/X05-E0019

I am writing in response to the OIG Draft Management Information Report cited above. In the draft report, the IG recommends that the Office of Elementary and Secondary Education (OESE) should address two major risk areas with the State educational agencies that are now responsible for administering the 21st Century Community Learning Centers (21st CCLC) program: monitoring of grantees use of funds and monitoring cash management. OESE concurs with these recommendations and will ensure that these topics are discussed at the next meeting with the State 21st CCLC coordinators, in January 2005, and that OESE will issue additional guidance to the States and provide them with appropriate materials to enable them to better monitor their 21st CCLC sub-grantees.

In fact, 21st CCLC program staff, working together with OIG and Office of General Counsel officials, have already provided extensive technical assistance on financial management practices to State and local grantees at the July and August Summer Institutes, and will continue to develop and implement procedures that keep our grantees aware of proper financial management practices.

However, I disagree strongly with other findings in this report, in particular with the statement that "A lack of controls over the 21st Century program at the Department and grantee level was the primary cause of these instances of noncompliance" and with subsequent examples of areas in which Department staff were negligent. **In fact, though this is not explicitly acknowledged anywhere in this report, the 10 districts the OIG audited were specifically identified by OESE program officers because of problems encountered in managing these grants.** The sites were not "coordinated with OESE to select grantees for review (p.5)," they were explicitly recommended to the OIG by 21st CCLC staff who were concerned with the poor performance and management of these grantees. And to say that "Because our selection process was not statistically valid, we cannot project the results of these 10 audits to the entire population of 21st CCLC

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grantees" grossly distorts the central fact that OESE program staff pointed the OIG to the grants we had identified as the most problematic out of 1,600 grants we managed in this program.

I am recommending that the report should be clarified to note that the sites studied are in no way representative of the population of 21st CCLC grantees, but were selected specifically because of persistent problems identified through diligent programmatic oversight. If the OIG expects continuing candid cooperation with program offices in identifying sites that are not managing their federal funds appropriately, then those program offices that have developed procedures to enable them to identify poorly performing grantees, and are willing to bring those sites to the attention of the OIG, should not themselves become the object of OIG criticism.

If you would like to discuss these issues and recommendations further, or if you have any questions, please do not hesitate to contact Robert Stonehill, the Deputy Director for Academic Improvement and Teacher Quality programs in OESE, at 202-260-9737 or via e-mail to robert.stonehill@ed.gov.

cc: Rich Rasa