



**UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL**



501 I Street, Room 9-200
Sacramento, California 95814
Central Office Number: (916) 930-2388 FAX Number: (916) 930-2390

December 19, 2003

ED-OIG/A09-D0015

Mr. Ernest S. Zermeno
Superintendent
Gonzales Unified School District
600 Elko Street
Gonzales, CA 93926

Dear Mr. Zermeno:

This Final Audit Report, entitled *Gonzales Unified School District's Administration of the 21st Century Community Learning Centers Grant No. S287A000704*, presents the results for our audit. The purpose of our audit was to determine whether the Gonzales Unified School District (1) served the number of students projected in its grant award and reported in its annual reports, and (2) properly accounted for and used 21st Century Community Learning Centers (CCLC) grant funds in accordance with the grant terms and applicable Federal laws and regulations. Our review of the number of students served covered the period from June 1, 2000 through May 31, 2002. For the accounting and use of grant funds, we reviewed amounts charged to the grant from June 1, 2000 through February 26, 2003.

In its response to the draft report, Gonzales Unified School District (District) concurred with our findings. The District agreed to return the costs improperly charged to the grant and described the corrective actions taken to address our procedural recommendations. However, the District disagreed with our recommendation to provide additional documentation or return the amount charged for personnel and related costs. The District's comments are summarized in the AUDIT RESULTS section of the report at the end of each finding and the full text of the comments is included as an attachment.

BACKGROUND

The CCLC program, which is authorized by Title X, Part I, of the Elementary and Secondary Education Act (ESEA), as amended, provides grants to schools for the planning, implementation, or expansion of projects that benefit the educational, health, social services, cultural, and recreational needs of the community. Local educational agencies are to operate community learning centers 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 centers must provide no less than 4 of the 13 activities listed in the ESEA § 10905.

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

The U.S. Department of Education (Department) awarded the District a three-year grant, totaling \$1,560,573, to operate the CCLC program at the District's three schools (La Gloria Elementary School, Fairview Middle School, and Gonzales High School). The program goals were to improve academic achievement, decrease the drop out rate, improve school safety and parent involvement, and instill a renewed sense of commitment to the community and community service. The District planned to serve a total of 584 students each year. The grant performance period was June 1, 2000 through May 31, 2003. The District began the CCLC program at the centers in Fall 2000. Due to district-wide reorganization activities, the programs were temporarily suspended from the end of May through December 2002. The Department has extended the grant performance period through May 31, 2004.

AUDIT RESULTS

We concluded that the District met the projected number of students to be served by the CCLC grant and had adequate documentation to support the number of students served as stated in the District's annual performance reports. However, we found that the District did not use and properly account for the CCLC grant funds in accordance with the Federal regulations. During the period from June 1, 2000 through February 26, 2003, the District charged 1,773 transactions, totaling \$1,091,775, to the CCLC grant. Our review of 181 transactions, totaling \$346,999, found that the District had improperly used \$55,682 of grant funds in 32 transactions. Also, the District lacked required documentation for \$418,323 in personnel costs charged to the CCLC grant. As a result, we were unable to determine the allowability of the personnel costs.

We recommend that the Department require the District to return the \$55,682 (plus related staff benefits and indirect costs) that were improperly charged to the CCLC grant. Also, the District should be required to submit additional support for the personnel costs that lacked required documentation or return the funds (plus related staff benefits and indirect costs) to its CCLC grant account. Also, procedural recommendations are included to improve the District's documentation and review of costs charged to the grant.

FINDING NO. 1 – The District Improperly Charged \$55,682 to the CCLC Program

The District improperly charged the CCLC grant for costs of preparing the grant proposal and personnel, travel, and supply costs that were unrelated to the grant. The regulation at 34 C.F.R. § 80.20 (b)(5) states “[a]pplicable OMB [Office of Management and Budget] cost principles, agency program regulations, and the terms of [the] grant . . . will be followed in determining the reasonableness, allowability and allocability of costs.” The cost principles applicable to the grant are contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. The OMB Circular A-87, Attachment A, Paragraph C.1, lists the factors affecting allowability of costs. These factors include that the cost must be “necessary and reasonable for proper and efficient performance and administration of Federal awards” and “allocable to Federal awards under the provisions of this Circular.”

Costs for Preparing the Grant Proposal Required Prior Approval. The District charged \$31,211 to the grant for costs related to preparing the grant proposal without prior approval from the Department. OMB Circular A-87, Attachment B.34, states—

Proposal costs should normally be treated as indirect costs and should be allocated to all activities of the governmental unit utilizing the cost allocation plan and indirect cost rate proposal. However, proposal costs can be charged directly to the Federal awards with the prior approval of the Federal-awarding agency.

The Department's program specialist responsible for monitoring the grant confirmed that the District had not requested or obtained the required approval. The District erred in directly charging costs of preparing the proposal to the grant.

Unreasonable Travel Costs. The District improperly charged \$4,858 to the grant for airline tickets for two District employees to travel to a CCLC conference held in Arlington, Virginia on August 3 and 4, 2000. On July 6, 2000, the District purchased nonrefundable economy class airline tickets for the trip at a cost of \$1,039. The tickets were for a flight arriving in Richmond, Virginia, which is 75 miles from Arlington. On July 31, 2000, only three days before the conference, the District purchased another two economy class airline tickets for the same trip at a cost of \$4,858. These tickets were for a flight arriving at Ronald Reagan Washington National Airport. The travelers used the second set of tickets. Both sets of tickets were charged to the grant.

OMB Circular A-87, Attachment A, Paragraph C.2, defines the term "reasonable cost."

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Since the District had already used grant funds for the first set of tickets, the cost of the second set was an improper charge to the grant. We also concluded that the cost of the second set of airline tickets was not reasonable.

Personnel Costs Unrelated to the CCLC Grant. The District improperly charged \$14,384 to the CCLC grant for a portion of the salary paid to three employees for work performed between May 21, 2002 and December 31, 2002. The amount represents 25 percent of a school clerk's salary, 33 percent of the computer specialist's salary, and 17 percent of a teacher's salary. The District's CCLC program was not in operation during the time period due to a reorganization affecting the grant's oversight, and, based on our review, the three employees did not perform grant-related activities during the period.

The District's Assistant Superintendent could not provide an explanation for the improper charges to the grant. We concluded that, if these employees had submitted personnel activity reports or other equivalent documentation as required by OMB Circular A-87, District staff would have been aware of the employees' actual activities and could have made the needed adjustment in charges to the grant. (Finding No. 2 discusses the District's lack of personnel activity reports or equivalent documentation.)

Travel and Supply Costs Unrelated to the CCLC Grant. The District improperly charged \$5,229 to the grant for travel and supply costs unrelated to CCLC activities.

- The District used \$2,600 of grant funds for two kindergarten teachers to attend an Early Intervention for School Success conference. We concluded that neither of the two teachers' work was related to CCLC activities since no part of their salaries had been charged to the CCLC grant.
- The District used \$515 of grant funds for its CCLC Program Director's attendance at a workshop held on December 7 and 8, 2001. The workshop was "designed to provide a thorough introduction to grant writing for anyone looking to acquire additional funds for his/her organization." Since the Department had awarded the CCLC grant to the District prior to the workshop, the cost was not necessary and reasonable for the proper and efficient performance and administration of the CCLC grant. Also, as mentioned previously in this finding, prior Department approval is required to use grant funds for costs related to preparation of grant proposals.
- The District had booklets printed for migrant education at a cost of \$2,114. These booklets were to be used by the students when they were at home and not as part of an after-school program.

Our review found that the forms submitted for requesting purchases were signed by only one individual, even though the forms provided separate signature blocks for the preparer and two reviewers. These improper charges could have been avoided had the forms been carefully reviewed by a second individual to confirm that the purchases were related to CCLC activities.

Recommendations

We recommend that the Chief Financial Officer, in collaboration with the Assistant Secretary for Elementary and Secondary Education, require the District to—

- 1.1 Return \$55,682 (\$31,211 +\$4,858 +\$14,384 +\$5,229), plus related staff benefits and indirect costs, for the improper charges to the CCLC grant.
- 1.2 Implement additional procedures, as necessary, to ensure that purchases are correctly charged to the appropriate grant or other funding sources, and monitor staff adherence to the District's procedures.

Due to the extent of our testing and the small percentage of reviewed transactions identified as improperly charged to the grant, we have not recommended that the District review the untested transactions for allowability.¹

¹ Our review covered all 52 transactions for personnel costs charged to the CCLC grant for work performed between May 21 and December 31, 2002. We reviewed 112 of the transactions for non-payroll costs, which accounted for 70 percent of the non-payroll costs charged to the CCLC grant. We found that only 5 of the 112 transactions were improperly charged to the grant (a 4 percent error rate).

District's Comments

The District concurred with our finding and agreed with our recommendations. The District stated that the improper charges were unintentional mistakes and that it intends to return the \$55,682. The District stated that management controls were instituted, including better District oversight and use of personnel activity reports, to avoid similar mistakes in the future.

FINDING NO. 2– The District Lacked Required Documentation for Personnel Costs Charged to the CCLC Grant

The District's documentation for personnel costs of salaried employees did not comply with OMB Circular A-87 requirements. OMB Circular A-87, Attachment B.11.h (3) requires periodic certifications for employees who work on a single Federal grant or activity.

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

OMB Circular A-87, Attachment B.11.h (4) requires personnel activity reports or equivalent documentation for employees who work on multiple activities.

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 which meets the standards in subsection (5) unless a statistical sampling system . . . or other substitute system has been approved by the cognizant Federal agency

OMB Circular A-87, Attachment B.11.h (5) lists the required elements for personnel activity reports and provisions for using budget estimates for interim accounting.

Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

- (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
- (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made . . . ; and
- (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Prior to January 2003, the District did not require employees, who were paid on a salary rather than an hourly basis, to prepare personnel activity reports or equivalent documentation, such as timesheets, or, when applicable, periodic certifications.² Instead, the District allocated salaries to the grant based on predetermined distribution percentages shown on the employee's personnel action form. OMB Circular A-87 specifically states that percentages determined before the services are performed do not qualify as support for charges to Federal grants. The District's Assistant Superintendent stated that time reporting requirements were one of the requirements overlooked before the program was temporarily suspended.

In January 2003, the District began requiring employees whose salaries were paid all or in part from grant programs to submit timesheets, but the employees were only required to submit them for the first three months of the calendar year and reported time was limited to categorical programs, such as the CCLC grant. OMB Circular A-87 requires that employees working on more than one grant prepare personnel activity reports (i.e., timesheets) at least monthly and account for the total activity for which the employees are paid. For employees working solely on one grant, the circular requires periodic certifications.

Since the District did not have the required documentation, we have no assurance that grant funds were properly used to pay \$418,323 in personnel costs for activities related to the CCLC program.

Recommendations

We recommend that the Chief Financial Officer, in collaboration with the Assistant Secretary for Elementary and Secondary Education, require the District to—

- 2.1 Provide additional documentation supporting the charges to the grant for employees paid on a salary basis or return \$418,323, plus related staff benefits and indirect costs.
- 2.2 Implement a personnel activity report and periodic certification process for employees paid on a salary basis that complies with OMB Circular A-87 requirements.

² The District required employees who were paid on an hourly basis to prepare timesheets. We concluded that the documentation provided for these employees met the requirements listed in OMB Circular A-87.

District's Comments

The District agreed with our finding, but disagreed with our recommendation to provide additional documentation or return the amount charged for personnel and related costs. The District concluded that to the best of their knowledge, the work performed by the salaried employees during this period was solely related to the CCLC program and that the personnel costs were solely related to the grant. The District stated that it is unable to provide documentation other than the attendance and payroll records already provided to the auditors.

To address our procedural recommendation, the District described how its procedures were modified to comply with a substitute time accounting system approved by the Department for local educational agencies in California. To comply with the substitute system, the salaried employees will complete a personnel activity report every fourth month (three times a year). The California Department of Education letter describing the substitute system, which was included in the District's response to the draft report, states that the personnel activity reports will account for 100 percent of the employee's time.

OIG's Response

We did not change our recommendation to require the District to provide additional documentation or return the personnel and related costs. We encourage the District to work with the Department on acceptable alternatives for adequately supporting the personnel costs charged to the CCLC grant. OMB Circular A-87 permits the use of an approved substitute time accounting system to support charges to Federal grants and we confirmed that the Department had approved such a system for use by local educational agencies in California.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objectives were to determine whether the District (1) served the appropriate number of students at each program center that was projected in its CCLC grant application and reported in its Performance Report, and (2) properly accounted for and used CCLC grant funds in accordance with the grant terms and applicable Federal laws and regulations. Our review of the number of students served covered the period from June 1, 2000 through May 31, 2002 (first and second grant year). For the accounting and use of grant funds, we reviewed amounts charged to the grant from June 1, 2000 through February 26, 2003.

To accomplish our objectives, we reviewed the District's CCLC grant application, budget, performance reports, and OMB Circular A-133 audit reports for the years ended June 30, 2001 and 2002. We also reviewed the District's written procurement policies and procedures applicable to charges made to the CCLC grant. We interviewed various District employees responsible for the administration of the CCLC program. We also communicated with the Department program staff responsible for monitoring the grant.

To achieve our audit objectives, we relied on reports of CCLC grant payroll and non-payroll expenditures for the period from June 1, 2000 to February 26, 2003, which District staff generated from the financial accounting system. We verified the completeness of the data by

comparing totals reported on the District's audited financial statements to the total expenditures on the reports. We also compared report information to information on source documents for sampled transactions. Based on the results of these tests, we concluded that the data was sufficiently reliable to be used in meeting the audit's objectives.

We reviewed the 52 payroll transactions shown on the District-provided report that occurred between May 21, 2002 and December 31, 2002, when the CLCC program was not in operation. We reviewed an additional 17 payroll transactions that were randomly selected from the remaining 164 transactions. We scanned all transactions related to the staff benefits costs for unusual amounts. For non-payroll transactions, we reviewed 112 of the 476 transactions listed on the District-provided report. We judgmentally selected 57 non-payroll transactions with the highest dollar amounts and then randomly selected an additional 55 non-payroll transactions.

We performed our fieldwork at the District's administrative offices in Gonzales, California, between March 3, 2003 and May 2, 2003. An exit conference was held with District officials on July 16, 2003. We performed our audit in accordance with generally accepted government auditing standards appropriate to the scope of audit described.

STATEMENT ON MANAGEMENT CONTROLS

Our assessment of the District's management control structure was limited to those areas of control weaknesses identified while conducting substantive tests of grant expenditures. Based on our review, we concluded that the District needs to (1) implement additional procedures to ensure that purchases are correctly charged to the appropriate grant or other funding sources, (2) monitor staff adherence to the District's procedures, and (3) ensure that the District's support for employees paid on a salary basis complies with OMB Circular A-87 requirements. These control weaknesses are discussed in the AUDIT RESULTS section of this report.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvement, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective actions to be taken will be made by the appropriate Department 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 this audit:

Jack Martin
Chief Financial Officer
Office of the Chief Financial Officer
U.S. Department of Education
Federal Building No. 6, Room 4E313
400 Maryland Avenue, SW
Washington, DC 20202

Ronald Tomalis
Acting Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
Federal Building No. 6, Room 3W315
400 Maryland Avenue, SW
Washington, D.C. 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 to members of the press and general public to the extent information contained therein is not subject to exemptions under the Act.

Sincerely,

/s/

Gloria Pilotti
Regional Inspector General for Audit

Attachment

ATTACHMENT

**GONZALES UNIFIED SCHOOL DISTRICT'S
COMMENTS ON THE DRAFT REPORT**

GONZALES UNIFIED SCHOOL DISTRICT

November 3, 2003

Gloria Pilotti
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
501 I Street, Suite 9-200
Sacramento, CA 95814

Ms. Pilotti:

I have received your draft audit report dated October 10, 2003 in which you present your findings and recommendations regarding our CCLC grant. This letter will provide our response to those findings.

The district has always attempted to implement the grant in accordance with the grant terms and federal regulations. We have also complied with all requests by Ann Goodwin for records and documentation during the CCLC program audit.

The report states that charges to the program in the amount of \$55,682 were found to be non-compliant, and we do not contest this. These expenditures were unintentional mistakes that were deemed to be proper at the time. The district takes full responsibility for these errors and intends to return the \$55,682 that was improperly charged to the program. Furthermore, we have instituted management controls, including better district oversight and use of personnel activity reports, to avoid similar mistakes in the future.

The report also states that the district lacks documentation for \$418,323 in personnel costs charged to the program. These expenditures covered salaried employees who worked full time in the program from June 1, 2000 to May 31, 2002. The district kept attendance and payroll records for that period, which we provided to the auditors. However, we lack detailed reports showing the daily activities of each employee. This is a task which, at this point, is impossible to remedy since so much time has passed and employees have left the district, including the administrators who were responsible for supervising the program.

We have investigated and concluded that, to the best of our knowledge, the work of these salaried employees during this period was solely related to the CCLC program, and that the salary expenses were consistent with the grant. Although we are unable to provide more documentation other than that which we have already provided, we disagree with the conclusion of the report that the district should return \$418,323. We request that the US Department of Education accept the documentation that we have provided and dismiss this additional penalty.

If you have any questions or if you wish to discuss this response, please call me at (831) 675-0100 extension 110.

Sincerely,

Ernest S. Zermeno
Superintendent



Board of Education
Alonzo Gonzalez, President
Wendy Francisco, Clerk
Timothy Handley, Member
Eva Rios, Member
Barbara Robinson, Member

Superintendent & Secretary to the Board
Ernest S. Zermeno

Gonzales Unified School District School Services
600 Elko Street
P.O. Drawer 67
Gonzales, CA 95926
Telephone: (831) 675-0100
Facsimile: (831) 675-2763
Business Office Fax: 675-1172
www.gusd-district.org

Gonzales High School
501 Fifth Street
Gonzales, CA 95926
Telephone: (831) 675-2495
Facsimile: (831) 675-8054
www.gusd-ghs.org

Fairview Middle School
401 Fourth Street
Gonzales, CA 95926
Telephone: (831) 675-3704
Facsimile: (831) 675-3274
www.gusd-fairview.org

La Gloria Elementary School
220 Elko Street
Gonzales, CA 95926
Telephone: (831) 675-3663
Facsimile: (831) 675-3260
www.gusd-la-gloria.org

Preschool
550 B Fifth Street
Gonzales, CA 95926
Telephone: (831) 675-2519
Facsimile: (831) 675-2559

Health Center
401 Fourth Street
Gonzales, CA 95926
Telephone: (831) 675-2616
Facsimile: (831) 675-2634

Support Services & Facilities
600 Elko Street
Gonzales, CA 95926
Telephone: (831) 675-2568
Facsimile: (831) 675-1461

GONZALES UNIFIED SCHOOL DISTRICT

November 24, 2003

Ann Goodwin
Office of Inspector General
US Department of Education
501 I Street, Room 9-200
Sacramento, CA 95814

Dear Ann:

As you requested, here is a further explanation of our response to recommendation number 2.2 from the draft audit report dated October 10, 2003. This item requires that a personnel activity report and periodic certification process be implemented for salaried employees (OMB Circular A-87).

The district has developed a personnel activity report form that has been used since January 2003 for salaried employees working on a federal grant. You refer to this form on page 6 of your report. This form will be prepared by all salaried employees every fourth month (three times a year), which is in keeping with our understanding of the substitute time accounting system which was approved for LEAs in California in 1998.

I hope this process is acceptable in meeting the recommendation in your audit report. If you have any further questions, please call me at (831) 675-0100, ext. 110.

Ernie S. Zermeno
Superintendent



...SEEING EYE TO EYE

Board of Education
10000 Central Exp. Blvd. 2nd Fl.
Gonzales, CA 95026
Telephone: (831) 675-2100
Facsimile: (831) 675-2104
www.gusd.org

Superintendent
Ernie S. Zermeno
10000 Central Exp. Blvd. 2nd Fl.
Gonzales, CA 95026
Telephone: (831) 675-2100
Facsimile: (831) 675-2104
www.gusd.org

Gonzales Unified School District
School Services
600 Hill Street
Gonzales, CA 95026
Telephone: (831) 675-2100
Facsimile: (831) 675-2104
www.gusd.org

Gonzales High School
5017 1/2th Street
Gonzales, CA 95026
Telephone: (831) 675-2493
Facsimile: (831) 675-2493
www.gusd.org

Fairview Middle School
401 Fourth Street
Gonzales, CA 95026
Telephone: (831) 675-2104
Facsimile: (831) 675-2104
www.gusd.org

La Grange Elementary School
201 1/2th Street
Gonzales, CA 95026
Telephone: (831) 675-2104
Facsimile: (831) 675-2104
www.gusd.org

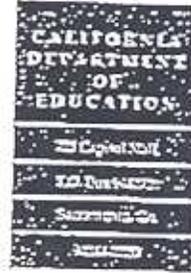
Prucha
550 B Street
Gonzales, CA 95026
Telephone: (831) 675-2104
Facsimile: (831) 675-2104

Health Center
501 1/2th Street
Gonzales, CA 95026
Telephone: (831) 675-2493
Facsimile: (831) 675-2493

Support Services & Facilities
600 Hill Street
Gonzales, CA 95026
Telephone: (831) 675-2104
Facsimile: (831) 675-2104



DELAINE EASTIN
State Superintendent of Public Instruction



DATE: June 26, 1998

TO: County and District Superintendents
County and District Chief Business Officers
County and District Administrators of Categorical Programs

FROM: Janet Sterling, Director
School Business Services Division

SUBJECT: Approved Substitute System for Time Accounting for Federal Programs

We are pleased to announce that the United States Department of Education (USDE) has approved a substitute sampling system for time accounting for federal programs for the local educational agencies (LEAs) in California.

The substitute system can be used by California's LEAs, at their option, beginning July 1, 1998, for substantiating federal salary and wage charges for those employees working on *multiple funded activities or cost objectives*.

The substitute system is intended to simplify recordkeeping for LEAs that must substantiate salary and wage charges to federal programs through the use of personnel activity reports (PARs) or equivalent documentation. Without an approved substitute system, PARs must be prepared at least monthly for employees working on activities funded from multiple resources whenever federal funds are involved.

Under the substitute system approved for California, PARs may be less frequent. Specifically, the system allows LEAs to collect PARs from employees *every fourth month* (three times a year). The information from the PARs is used to estimate the percentage of time employees will spend on various federal programs in the next three months, and to reconcile the federal timekeeping estimates from the previous three months. This system works best when the composite workload produces an even distribution of salaries to accounts over the full 12-month period.

The following is a description of the substitute system process. The description assumes that the LEA begins the substitute recordkeeping process in July; however, LEAs may choose any month to begin the cycle. Because the starting month establishes the recordkeeping cycle for the year, we recommend LEAs choose a starting month that most accurately reflects their annual average labor cost experience.

- All multiple resource funded employees (i.e., those employees funded from more than one resource, at least one of which is federal) keep PARs for the full month of July to account for 100% of their time spent on activities for which they are compensated. From the PARs, labor

distribution reports for July are generated which are used to support effort distribution and charges for incurred costs in July, and provide the basis for employee salary and fringe benefit allocations for August, September and October.

- In November and again in March, employees keep PARs, which are used to:
 - 1) support effort and labor costs incurred in the months of November and March,
 - 2) compare with and adjust the budgeted effort distribution for the periods August through October and December through February,
 - 3) project salary and fringe benefit allocations for the periods December through February, and April through June.
- The same process is followed once more in July to support incurred labor cost allocations for that month and to compare and adjust the budgeted effort distribution for the period April through June. Further, the July PARs start another round of labor distribution estimates for the second year.
- After the first full year on the system, LEAs may shift from collecting PARs three times a year to two times a year, if the deviation between their total estimated and total actual time charges is constantly less than 10%. Thereafter, the twice-yearly PAR collection may be maintained as long as the deviation is constantly less than 10%.
- Written policies and procedures are essential to implementing an effective labor distribution system. Each LEA must develop their own instructions for:
 - 1) the completion of PARs (including information about how frequently PAR data must be recorded and what constitutes adequate documentation),
 - 2) the review and approval cycle that is required,
 - 3) the handling of completed forms,
 - 4) the internal review process that will be established to ensure compliance.

Generally, this information should be in sufficient detail to permit an understanding of how this system will operate from the point labor is expended, to the point it is recorded in the accounting records and charged to Federal awards.

LEAs must develop forms and management and employee instructional materials to meet their particular needs for time accounting. We suggest consulting your independent auditor for guidance specific to your LEA in this process. We expect LEAs to provide training before implementing the system, and we suggest doing a "trial run" before beginning the actual substitute system process.

We would appreciate receiving copies of LEAs' data collection documents and instructional materials. California is one of a very few states approved for such an innovative substitute system. We expect that follow-up reviews will be conducted with LEAs to assess the implementation and efficacy of the system, to determine if "fine-tuning" is necessary, and to gather information to help us share ideas and best practices with other LEAs and with other states.

Important Rules of the Road:

1. For purposes of this substitute system, a "multi-funded" or "multiple resource funded" employee means that the employee is funded from one of the following funding combinations:

- a) the employee is funded by more than one federal categorical program source, and that funding is not combined in a Schoolwide Program (SWP)
 - b) the employee is funded by a mix of federal and state categorical program funding sources
 - c) the employee is funded by a mix of federal categorical programs (other than SWP) and general purpose funding sources.
2. Those employees funded solely (100%) from a single federal source must be *excluded* from the substitute system, because their data would distort the aggregate results of the multi-funded data. (These employees prepare semi-annual certifications.)
 3. If LEAs use the substitute system, all multi-funded employees that are required to complete PARs must participate.
 4. PARs completed by each participating multi-funded employee must cover the *entire month* that is being sampled.

The decision to use this substitute system for allocating salaries and wages to federal programs is totally at the option of each LEA. After examining this substitute system, LEAs may wish to continue their current methods of substantiating salary and wage charges to federal programs, rather than use the substitute system. Either way, we suggest that you refer to the information on the requirements for documenting salary and wage charges that was provided in our August 28, 1997 letter titled "Salaries and Wages Charged to Federal Programs, Pursuant to Office of Management and Budget (OMB) Circular A-87." That letter was sent to all county and district superintendents, chief business officers, and administrators of categorical programs.