UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL
REGION V
111 NORTH CANAL, SUITE 940
CHICAGO, ILLINOIS 60606

FAX: (312) 353-0244

Audit
(312) 886-6503

Investigation
(312) 353-7891

SEP 18 2002

Control Number ED-OIG/A05-C0012

Mr. Elvin R. Jones, Superintendent
East Cleveland City Schools
15305 Terrace Road
East Cleveland, OH 44112

Dear Mr. Jones:

This **Final Audit Report** presents the results of our audit of East Cleveland City Schools' (ECCS) administration of the 21st Century Community Learning Centers (21st Century) grant at Kirk Middle School (Kirk) for the period June 1, 1998, through December 31, 2001. Our objective was to determine whether ECCS properly accounted for and used Kirk's 21st Century grant funds in accordance with the Elementary and Secondary Education Act of 1965 (ESEA), as amended, Education Department General Administration Regulations (EDGAR), grant terms, and the cost principles in Office of Management and Budget (OMB) Circular A-87. Based on the issues identified during our audit, we expanded our review to cover selected aspects of the 21st Century grants at Superior Community Learning Center (Superior) and East Cleveland Community Learning Centers (ECCLC).

We provided a draft of this report to ECCS. In its response dated August 29, 2002, ECCS agreed to refund questioned costs totaling $25,056. It also agreed that it could not substantiate unsupported advertising, supplies, and travel costs totaling $2,340. ECCS disagreed with unsupported payroll, fringe benefits, and contractual services totaling $310,959. It did not address imputed interest of $11,282 related to excess cash. ECCS also disagreed with our recommendations regarding the need for procedures that document costs, avoid excess cash, and strengthen accounting controls. After reviewing ECCS' response, we reclassified the unsupported advertising, supplies, and travel costs as questioned. Other than this reclassification, we have not made any changes to our findings or recommendations. ECCS did not provide any supporting documentation to refute them. We have summarized ECCS' comments after each finding, and have included the response as Attachment 2.

AUDIT RESULTS

ECCS did not comply with all applicable regulations, terms of the grants, and cost principles in administering the 21st Century grants. ECCS charged the grants for

unallowable costs ($27,396) or costs for which it did not maintain adequate support ($310,959). Also, ECCS maintained excess federal cash and misclassified program expenditures totaling $14,523.

Finding No. 1 ECCS Charged Costs to the Kirk 21st Century Grant That Are Unallowable or Unsupported

ECCS charged costs to the Kirk 21st Century grant that are unallowable ($27,268) or unsupported ($297,509). The unallowable amount consists of charges for salary ($21,320), fringe benefits ($3,318), advertising ($155), supplies ($149), travel ($2,206), and gifts ($120). The unsupported amount consists of charges for payroll ($90,817), fringe benefits ($16,904), and contractual services ($189,788) for which ECCS did not provide adequate documentation to support that the costs were reasonable, allowable, and allocable.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, Paragraph C.1* (1997) provides that—

> To be allowable under Federal awards, costs must . . . Be necessary and reasonable for proper and efficient performance and administration of Federal awards . . . Be allocable to Federal awards . . . Be adequately documented.

ECCS provided adequate support for non-personnel transactions that occurred after August 2000. It implemented procedures for maintaining documentation for non-personnel transactions. ECCS, however, did not establish the procedures in writing. Therefore, we have no assurance that ECCS will continue to follow these procedures.

Details of the unallowable and unsupported costs are discussed in the Attachment.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education instruct ECCS to—

1.1 Refund to the Department of Education unallowable costs of $27,268;

1.2 Provide sufficient documentation to support $297,509 or refund that amount to the Department of Education;

1.3 Document its procedures for supporting non-personnel transactions; and

1.4 Develop and implement written procedures for documenting personnel costs.

Auditee Comments

ECCS agreed to refund questioned costs of $24,928, and agreed that it could not substantiate unsupported advertising ($155), supplies ($149), and travel ($2,036) costs totaling $2,340. ECCS did not agree with classifying as unsupported payroll, fringe benefits, and contractual services totaling $297,509. ECCS asserted that it processed all payroll using State of Ohio software after the Board of Education pre-approved contracts for individuals to work in the district, and the Director submitted requests for extra work. ECCS stated that it provided printouts of processed payroll and copies of documentation. ECCS also stated that the State auditors, during their audit, had pulled a series of purchase orders, and ECCS could not locate them after the audit was completed. ECCS disagreed with our recommendations to document its procedures for supporting non-personnel transactions, and to develop and implement written procedures for documenting personnel costs. ECCS explained that its procedures for supporting non-personnel transactions are governed by the Uniform School Accounting System of the State of Ohio. Regarding personnel costs, ECCS stated that no one is paid unless they have been approved by the Board, the Program Director ensures that people meet their assignments, and services are rendered. The Treasurer's office processes payroll based on documentation provided by the Director and verified to the Board minutes.

Auditor Response

After reviewing the response, we reclassified advertising, supplies, and travel costs totaling $2,340 from unsupported to questioned. We have not changed our conclusion regarding unsupported payroll, fringe benefits, and contractual costs. ECCS did not provide after-the-fact certifications, personnel activity reports, or other documentation to support the charges. ECCS also stated it could not find a series of purchase orders. Therefore, it cannot support the transactions. We also have not changed our procedural recommendations. ECCS cited procedures for processing personnel and non-personnel transactions. ECCS did not provide us with any written procedures that were designed to adequately document the unsupported costs.

Finding No. 2. ECCS Charged Costs to the Superior and ECCLC 21st Century Grants That Are Unallowable or Unsupported

ECCS charged costs to the Superior and ECCLC 21st Century grants that are unallowable ($128) or unsupported ($13,450). The unallowable amount consists of gifts charged to the Superior 21st Century grant. The unsupported amount consists of payroll ($11,650) and related fringe benefits ($1,800) charged to the Superior and ECCLC 21st Century grants for which ECCS did not provide after-the-fact personnel activity reports or equivalent documentation showing distribution of salaries or wages.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments, Attachment B* provides that—

> Unallowable . . . public relations costs include . . . Costs of . . . gifts . . . . *Paragraph 2.e.(3)* (1997).
>
> Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation . . . . *Paragraph 11.h(4)* (1997).

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education instruct ECCS to—

2.1 Refund to the Department of Education unallowable costs of $128; and

2.2 Provide sufficient documentation to support $13,450 or refund that amount to the Department of Education.

Auditee Comments/Auditor Response

ECCS agreed to refund questioned costs of $128. ECCS disagreed that it provided inadequate documentation to support payroll and related fringe benefits.

ECCS did not provide any after-the-fact certifications, personnel activity reports, or equivalent documentation supporting the payroll and fringe benefits. We have not changed our finding or recommendations.

Finding No. 3 ECCS Maintained Excess Cash

ECCS maintained excess cash because it did not comply with cash management requirements contained in EDGAR.

The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Standards for financial management systems* require, in part, that—

> Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees . . . must be followed whenever advance payment procedures are used . . . 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 . . . . 34 C.F.R. § 80.20(b)(7) (1998).

In addition, the regulations regarding payment require that—

> Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee . . . in accordance with Treasury regulations at 31 C.F.R. part 205. 34 C.F.R. § 80.21(b) (1998).

The Treasury regulations provide that—

> A State shall request funds not more than 3 business days prior to the day on which it makes a disbursement . . . . 31 C.F.R. § 205.7(c)(4) (1998).

Our review disclosed that for the—

> Kirk 21st Century grant, ECCS took 8, 10, 3, and 2 months, respectively, to disburse the funds obtained from drawdowns made on October 1, 1998 ($97,292), June 1, 1999 ($97,291), August 14, 2000 ($100,000), and May 10, 2001 ($189,087).
>
> Superior 21st Century grant, ECCS took two months to disburse the funds obtained from a drawdown made on May 10, 2001 ($140,633), and had not disbursed $29,853 of a November 30, 2001, drawdown ($77,456) as of the end of March 2002.
>
> ECCLC 21st Century grant, ECCS had not disbursed $123,074 of a November 30, 2001, drawdown ($354,927) as of the end of March 2002.

ECCS maintained federal funds in its general fund's interest-bearing bank account. It did not credit any interest earned by those funds to the 21st Century grants.

Because ECCS maintained excess cash, the U.S. Government incurred an imputed interest cost. We estimated imputed interest of about $11,282[1] for the period June 1, 1998, through March 31, 2002.

Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education instruct ECCS to—

3.1 Remit to the Department of Education $11,282 plus any additional imputed interest from March 31, 2002, through the date this issue is resolved; and

[1] Using the applicable U.S. Treasury Current Value of Funds Rate for each calendar year, ranging from 5 to 6 percent, and allowing three days after each drawdown, we estimated imputed interest for the Kirk, Superior, and ECCLC 21st Century grants of $5,776, $1,436, and $4,070, respectively.

3.2 Implement controls to ensure that it minimizes the time between drawing down funds and paying for grant activities.

Auditee Comments/Auditor Response

ECCS did not address our recommendation to remit imputed interest to the Department of Education. It disagreed with our recommendation to implement controls to minimize the time between drawing down funds and paying for grant activities. ECCS stated that it transferred funds from the U.S. Treasury based on amounts encumbered. Ohio State law (Ohio Revised Code Section 5705.41) does not allow it to certify a purchase order unless funds are available to write the purchase order.

We consulted with the Office of the Auditor, State of Ohio, regarding ECCS' interpretation of Ohio law. The Deputy Auditor stated that ECCS would still be in compliance with Ohio law if it issued purchase orders without drawing down funds to cover them, as long as the Department of Education had awarded the funds and they were available for drawdown. The Department of Education awarded ECCS 21st Century funds and those funds were available for ECCS to drawdown. We have not changed our finding or recommendations.

Finding No. 4 ECCS Misclassified Expenditures

ECCS charged 21st Century grant expenditures of $10,751 to incorrect object codes and $3,772 to the wrong grant because it had weak accounting controls.

The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Standards for financial management systems* require, in part, that—

> Grantees . . . must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to . . . outlays or expenditures . . . . 34 C.F.R. § 80.20(b)(2) (1998).

In addition, the regulations for Direct Grant Programs require that—

> A grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds. 34 C.F.R. § 75.702 (1998); and
>
> A grantee shall keep records that fully show . . . How the grantee uses the funds. 34 C.F.R. § 75.730(b) (1998).

ECCS accounted for each 21st Century grant separately and used object codes to track expenditure categories. However, for the Kirk 21st Century grant, ECCS charged fringe benefits ($10,035) and supplies ($311) to a payroll object code and seminars and

professional organizations membership fees ($405) to a third-party services object code. Also, ECCS charged (1) security expenses ($1,202) applicable to the Superior 21st Century grant to the ECCLC 21st Century grant and (2) payroll costs ($2,570) applicable to the ECCLC 21st Century grant to the Superior 21st Century grant.

Recommendation

We recommend that the Assistant Secretary for Elementary and Secondary Education instruct ECCS to—

4.1 Establish and implement adequate accounting controls over expenditures.

Auditee Comments/Auditor Response

ECCS agreed that it charged expenditures to incorrect object codes and the wrong grant. ECCS stated that it has established procedures to monitor coding of purchase orders presented. However, ECCS did not provide us with written procedures to support its statement. We have not changed our finding or recommendation.

OTHER MATTERS

ECCS did not always comply with its own procurement procedures. Its procedures required the Board of Directors to pre-approve third-party agreements, and the Treasurer to pre-approve purchase orders. Our review of procurements under the Kirk 21st Century grant identified 5 third-party agreements that the Board of Directors did not pre-approve, 17 purchase orders that the Treasurer did not pre-approve, and 1 procurement for which ECCS did not issue a purchase order. Failure to obtain the proper approvals increases the risk ECCS will charge unallowable costs to the 21st Century grants.

BACKGROUND

Title X, Part I, of the ESEA, as amended, authorizes the 21st Century program. The 21st Century program provides three-year grants that provide funds 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 program, funded at $846 million for fiscal year 2001, enables schools to stay open longer and set up community learning centers.

A community learning center is an entity within a public elementary, middle, or secondary school building that provides educational, recreational, health, and social service programs for residents of all ages within a local community. A local educational agency operates the community learning center in conjunction with local governmental agencies, businesses, vocational educational programs, institutions of higher education, community colleges, and cultural, recreational, and other community and human service entities. The center must include no less than 4 of the 13 activities listed in Title X, Part I, Section 10905 of the ESEA, as amended. The local educational agency is encouraged

to use the funds to accomplish activities that offer significant expanded learning opportunities for children and youth in the community and that contribute to reduced drug use and violence. The programs may include features to support health needs, literacy education, children's day care services, and telecommunications and technology education for individuals of all ages.

Since 1998, the Department of Education awarded ECCS the following 21st Century grants totaling $3,254,261. The award amounts, by year, are—

- Kirk 21st Century grant (Award #R287A980104)

6/1/98-5/31/99	$194,583
6/1/99-5/31/00	$194,583
6/1/00-5/31/01	$194,583
Total	$583,749

- Superior 21st Century grant (Award #S287B000254)

6/1/00-5/31/01	$199,040
6/1/01-5/31/02	$182,812
6/1/02-5/31/03	$190,973
Total	$572,825

- ECCLC 21st Century grant (Award #S87A010059)

6/1/01-5/31/02	$699,229
6/1/02-5/31/03	$699,229
6/1/03-5/31/04	$699,229
Total	$2,097,687

ECCS set up the Kirk Community Learning Center to provide expanded learning opportunities for 200 middle school students, establish an on-site health clinic and health related workshops for residents of all ages, and provide telecommunications access and employment counseling to parents and other adults. It set up Superior to provide after-school and summer school programs built around core academic subjects for 175 kindergarten through 8th grade students and 100 community members. ECCS established the ECCLC to provide after-school learning opportunities for 1,570 students and 285 adults in the community at five schools, including Kirk, until Kirk closed.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether ECCS properly accounted for and used Kirk 21st Century grant funds from June 1, 1998, through December 31, 2001, in accordance with the ESEA, EDGAR, grant terms, and the cost principles in OMB Circular A-87, effective August 19, 1997.

To accomplish our objective, we—

1. Reviewed the financial statement and OMB Circular A-133 audit reports for the years ended June 30, 1999 and 2000, prepared by an independent public accountant, and the related working papers for the audits.
2. Reviewed the Kirk 21st Century grant application and budget narrative.
3. Reviewed written policies and procedures for budgeting, accounting, procurement, payroll, and fringe benefits for the 21st Century grants.
4. Reviewed accounting and payroll records.
5. Reviewed various records and documents, including purchase orders, invoices, cancelled checks, and other supporting documents for 412 transactions from a universe of 505 transactions, consisting of all Director payroll (78) and all fringe benefit transactions (247), and 87 judgmentally selected transactions from a universe of 180 transactions consisting of non-Director payroll (11 of 22) and non-personnel (76 of 158) transactions.
6. Interviewed various ECCS employees, independent public accountant personnel, and Department of Education personnel.

Because we identified deficiencies related to non-Director payroll, non-personnel transactions, and excess cash for the Kirk 21st Century grant, we expanded our audit to review those areas for the Superior and ECCLC 21st Century grants. For the Superior 21st Century grant, we reviewed 4 judgmentally selected non-Director payroll transactions from a universe of 20 transactions and all 21 non-personnel transactions that occurred between June 1, 2000, and December 31, 2001. For the ECCLC 21st Century grant, we reviewed 3 judgmentally selected non-Director payroll transactions from a universe of 29 transactions and all 31 non-personnel transactions that occurred between June 1, 2001, and March 31, 2002.

To achieve our audit objective, we relied, in part, on computer-processed data related to the 21st Century program contained in the ECCS accounting system. We gained an understanding of the relevant general and application controls. We verified the completeness of the data by comparing source records to computer generated data, and verified the authenticity by comparing computer generated data to source documents. Based on these tests, we concluded that the data were sufficiently reliable to be used in meeting the audit's objective.

We conducted our fieldwork at the ECCS administrative offices in East Cleveland, Ohio, between February 11, 2002, and April 12, 2002. We discussed the results of our audit with ECCS officials on April 12, 2002.

Our audit was performed in accordance with government auditing standards appropriate to the scope of audit described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we did not assess the adequacy of ECCS' management control structure applicable to the 21st Century grants. Instead, we (1) gained an understanding of controls, policies, procedures, and practices related to budgeting, accounting, procurement, payroll, and fringe benefits; and (2) relied on substantive testing of costs charged to the 21st Century grants. Our testing disclosed instances of non-compliance with federal regulations, grant terms, and cost principles that led us to believe weaknesses existed in ECCS' controls over the 21st Century grants. These weaknesses and their effects are discussed in the AUDIT RESULTS section of this report.

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 official, who will consider them before taking final Departmental action on the audit.

Susan B. Neuman, Ed.D, Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
FOB-6, Room 3W315
400 Maryland Avenue, SW
Washington, D.C. 20202

Office of Management and Budget Circular A-50 directs Federal agencies 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, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

for Richard J. Dowd
Regional Inspector General
for Audit Services

Attachments

KIRK 21st CENTURY GRANT
SCHEDULE OF COSTS RECOMMENDED FOR ACCEPTANCE, COSTS QUESTIONED, AND COSTS THAT ARE UNSUPPORTED
JUNE 1, 1998, THROUGH DECEMBER 31, 2001

Cost Category	Costs Recommended For Acceptance	Costs Questioned		Costs Unsupported		Total Costs Charged to Grant
Director Payroll	$107,505	$0		$0		$107,505
Non-Director Payroll	42,057	21,320	(1)	90,817	(3)	154,194
Fringe Benefits	25,698	3,318	(2)	16,904	(4)	45,920
Contractual Services	43,050	0		189,788	(5)	232,838
Advertising	0	155	(6)	0		155
Supplies	2,724	149	(7)	0		2,873
Dues and Fees	450	0		0		450
Travel/Meetings	7,257	2,326	(8)	0		9,583
Totals	$228,741	$27,268		$297,509		$553,518

(1) Represents a portion of the Head Custodian's salary from September 1999 through June 2001. According to 34 C.F.R. § 80.20 (b)(5) (1998), " . . . the terms of grant . . . agreements will be followed in determining the reasonableness, allowability and allocability of costs." In its budget narrative, which was incorporated into the grant, ECCS states, "The School District will provide in-kind support that includes . . . salary and fringe benefits for custodial staff . . . " Therefore, under the grant terms, these costs are questioned because they should not have been paid with federal dollars. In addition, ECCS did not provide after-the-fact activity reports that supported the hours worked on the grant as required. *OMB Circular A-87, Attachment B, Paragraph 11.h.(4)* (1997) states, "Where employees work multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation . . . ." Therefore, these costs are also unsupported.

(2) Represents the fringe benefits related to the Head Custodian's salary. *OMB Circular A-87, Attachment B, Paragraph 11.d.(5)* (1997) states, "[Fringe] benefits . . . shall be allocated to Federal awards . . . in a manner consistent with the pattern of benefits attributable to the individuals or group of employees whose salaries and wages are chargeable . . . ." Because the salaries are questioned, the related fringe benefits are questioned.

(3) Represents payroll charges not supported by after-the-fact certifications or personnel activity reports ($62,550), or payroll charges allocated to the grant for which ECCS did not provide documentation to support the allocation ($28,267). The requirement for after-the-fact certifications or personnel activity reports is contained in *OMB Circular A-87, Attachment B, Paragraphs 11.h.(3) and (4)* (1997). The Circular states that, "Where employees are expected to work solely on a single Federal Award . . . charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on the

program for the period covered by the certification . . . Where employees work multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation . . . ."

OMB Circular A-87, Attachment A, Paragraph C., Subparagraph 3. (1997) states, "A cost is allocable to a particular cost objective . . . in accordance with the relative benefits received." Without documentation to show how ECCS determined the allocated amounts, we have no assurance that the amount charged to the 21st Century grant was in accordance with the relative benefits received.

(4) Represents the fringe benefits related to the unsupported salaries. *OMB Circular A-87, Attachment B, Paragraph 11.d.(5)* (1997) states, "[Fringe] benefits . . . shall be allocated to Federal awards . . . in a manner consistent with the pattern of benefits attributable to the individuals or group of employees whose salaries and wages are chargeable . . . ." Because the salaries are unsupported, the related fringe benefits are unsupported.

(5) Represents contractual services costs for which ECCS either provided no support ($39,328) or provided documentation that did not adequately support the charges ($150,460). The inadequate documentation consisted of invoices that were dated before the vendor did the work, invoices with lump sum billed amounts and no breakdown of costs or underlying support, and invoices that appeared to be prepared by ECCS and were not signed by the vendor. According to *OMB Circular A-87, Attachment A, Paragraph C., Subparagraph 1.j.* (1997), to be allowable, costs must be adequately documented.

(6) Represents advertising costs which ECCS said it could not substantiate. According to *OMB Circular A-87, Attachment A, Paragraph C., Subparagraph 1.j.* (1997), to be allowable, costs must be adequately documented.

(7) Represents supplies which ECCS said it could not substantiate. According to *OMB Circular A-87, Attachment A, Paragraph C., Subparagraph 1.j.* (1997), to be allowable, costs must be adequately documented.

(8) Represents (1) meals charged to travel that were incurred at local restaurants ($96), (2) the portion of meals that exceeded the daily per-person limit contained in the ECCS travel policy ($74), (3) gifts ($120), and (4) travel costs which ECCS said it could not substantiate ($2,036). According to *OMB Circular A-87, Attachment B, Paragraphs 41.a. and 41.b* (1997), travel costs are allowable for (1) expenses incurred by employees traveling on official business, and (2) subsistence to the extent such costs do not exceed charges normally allowed in regular operations as a result of policy. *OMB Circular A-87, Attachment B, Paragraph 2.e.(3)* (1997) provides that unallowable public relations costs include costs of gifts. Also, according to *OMB Circular A-87, Attachment A, Paragraph C.*, *Subparagraph 1.j.* (1997), to be allowable, costs must be adequately documented.

EAST CLEVELAND CITY SCHOOLS

Elvin R. Jones — Superintendent of Schools
Barbara E. Henry — Treasurer

August 29, 2002

Mr. William Bennett
US Department of Education
Office of Inspector General
111 North Canal, Suite 940
Chicago, IL 60606

Re: Response to Audit Draft

Dear Mr. Bennett:

I have met with the district staff to review the draft copy of the audit report provided by you via fax. I will address the recommendations individually.

Recommendation 1.1: We concur that unallowable costs were made. We will refund the Department of Education $24,928.00.

Recommendation 1.2: I strongly disagree that the district has not supported the costs $ 299,849.00. All payroll is processed by software as provided by the State of Ohio. Payroll is via contracts entered after the Board of Education has granted approval for the individual to work in the district. Extra work is processed from requests for payments made by the director. The fringe benefits are charged as a result of the pay. You were provided printouts of payroll processed by my department and copies of the documentation we had.

We agreed that charges for supplies, travel, and advertising could not be substantiated. As you recall we were being audited by the state at the same time you were conducting your audit. There were a series of purchase orders that were pulled by the State that applied to the grant. The Auditors acknowledged that the purchase orders were pulled. We could not locate them after they completed their audit.

Recommendation 1.3: We have procedures for supporting non-personnel transactions. We are governed by the Uniform School Accounting System of the State of Ohio.

Recommendation 1.4: The district has procedures for documenting personnel costs. No one is paid unless they have been approved by the Board. The director of the program is responsible for making sure that that people meet their assignments and that services are rendered. All payroll costs are processed by my office and are based on documentation provided by the director and verified to the board minutes. To say this district has no procedures for processing transactions is not correct.

15305 Terrace Road • East Cleveland, Ohio 44112 • (216) 268-6587 • FAX: (216) 268-6405

Recommendation 2.1: The district agrees to refund unallowable cost of $128.00.

Recommendation 2.2: The district does not agree that adequate documentation was not provided regarding payroll and fringe benefits.

Recommendation 3.1: The district draws money based on the amount encumbered. The district is not allowed to certify a purchase order unless funds are available to write the purchase order (Section 5705.41 Ohio Revised Code). The disbursements are made as invoices are presented.

Recommendation 4.1: The district has established procedures to monitor coding of purchase orders presented.

The district has implemented many changes and strengthened procedures in accounting practices since this project began. We maintain that many of the situations noted in the report have been addressed.

Sincerely,

Barbara E. Henry
Treasurer

Cc: Board
Elvin R. Jones, Superintendent
Juelene Thompson, Purchasing Agent
Owen Taylor, Project Director