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OCT 14 2003

Control Number ED-OIG/A05-D0023

Sister Judy Bisignano, Ed.D.
Aztlan Academy
3372 S. 6th Avenue
Tucson, AZ 85713

Dear Sister Bisignano:

This **Final Audit Report** presents the results of our audit of the Aztlan Academy's (Academy) use of U.S. Department of Education (ED) funds for the period July 1, 2001, through June 30, 2002 (2002 fiscal year). The objective of our audit was to determine if the Academy expended ED funds according to law and applicable regulations.

For the 2002 fiscal year, we could not determine whether the Academy expended ED funds in accordance with the law and applicable regulations. The Academy received \$150,000 in Public Charter Schools Program (PCSP) grant funds for the 2002 fiscal year. However, the Academy did not provide us with (1) complete and accurate accounting records that fully showed how it used the PCSP funds and (2) documentation sufficient to support \$148,440 of the \$150,000 received. We recommend that the Chief Financial Officer (CFO), Office of the Chief Financial Officer, in conjunction with the Deputy Under Secretary for the Office of Innovation and Improvement (OII), instruct the Academy to refund \$148,440 to ED. We also recommend that the CFO and Deputy Under Secretary instruct the Academy to develop and implement procedures to (a) reconcile, on a regular basis, the amount of PCSP funds received with the amount spent; and (b) ensure it maintains documentation sufficient to support its use of all PCSP funds.

We provided a draft of this report to the Academy. However, the Academy did not provide us with comments.

AUDIT RESULTS

Finding No. 1 The Academy Cannot Support Its Use of \$148,440 in PCSP Funds

The Academy did not provide (1) complete and accurate accounting records that fully showed how it used PCSP funds and (2) documentation that was sufficient to support its use of \$148,440¹ in PCSP funds. For the 2002 fiscal year, the Academy received

¹ \$150,000 received less \$1,560 in expenses for which we received sufficient supporting documentation.

\$150,000 in PCSP funds. However, when we asked for records showing how the Academy used the PCSP funds, the Academy provided accounting records that showed only \$67,389 was charged to the PCSP grant. When we informed the Academy that its records were not sufficient to show how it used all its PCSP funds, the Academy's Director informed us that the original records we were provided did not include all the expenses that should have been charged to the PCSP grant for the 2002 fiscal year. The revised accounting records Academy officials provided now show that the Academy charged \$131,984 to the PCSP grant.

We judgmentally² selected 6 expenses totaling \$28,462 from the \$67,389 in expenses shown in the accounting records we were originally provided. We asked Academy officials to provide us with documentation such as purchase orders, invoices, and canceled checks supporting its use of PCSP funds. The documentation the Academy provided was sufficient to support its use of only \$1,560. Because the Academy only provided sufficient supporting documentation for one expense totaling \$1,560, we asked Academy officials to provide us with accounting records and related supporting documentation for \$148,440 in PCSP funds it received for the 2002 fiscal year. The Academy failed to provide the documentation.

According to 34 C.F.R. § 75.730,³ direct grant recipients are required to "keep records that fully show: (a) The amount of funds under the grant; (b) How the grantee uses the funds; (c) The total cost of the project; (d) The share of that cost provided from other sources; and (e) Other records to facilitate an effective audit."

Academy officials had a difficult time maintaining and accessing records. During its 2002 fiscal year, the Academy used two different financial services companies to maintain its financial management system. When the second financial services company started to perform services for the Academy on January 1, 2002, the company received beginning accounting balances from the prior financial services company. The second financial services company made adjustments to these beginning balances because some transactions were not properly recorded. In an attempt to provide us with complete and accurate accounting records, Academy officials worked with the second financial services company and had the company make additional adjustments to the Academy's accounting records. Despite its efforts during our audit, the Academy could not provide us with accounting records and related documentation that fully showed how it used its PCSP funds. The Academy could not provide us with documentation to fully show how it used \$148,440 in PCSP funds because the Academy did not have written policies and procedures in place that would provide reasonable assurance that its accounting records were reconciled with supporting documentation on a regular basis and accurately reflected the Academy's use of ED funds.

² We selected large dollar expenses posted for the 2002 fiscal year and/or those with descriptions that were vague or inconsistent with the PCSP law.

³ Unless otherwise specified, all regulatory citations are to the July 1, 2001, volume.

Without complete and accurate accounting records and supporting documentation, we could not determine whether the Academy expended \$148,440 of PCSP funds for the intended purposes.

Recommendations

We recommend that the CFO, in conjunction with the Deputy Under Secretary for OII, instruct the Academy to

- 1.1 refund \$148,440 to ED; and
- 1.2 develop and implement policies and procedures for (a) regularly reconciling the amount of PCSP funds received with the amount spent and (b) maintaining documentation sufficient to support its use of all PCSP funds.

BACKGROUND

The purpose of the PCSP is to provide grants for the planning, design, and initial implementation of charter schools created by members of the local community. Grants may be made for a period of up to three years. Funds may be used to plan and design the education program of the charter school and evaluate the effects of charter schools.

Charter schools are governed by the charter school legislation enacted in the Elementary and Secondary Education Act of 1965, as amended by the Improving America's Schools Act of 1994, Title X, Part C, Section 10304(f)(3), and the Charter School Expansion Act of 1998.⁴ Charter schools that receive a grant directly from the federal government must also adhere to regulations listed in 34 C.F.R. Parts 75, 82, and 99.

The Academy received its charter from the Arizona State Board for Charter Schools and opened in August 2001. The Academy applied for a PCSP grant and received its award from ED on August 10, 2001. The grant provided the Academy with startup funding for a three-year period. For its 2002 fiscal year, the first year of funding, the Academy received \$150,000.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine if the Academy expended ED funds according to the law and applicable regulations. Our audit covered the award ED made on August 10, 2001, for \$150,000 and costs charged to the PCSP grant for the 2002 fiscal year.

To accomplish our objective, we

- interviewed Academy personnel and third party financial services providers hired by the Academy;

⁴ The law was amended by the No Child Left Behind Act of 2001, Title V, Part B.

- obtained and reviewed accounting records;
- judgmentally selected 4 expenses totaling \$25,350 posted prior to December 31, 2001, and 2 expenses totaling \$3,112 posted after December 31, 2001. We selected large dollar expenses posted for the 2002 fiscal year and/or those with descriptions that were vague or inconsistent with the PCSP law; and
- reviewed a purchase order, invoice, and canceled check the Academy used to justify one expense paid with PCSP funds.

As part of our audit, we relied on computer-processed data contained in the Academy's accounting records. We could not determine the reliability of this data because the Academy provided us with multiple versions of its computerized accounting records that showed it spent different amounts of PCSP funds for its 2002 fiscal year. In addition, the Academy was unable to provide us documentation that would support its use of PCSP funds. However, we used the computerized accounting records for the purposes of our audit because it was the only information provided that showed how the Academy used PCSP funds.

We performed our audit between December 2002 and July 2003. We visited the Academy on December 9, 2001, and discussed the preliminary results of our audit with Academy officials on March 27 and April 17, 2003.

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 audit, we did not assess the adequacy of the Academy's management controls applicable to all ED awards because this step was not necessary to achieve our audit objective. Instead, we relied on our testing of the Academy's compliance with the law and applicable regulations. Our testing disclosed material weaknesses in the Academy's management controls over ED awards. The Academy did not have written policies and procedures in place to provide reasonable assurance that its accounting records were reconciled with supporting documentation on a regular basis and accurately reflected the Academy's use of PCSP funds. This weakness is 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 ED officials.

If you have 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 ED officials, who will consider them before taking final action on the audit.

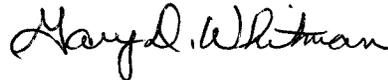
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It is ED's policy to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

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

Sincerely,



for Richard J. Dowd
Regional Inspector General
for Audit