UNITED STATES DEPARTMENT OF EDUCATION
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SEP 29 2003

Mr. Tommy G. Flud, Superintendent
Mt. Judea Public School
P.O. Box 40
Mt. Judea, AR 72655

Dear Mr. Flud:

This **Final Audit Report** (ED-OIG/A06-D0014) presents the results of our audit of the 21st Century Community Learning Centers (21st Century) grant to Mt. Judea Public School (Mt. Judea) for the period June 1, 2000, through January 31, 2003. Our objective was to determine whether Mt. Judea properly accounted for and used 21st Century grant funds in accordance with the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the Improving America's Schools Act of 1994; 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 copy of this report to Mt. Judea. The draft report identified $24,786 in unallowable costs and $372,714 in unsupported costs. In its response to our draft report Mt. Judea agreed with our finding and recommendations. We have summarized Mt. Judea's comments after the recommendations section of the report and have included the response as Attachment 2.

BACKGROUND

Title X, Part I, of the ESEA, as amended, authorizes the 21st Century program. The program awards 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 service, 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 support health needs, literacy education, children's day care services, and telecommunications and technology education for individuals of all ages.

The Department of Education awarded Mt. Judea a 21st Century grant totaling $915,493. The award amounts, by budget period, were—

6/1/00—5/31/01	$310,076
6/1/01—5/31/02	$298,276
6/1/02—5/31/03	$307,141
Total	$915,493

In its first two years of operation, Mt. Judea's programs included after school, summer school, children's day care services, General Educational Development (GED), gymnastics, martial arts, adult computer class, high school physics, and summer basketball camp.

AUDIT RESULTS

Mt. Judea did not properly account for and use 21st Century grant funds in accordance with all applicable regulations, grant terms, and cost principles. Mt. Judea charged the grant for unallowable costs ($24,786) and costs for which it did not maintain adequate support ($372,714). The unallowable amount consists of charges for salary ($18,000), fringe benefits ($3,516), children's day care services ($2,932), travel ($114), and employee reimbursement ($224). The unsupported amount consists of charges for payroll ($314,235) and fringe benefits ($58,479) for which Mt. Judea did not provide adequate documentation to support that the costs were reasonable, allowable, and allocable. Details of the unallowable and unsupported costs are discussed in Attachment 1.

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.

We concluded that this condition occurred because Mt. Judea did not establish a formal system of management controls, policies, procedures, and practices to administer the 21st Century grant. Mt. Judea used informal procedures to document personnel and vendor transactions. However, these informal procedures were not always followed resulting in unallowable and unsupported costs charged to the grant. Because the grant performance period ended May 31, 2003, we will not recommend that Mt. Judea establish a formal system of management controls and train personnel in accounting for federal funds.

RECOMMENDATIONS

We recommend that the Chief Financial Officer in consultation with the Assistant Secretary for Elementary and Secondary Education instruct Mt. Judea to—

1. Refund to the Department of Education unallowable costs of $24,786 and,

2. Provide sufficient documentation to support $372,714 or refund that amount to the Department of Education.

MT. JUDEA'S COMMENTS TO THE DRAFT REPORT

Mt. Judea agreed with our finding and recommendations and has started corrective action on both recommendations. Mt. Judea stated that it had submitted a proposal to the Department to restore the funds identified as unallowable costs in Recommendation 1. Mt. Judea also stated that it had started to obtain alternative documentation to support the payroll and fringe benefits identified in Recommendation 2.

OIG'S RESPONSE

After reviewing Mt. Judea's response, we did not change our recommendations. Mt. Judea's proposed alternative corrective action for Recommendation 1, of a cost-share initiative to restore the unallowable costs to the Department, and the alternative documentation they are obtaining to support the unsupported costs outlined in Recommendation 2, need to be evaluated by the Office of the Chief Financial Officer.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether Mt. Judea properly accounted for and used 21st Century grant funds from June 1, 2000, through January 31, 2003, in accordance with the ESEA, as amended; EDGAR; grant terms; and the cost principles in OMB Circular A-87, effective August 29, 1997.

To accomplish our objective, we—

- Reviewed the financial statement and OMB Circular A-133 audit report for the year ended June 30, 2001;
- Reviewed Mt. Judea's 21st Century grant application and budget narrative;
- Reviewed Mt. Judea's Grant Performance Reports;
- Reviewed Mt. Judea's School Board Minutes for meetings from July 2000 through February 2003;
- Reviewed written policies and procedures for budgeting, accounting, procurement, payroll, and fringe benefits for the 21st Century grants;
- Judgmentally selected and reviewed 5 of 29 pay periods and all the associated payroll transactions. We selected months that were: (1) near the beginning, middle, and end of our audit period; (2) during the summer program; and, (3) during winter and spring breaks;
- Judgmentally selected and reviewed purchase orders, invoices, cancelled checks, receipts, and other supporting documents for 152 transactions from a universe of 488 transactions. The reviewed transactions account for 65 percent of the total dollars expended to vendors. We reviewed all the transactions for daycare (27), all indirect costs (3), all charges for evaluators/consultants (9), and all employee reimbursements (42). We also reviewed 6 student transportation expenditures and 65 general expenditures. The general expenditures originated from five unduplicated vendors for each of the three budget periods. The vendors were selected based on type of service provided without regard to dollar value; and
- Interviewed various Mt. Judea employees, contractors, and Department of Education officials.

To achieve our audit objective, we relied, in part, on computer-processed data related to the 21st Century program contained in Mt. Judea's accounting system. 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 Mt. Judea Public School 21st Century Community Learning Center between February 18, 2003, and March 21, 2003. We discussed the results of our audit with Mt. Judea officials on March 20, 2003. An exit conference was held with Mt. Judea officials on April 24, 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 review, we relied on substantive testing of costs charged to the 21st Century grant to test management controls. Our testing disclosed instances of non-compliance with federal regulations, grant terms, and cost principles that led us to conclude that weaknesses existed in Mt. Judea'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 officials, who will consider them before taking final Departmental action on the audit.

Jack Martin
Chief Financial Officer
Office of the Chief Financial Officer
400 Maryland Avenue, SW, Room 4E313
Washington, DC 20202

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 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 E. Nicholy

for Sherri L. Demmel
Regional Inspector General
for Audit

Attachments

MT. JUDEA PUBLIC SCHOOL
21st CENTURY COMMUNITY LEARNING CENTER
SCHEDULE OF UNALLOWABLE AND UNSUPPORTED COSTS
JUNE 1, 2000, THROUGH JANUARY 31, 2003

Cost Category	Unallowable Costs	Notes	Unsupported Costs	Notes
Payroll	$18,000	(1)	$314,235	(3)
Fringe Benefits	3,516	(2)	58,479	(4)
Children's Daycare Services	2,932	(5)	0	
Travel	114	(6)	0	
Employee Reimbursement	224	(7)	0	
Totals	$24,786		$372,714	

Notes

(1) Represents (a) severance pay ($12,000) to the Project Director that was denied by the Department and (b) suspension pay ($6,000) to the Project Director for which no benefit was received by the grant. *OMB Circular A-87, Attachment B, Paragraph 11.g (3)* (1997) states, "Abnormal or mass severance pay will be considered on a case-by-case basis and is allowable only if approved by the cognizant Federal agency." *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 relative benefits received." Therefore, these costs are questioned.

(2) Represents the fringe benefits ($3,516) related to the Project Director's severance and suspension pay. *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(s) of employees whose salaries and wages are chargeable . . . ." Because the severance pay and suspension pay are questioned, the related fringe benefits are questioned.

(3) Represents payroll charges ($314,235) not supported by personnel activity reports or equivalent documentation that meet the required standards set forth in *OMB Circular A-87, Attachment B, Paragraph 11.h (5)* (1997). The Circular states that, "Personnel activity reports or equivalent documentation must . . . account for the total activity for which each employee is compensated . . . and must be signed by the employee . . . ."

(4) Represents the fringe benefits ($58,479) 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(s) of employees whose salaries and wages are chargeable . . ." Because the salaries are unsupported, the related fringe benefits are unsupported.

(5) Represents contractual services costs ($2,932) for which no benefit was received by the grant. The children's daycare provider submitted invoices for days that the facility was closed. According to *OMB Circular A-87, Attachment A, Paragraph C., Subparagraph 3* (1997) states, " A cost is allocable to a particular cost objective . . . in accordance with relative benefits received."

(6) Represents (a) the portion of meals that exceeded the daily per-person limit contained in the Mt. Judea grant proposal ($104.05) and (b) entertainment ($9.95). 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 18* provides that costs of entertainment are unallowable.

(7) Represents employee reimbursements ($224) that Mt. Judea 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.

Mt. Judea Public School

ATTACHMENT 2

Tommy G. Flud, Superintendent

School: (870) 434-5362
Counselor: (870) 434-5361
Fax: (870) 434-5359

P. O. Box 40
Mt. Judea, Arkansas 72655

September 3, 2003

TO: United States Department of Education, Sherri L. Demmel

FROM: Mt. Judea Public School, Tommy Flud

SUBJECT: Draft Audit Report Recommendations

Audit Recommendation #1 – Refund to the Department of Education unallowable costs of $24,786.

Corrective Action #1 – I agree with the findings and have started to work on a corrective action plan with the U. S. Department of Education. June 20, 2003 I submitted a proposal to Stephen Balkcom, 21st Century Community Learning Center Project Director, to allow a cost-share initiative to restore the funds identified as unallowable cost. This cost-share initiative considered the unallowable cost as matched by the donated land, construction, and quarter base rock to off-set the pay back. The number one benefit of the proposal is that of a continued after-school Alcohol and Drug Prevention. See attached letter of the proposal and a letter of approval signed by Stephen Balkcom.

Audit Recommendation #2 - Provide sufficient documentation to support $372,714 payroll and fringe benefits or refund that amount to the U.S. Department of Education.

Corrective Action #2 – I agree with the findings and have started to work on a corrective action plan with the U. S. Department of Education. I will get certification for the payroll and fringe benefits not documented and I will provide them to the Department Program Officials for audit resolution upon request. I know all the employees worked the hours that they were paid for and I will be obtaining signed assurances from each employee to support payroll documentation. The signed assurance from each employee will certify that the employee did perform those duties and that correct wages were paid for hours worked.

Thank you for your assistance with the Audit and I will do whatever needs to be done to assist you in any way possible to resolve the Audit Recommendations.

Sincerely,

Tommy Flud
Superintendent of Schools