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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

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FEB 24 2003

Control Number ED-OIG/A05-C0022

Dr. Robert H. Willis, Superintendent
Community Consolidated School District 62
777 E. Algonquin Road
Des Plaines, IL 60016

Dear Dr. Willis:

This **Final Audit Report** presents the results of our audit of Community Consolidated School District 62's (District) administration of the 21st Century Community Learning Centers (21st Century) grant for the period June 1, 2000, through May 31, 2002. Our objective was to determine whether the District properly accounted for and used 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.

We provided a draft of this report to the District. The draft report identified \$37,285 in unallowable costs and \$170,542 in unsupported costs. In its response dated December 26, 2002, the District provided explanations and additional documentation to address unallowable and unsupported 21st Century costs. The District disagreed with our recommendations in finding 2. Based on the District's response, we concluded that the District adequately supported \$94,061 of the \$170,542 of unsupported costs discussed in the draft report and reclassified them as recommended for acceptance. We also reclassified the remaining \$76,481 of unsupported costs as unallowable. Other than the reclassifications, we have not made any changes to our findings or recommendations. We have summarized the District's comments after each finding, and have included the response as Attachment 2.

AUDIT RESULTS

The District did not properly account for and use 21st Century grant funds in accordance with the applicable regulations, grant terms, and cost principles. The District charged the grant for unallowable costs (\$113,766). Also, the District maintained excess federal cash that resulted in an imputed interest cost of \$12,943.

Finding No. 1 The District Charged Costs to the 21st Century Grant That Are Unallowable

The District did not properly account for and use 21st Century grant funds in accordance with the applicable regulations, grant terms, and cost principles. As a result, the District charged costs to the 21st Century grant that are unallowable (\$113,766). The unallowable costs are for payroll (\$76,289), fringe benefits (\$3,572), travel (\$20,309), supplies (\$9,617), and transportation (\$3,979).

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

The District's Business Office Manager told us there were two reasons for the unallowable costs. Her department hired new people and they made errors. For example, they charged employee payroll to the wrong account. Also, she said there was poor communication between the Director and her staff. Because this is the last year of the grant, we will not recommend that the District train new personnel in accounting for federal funds.

Details of the unallowable costs are discussed in Attachment 1.

Recommendations

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

- 1.1 refund to the Department of Education unallowable costs of \$113,766.

Auditee Comments

The District provided documentation to address the unallowable and unsupported costs discussed in the draft report. The District stated the errors encountered during the audit period were isolated events that resulted from a series of unfortunate circumstances within its accounting and accounts payable departments. The District also stated that the former Director utilized questionable accounting and spending practices. The new Director and her staff have put into place a number of controls which did not exist in the past.

Auditor's Response

After reviewing the documentation, we concluded that it did not provide any basis for reclassifying any of the \$37,285 of unallowable costs in the draft report as costs recommended for acceptance. Of the \$170,542 of unsupported costs in the draft report, the documentation led us to reclassify \$94,061 as recommended for acceptance and \$76,481 as unallowable. The District did not provide any documentation indicating what controls it put into place.

Finding No. 2 The District Maintained Excess Cash

The District 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 draw downs as close as possible to the time of making disbursements 34 C.F.R. § 80.20(b)(7) (2000).

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 CFR part 205. 34 C.F.R. § 80.21(b) (2000).

The Treasury regulations provide that recipients

. . . 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) (2000).

The District drew down both year 1 (\$399,289) and year 2 funding (\$400,494) on August 6, 2001. The District deposited 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 grant. The District made several disbursements of federal funds between the period August 6, 2001, and June 30, 2002¹. However, as of June 30, 2002, the District still had not

¹ Our review of cash covered the period June 1, 2000, through June 30, 2002. We extended the audit period one month because the District's fiscal year ends on June 30.

disbursed \$28,594 of the draw down. The District did not have controls in place to minimize the time between drawing down funds and paying for grant activities.

Because the District maintained excess cash, the U.S. Government incurred an imputed interest cost. We calculated imputed interest of \$12,943² for the period June 1, 2000, through June 30, 2002.

Recommendations

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

- 2.1 remit to the Department of Education \$12,943 of imputed interest; and
- 2.2 implement controls to ensure that it minimizes the time between drawing down funds and paying for grant activities.

Auditee Comments

The District agreed that it drew down funds for both years on the same day. The District discovered, well into the first year of the grant, that the Director had not drawn down any of the grant funds, so it "fronted" the first year's expenditures. It also lost all interest income for the entire first year of the grant. As a result, the District disagreed with our recommendation to remit the imputed interest to the Department of Education. The District feels because it lost interest income for the first year, the interest we imputed equals the interest lost, creating a "wash." The District also disagreed with our recommendation to implement controls to minimize the time between draw down of funds. The District said it has implemented numerous changes in its grant accounting and personnel.

Auditor's Response

After reviewing the District's response, we did not change our recommendations. The Director's responsibility is to be knowledgeable about the grant regulations and requirements, including drawing down funds. The argument that the District lost interest income in the first year is not persuasive. The regulations require that recipients time draw downs to minimize the time elapsing between obtaining and disbursing the funds. The District did not provide documentation to support that it made changes in its grant accounting, or that current staff have the knowledge to properly administer the grant.

² Using the applicable U.S. Treasury Current Value of Funds rate for each calendar year, ranging from five to six percent, and allowing three days after each draw down, we calculated imputed interest of \$12,943 for the 21st Century grant.

OTHER MATTERS

The District misclassified three transactions totaling \$10,734. It charged professional services fees to supplies. In a response to an exception report, the District stated the misclassification was due to a misinterpretation of accounting codes by the Director.

BACKGROUND

Title X, Part I, of the ESEA, as amended, authorizes the 21st Century program. The 21st Century program provides grants that fund 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 and \$1 billion for fiscal year 2002, 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, cultural, 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 2000, the Department of Education awarded the District the following 21st Century federal funds. The award amount, by year, is

6/1/00-5/31/01	\$399,289
6/1/01-5/31/02	\$400,494
6/1/02-5/31/03	<u>\$398,813</u>
	<u>\$1,198,596</u>

The District's 21st Century program is entitled SuccessQuest. The program is designed to serve 1,600 K-5 graders and all community members. The program focuses on literacy education, children's day care services, integrated programs, summer and weekend school programs, nutrition and health programs, telecommunications and technology education, and parenting programs. SuccessQuest engages a strong collaborative network with partners within the city of Des Plaines to foster success for children and families. The recipient schools are North, South, Plainfield, and Orchard Place.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether the District properly accounted for and used 21st Century grant funds, from June 1, 2000, through May 31, 2002, in accordance with the ESEA, as amended, EDGAR, grant terms, and cost principles in OMB Circular A-87. Because the District's fiscal year ends June 30, we extended the audit for our review of cash by one month to June 30, 2002, to determine if the District still had excess cash at the end of its fiscal year.

To accomplish our objective, we

1. reviewed the financial statement and OMB Circular A-133 audit report for the year ended June 30, 2001, prepared by an independent public accountant, and the related working papers for the audit;
2. reviewed the District's 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 grant;
4. reviewed accounting records;
5. reviewed 100 percent of payroll transactions for all 25 salaried employees;
6. judgmentally selected 18 of 31 pay periods and reviewed 100 percent of the payroll transactions for 223 hourly employees;
7. judgmentally selected and reviewed 49 of 248 non-personnel transactions, and 21 of 34 journal voucher transactions;
8. interviewed various District employees, independent public accountant personnel, and Department of Education personnel.

To achieve our audit objective, we relied, in part, on computer-processed data related to the 21st Century program contained in the District's 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 on-site fieldwork at the District's administrative offices in Des Plaines, IL, between July 1, 2002, and August 22, 2002. We discussed the results of our audit with District officials on November 4, 2002.

Our audit was performed in accordance with generally accepted 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 the District's management control structure applicable to the 21st Century grant, because this step was not necessary

to achieve our audit objective. Instead, we relied on substantive testing of costs charged to the 21st Century grant. Our testing disclosed instances of non-compliance with federal regulations, grant terms, and cost principles that led us to believe weaknesses existed in the District's controls over the 21st Century grant. 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.

Dr. Eugene W. Hickok, Under Secretary
U.S. Department of Education
FOB-6, Room 7E307
400 Maryland Avenue, SW
Washington, D.C 20202-8110

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,



Richard J. Dowd
Regional Inspector General
for Audit Services

Attachments

**COMMUNITY CONSOLIDATED SCHOOL DISTRICT 62's
21st CENTURY GRANT
SCHEDULE OF COSTS THAT ARE RECOMMENDED FOR
ACCEPTANCE AND UNALLOWABLE
JUNE 1, 2000, THROUGH MAY 31, 2002**

Cost Category	Costs			Total Costs Charged to Grant
	Recommended For Acceptance	Unallowable Costs		
Personnel	\$431,464	\$76,289	(1)	\$507,753
Fringe Benefits	46,475	3,572	(2)	50,047
Professional Services	91,985	0		91,985
Travel/Meetings	8,282	20,309	(3)	28,591
Supplies	62,696	9,617	(4)	72,313
Transportation	16,487	3,979	(5)	20,466
Totals	<u>\$657,389</u>	<u>\$113,766</u>		<u>\$771,155</u>

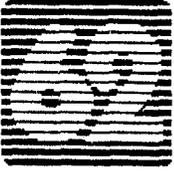
(1) Represents a portion of salary that was double charged to the grant (\$7,179), charges for employees that did not work at recipient 21st Century schools (\$36,719), and payroll charges not supported by after-the-fact certifications or personnel activity reports (\$32,391). *OMB Circular A-87, Attachment A, Paragraph C., Subparagraph 3.a. (1997)* states, "A cost is allocable to a particular cost objective . . . in accordance with the relative benefits received." The requirement for after-the-fact certifications 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 . . ."

(2) Represents the fringe benefits related to the salary that was doubled charged to the grant (\$815), charges for employees that did not work at recipient 21st Century schools (\$1,878), and fringe benefits related to payroll charges not supported by after-the-fact certifications or personnel activity reports (\$879). *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 unallowable, the related fringe benefits are unallowable.

(3) Represents travel costs that were not 21st Century grant related (\$16,901), and costs for which the District cannot provide documentation to support that the charges

applied to the grant (\$3,408). *OMB Circular A-87, Attachment A, Paragraph C., Subparagraph 3.a. (1997)* states, "A cost is allocable to a particular cost objective . . . in accordance with the relative benefits received. According to *OMB Circular A-87, Attachment A, Paragraph C., Subparagraph 1.j. (1997)*, to be allowable, costs must be adequately documented.

- (4) Represents a supply charge for which the District did not provide any documentation^F to show the transfer was 21st Century grant related. *OMB Circular A-87, Attachment A, Paragraph C., Subparagraph 3.a. (1997)* states, "A cost is allocable to a particular cost objective . . . in accordance with the relative benefits received. Also, according to *OMB Circular A-87, Attachment A, Paragraph C., Subparagraph 1.j. (1997)*, to be allowable, costs must be adequately documented.
- (5) Represents transportation costs for which the District cannot provide documentation to support charges applied to the grant (\$3,979). According to *OMB Circular A-87, Attachment A, Paragraph C., Subparagraph 1.j. (1997)*, to be allowable, costs must be adequately documented.

**COMMUNITY CONSOLIDATED SCHOOL DISTRICT 62**

777 ALGONQUIN ROAD • DES PLAINES, ILLINOIS 60016-6281

DR. ROBERT H. WILLIS, SUPERINTENDENT

TELEPHONE (847) 824-1136
FAX (847) 824-0612

December 26, 2002

Mr. Richard J. Dowd
Regional Inspector General for Audit Services
U.S. Department of Education
Office of Inspector General
111 N. Canal Street, Suite 940
Chicago, IL 60606-7204

Re: Draft Audit Report received December 5, 2002
Control Number ED-OIG/A05-C0022

Page 1 of 2

Dear Mr. Dowd:

I have reviewed the 'Draft Audit Report' (copy attached) sent to me by your office. This letter and material being forwarded to you is intended to provide clarifying information and documentation in response to the findings and recommendations contained in the report.

RESPONSE --- FINDING #1:

In response to the draft audit report regarding Community Consolidated School District #62's administration of the 21st Century Learning Community Centers grant for the period June 1, 2000 through May 31, 2002, we are respectfully submitting our response. The enclosed packets are meant to serve as our response and explanations to draft finding #1 and addresses unsupported and questioned items.

I believe the errors encountered during the period covered by this audit could generally be considered isolated events that resulted from a series of unfortunate circumstances within our accounting and accounts payable departments. At the general time immediately following the grant award, four out of the five active employees in accounting were new to us (newly employed) including the former Director who sought this grant. Three employees had recently quit, two were on maternity leave, and one employee had recently been dismissed.

The former Director whose job it was to oversee and administer the grant is alleged to have utilized questionable accounting and spending practices. Due to alleged incompetent handling of the grant and a sense of being overwhelmed, I believe this employee, generally gave up following the first 1.5 years of the grant period. My sense is that she left everyone in the dark, her staff included, and failed to properly inform any of her superiors of problems and/or concerns she had or was encountering. She has since left our employment and has been replaced by Director Nancy Bang who with her staff have done an exemplary job of trying to get a firm handle on this grant. I believe they have addressed the necessary accounting and historical documentation errors that existed. They have also put into place a number of controls, which did not exist in the past for their program. I think it is evident to your field audit team that they have made an extremely conscientious effort and invested a significant amount of time to address all concerns raised by the audit, to the greatest extent possible.

RESPONSE --- FINDING #2:

As stated in the draft audit report, "The District drew down both year 1 (\$399,289) and year 2 funding (\$400,494) on August 6, 2001." The former Director in charge, alluded to in the preceding paragraph, was alleged to be knowledgeable about the administration of this grant. However, I discovered well into the first year of the grant that she had not drawn down any of the grant funds and the district had essentially 'fronted' all money for expenditures (nearly \$400,000) before it saw any grant dollars. Not only did the district front the expenditures, but it also lost all interest income for the entire first year of the grant. When she did finally draw down the grant money, she drew it down as you indicate with no regard to the second year lump sum procedures and related interest that was earned. I respectfully request that this interest, in the amount of \$12,943, be forgiven due to the fact the board lost this approximate amount of interest during the first year of the grant because it covered all grant related expenditures through July, 2001 effectively resulting in an interest 'wash'.

RESPONSE TO RECOMMENDATIONS:

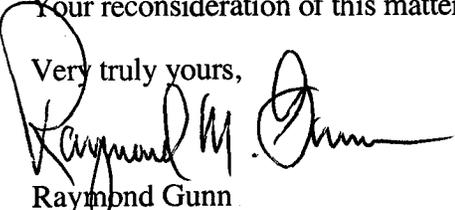
- 2.1 Per the preceding request, it is my sincere hope that you will consider not charging the District \$12,943 of imputed interest. We have an administrator and staff who are now in tune with proper accounting expectations and grant requirements. Therefore, this problem will not be repeated in the future.
- 2.2 As alluded to at various points in this appeal, we have implemented numerous changes in grant accounting and personnel. The current staff has spent untold hours, many outside the normal work day, to get a firm handle on past problems with an eye toward preventing them in the future and ensuring that grant monies are spent appropriately and, more importantly, for the direct benefit of our community.

In closing, we have continued our effort to improve our business office practices, reviewed our system and relieved the responsible employee/Director of her duty. We have also properly trained all new employees and resolved staff shortages that existed during the initial grant period. For these reasons, and those listed above, we respectfully ask that you reconsider our case. The expected payments remove funds needed to operate our facilities in the best interests of the children of our district, especially in light of the numerous financial constraints within which we must operate.

Under penalty of perjury, I declare the facts stated herein are true, correct, and complete.

Your reconsideration of this matter is greatly appreciated. Further details can be provided if necessary.

Very truly yours,



Raymond Gunn

Deputy Superintendent / Business Manager, School District 62

Enclosures