



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

NOV 14 2008

TO: Thomas Skelly
Acting Chief Financial Officer
Office of the Chief Financial Officer

Richard Smith
Acting Assistant Deputy Secretary
Office of English Language Acquisition

/s/
FROM: Richard T. Rasa
Director
State and Local Advice and Assistance

SUBJECT: Final Report on the Greasy Public School Dependent District
Control Number ED-OIG/S14J0002

Attached is the final report on the Greasy Public School Dependent District (GPS) conducted by our contract audit firm, McBride, Lock and Associates. This report was completed in response to a request from OELA staff for a fiscal review of GPS.

The report identifies a variety of issues including GPS's lack of sufficient fiscal controls and procedures, inadequate supporting documentation, and some questionable charging practices. Therefore, our office is recommending that the Department conduct a financial monitoring review regarding GPS's expenditure of federal grant funds, including the possible duplication of reimbursements from federal and state sources.

You have been designated as the action officials responsible for the resolution of the findings and recommendations in the attached final report. We also provided a copy to GPS and your audit liaison officers.

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

We appreciate the cooperation of OELA staff during this review. If you have any questions concerning this matter, please contact me at 202-245-6954.

Attachment

cc: OIG Report Distribution List
 Cynthia Ryan
 Trinidad Torres-Carrion
 Samuel Lopez
 Sherrice Rucker

MCBRIDE, LOCK & ASSOCIATES

U.S. Department of Education
Washington, DC 20202

RE: Greasy Public School – Stilwell, Oklahoma

We have completed a post-award review of the Greasy Public School Dependent District (District) Title III American and Alaska Native Children in School Program grant award, PR/Award Number T365C030009. Our review was performed in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States and professional standards published by the American Institute of Certified Public Accountants. It was conducted during the period August 13, 2007 through March 11, 2008. The scope of our review included:

- Capability of the District to administer discretionary grants through fiscal control and fund accounting procedures.
- Review of the District's financial statement history and analysis of independent auditor results.
- Review of prior on-site review conducted by the U.S. Department of Education (ED) and follow-up from said review.
- Communications with an Investigative Auditor with the Office of the Oklahoma State Auditor and Inspector.
- Testing of grant disbursements to determine allowability of costs and proper accounting for Federal funds.
- Physical observation of equipment purchased with Federal funds and determination of procedures to ensure proper control of and accounting for equipment inventory.

The objective of the review was to determine whether the grantee has in place adequate personnel, systems, and controls to administer, safeguard and account for Federal grant funds in accordance with ED requirements.

The review was performed for the period July 1, 2003 through June 18, 2007. During that period \$596,924 in expenditures were claimed under the grant. The amended overall grant award is \$608,522. As a result of an on-site visit by ED in 2006, the grantee was designated as a high-risk grantee relative to this grant award and was placed on a cost reimbursement basis. Of the total expenditures identified above, \$157,333 was received by the grantee subsequent to being placed on the cost reimbursement basis.

As discussed in more detail below, the organization could not provide detailed backup to support the total funds, direct and indirect, claimed on this project. Based upon the automated accounting system, the costs coded to the grant project results in the following breakdown of charges:

<u>Type of Cost</u>	<u>Amount</u>	<u>%</u>
Payroll	\$343,470	58%
Fringe Benefits	90,609	15%
Other Direct	139,577	23%
Total Direct	\$573,656	96%
Undetermined (1)	23,268	4%
Total Claimed Costs	<u>\$596,924</u>	<u>100%</u>

(Footnote - 1: An indirect cost rate of 5% was allowable per the grant.)

The methodology used to conduct our review involved an assessment of control risk, development of an audit plan and gathering of evidential matter through interview, observation and testing of events occurring during the review adequate to provide assessment of the capability to administer, safeguard and account for Federal grant funds.

Background of Greasy Public School

The District is a corporate body for public purposes and is part of the public school system of Oklahoma under the general direction and control of the State Board of Education and is financially dependent on State of Oklahoma support. The governing body of the District is the Board of Education composed of elected members. The appointed superintendent is the executive officer of the District.

District Comments

Prior to the current Superintendent's engagement at Greasy School, the former Superintendent and the former Title III Program Director had an altercation regarding the expenditure of school funds and the Title III grant award. Subsequent to this altercation, the Program Director resigned from his position and contacted State and Federal officials resulting in audit(s) of the school's expenditures. Shortly afterward, school finances, pending audit reports and pressure from the board forced the Superintendent to retire. Following the departure of the Superintendent, the only employees who had firsthand knowledge of the expenditures made under the Title III grant was the Encumbrance Clerk and Administrative Assistant.

Audit Reply

The review takes no position on the background information provided. It is apparent that much turnover of personnel was present.

Capability of the Organization to Administer Discretionary Grants

The District maintains its financial records on a basis of accounting required by Oklahoma statutes and uses the Oklahoma Cost Accounting System (OCAS) using Municipal Accounting Systems, Inc. software. The District changed from a DOS based version of the system to a Windows version during the middle of the grant period under review. This change resulted in

the loss of some of the vendor identification information for printed reports from the period prior to the Windows conversion.

In addition to the automated system, the District maintained manual ledgers for the grant program; however, these records did not cover the entire grant period and could not be reconciled to amounts claimed. A review of these records identified some costs that were not found to be coded in the automated system to the grant program. Additionally, some costs identified by the grant project number within the automated system had not been recorded to the manual ledgers.

The District did not maintain all the detailed information supporting the individual draws on the grant. A review of the supporting documentation maintained for the individual draws revealed several instances of duplicate claimed costs. The support for the individual draws on the grant, when available, consisted of detail from the automated system.

The District was not able to readily identify all expenditures under the grant award sufficient to allow for the reconciliation of said expenditures to the draw downs from the ED website portal for electronic grants. The automated system generated reports for the grant project only accounted for expenditures of \$573,656 of the total claimed costs of \$596,924. The variance of \$23,268 could not be determined. It should be noted that the original grant application included indirect costs at 5% of total direct costs.

Overall, the District did not have sufficient fiscal controls and procedures in place to ensure and maintain proper stewardship of taxpayer dollars and ensure fiscal control over Federal funds. Full accountability for the total of all expenditures (direct and indirect) under the grant award were not supported by the financial records. Additionally, the interim requests included duplicate costs. Also, the manual records were not in agreement with either claimed costs or the automated system. Without documentation supporting 100% of the claimed costs, it cannot be assured that grant funds are being utilized in an allowable manner.

In general, grantees are required to have financial management systems that provide for accurate, current, and complete disclosure of results regarding the use of funds under grant projects in order to maintain the grant integrity and ensure compliance with Federal fiscal and administrative oversight activities as authorized by the Elementary and Secondary Education Act of 1965, as amended, 20 U.S.C. § 6822 and the Education Department General Administrative Regulations (EDGAR), 34 CFR Parts 75 and 80. The financial management system did not produce the required accurate, current and complete disclosure of the results of the use of funds under this grant.

Review of Financial Statement History and Analysis of Independent Auditor Results

This analysis included the audits for fiscal years 2004 through 2006. In general the reports all contained a qualified opinion with respect to the statutory basis of accounting and contained disclosure of lack of segregation of duties as a reportable condition in the internal controls over major programs, which was not considered a material weakness. The reports for the first two years disclosed no instances of noncompliance material to the financial statements, no audit findings which are required to be reported under Office of Management and Budget (OMB)

Circular A-133 and an unqualified opinion report was issued on the compliance of major programs. The grant under this review was determined to be a major program by the Independent Auditor in all three years.

The audit report for the fiscal year ended June 30, 2006 disclosed reportable conditions in internal controls over financial reporting that were considered to be material weaknesses. These conditions related to the Child Nutrition Program, the Coordinated School Physical Education (PE) Program and in Appropriations. None of these areas would have a material impact upon the grant program under review. However, this audit also disclosed reportable conditions in internal controls over major programs considered to be material weaknesses. Specifically, due to the on-site visit conducted by ED, this audit disclosed certain critical areas of concern, as follows:

- Adequate documentation to support program objectives was not properly maintained by the Title III Project Director.
- Expenditures were not made within the approved budgeted line items and no approved budget amendments were observed.
- Due to the overlapping of dates when preparing expenditure reports for reimbursement, expenditures were claimed twice, in the amount of \$9,422.88.

The external auditors further reported, "However, it does appear through the examination of supporting documentation concerning the identification of the Limited English Proficiency (LEP) students and the supporting documentation for program expenditures, that the program objectives were carried out and expenditures were spent for allowable expenditures and for the benefit of the LEP students."

The items disclosed by the audit directly affect the grant program under review and raise the same concerns as documented by the on-site visit and our post-award review. We noted additional expenditures that were claimed twice. However, using the system generated expenditure reports charged to the project, we were able to document \$573,656 in direct expenses. The remaining costs of \$23,268 could not be determined.

While the independent audit determined the lack of segregation of duties as a reportable condition, this is considered an inherent limitation in small organizations. The District has an encumbrance clerk, whose duties are separate from the recording, disbursing, and reconciliation functions over bank accounts. Additionally, the recording, disbursing and reconciliation functions have been segregated. We consider these compensating controls adequate to reduce the risk of any material misstatements, which the audit results support in all three years as the segregation of duties concern was not considered to be a material weakness.

It should be noted that the audited financial statements indicate that approximately 50% of revenues are derived from Federal sources with approximately 20% of that total from the Title III grant.

Prior On-Site Review

Staff members of the Title III Native American and Alaska Native Children in School Program of ED and the Oklahoma State Department of Education conducted an on-site visit to the District

during the period September 25 through September 26, 2006. As a result of the visit, seven areas of critical issues concerning project performance and fiscal compliance were identified, as follows:

- No grant file or other documentation to establish implementation of the grants in accordance with the approved applications;
- Grantee failed to establish that it is one of the eligible entities listed in section 3112(a);
- No evidence of Native American LEP students participating in the program;
- Grantee failed to inform parents of the LEP students participating in the program, Section 3302 – Parental Notification;
- Entity received a sub-grant under Title III, Section 3114 while receiving the Native American and Alaska Native Children in School grants, contrary to Section 3112(c) of the ESEA;
- Grantee failed to carry out the activities and achieve the objectives proposed in the original application;
- Grantee failed to hire a certified Literacy Specialist/Resource Teacher and a certified Native Language Instructor/Counselor as described in the original application.

The District submitted its responses within the twenty days as required. Upon review of the documentation submitted, the Office of English Language Acquisition determined that the concerns had not been completely addressed and thereby deemed the organization as a high-risk grantee and imposed limitations on their ability to draw down funds, placing the school on a cost reimbursement basis and requiring that receipts be submitted for all future expenditures.

The District, as a result of the on-site findings, began taking steps to correct the problems identified and began documenting the activities as well as progress of the LEP students. It received four reimbursements of funds after the date of the on-site visit. When the project ended in June 2007, the District did not apply for a continuation grant and former employees on the project have since quit or have been let go.

The District currently is in financial crisis and has begun reduction in force measures to enable it to complete the school year. Most non-certified staff have been let go. The former superintendent resigned and an interim superintendent was appointed in January of 2008. Additionally, the District is under investigative audit by the Office of the Oklahoma State Auditor and Inspector. Most of the employees involved in the project are no longer employed by the District making it difficult to obtain the information needed to complete any review.

Investigative Audit of the Oklahoma State Auditor and Inspector

The Office of the Oklahoma State Auditor and Inspector is currently conducting an investigative audit of the District due to suspected fiscal improprieties. At the request of an auditor from that office, we contacted their office to discuss our review efforts. At that time, the State Auditor asked whether the salaries of certain employees were being claimed for Federal reimbursement. As explained by the State Auditor, the State reimburses the organization for the salaries of their employees based upon Certified and Support Personnel Reports submitted to the Oklahoma Department of Education. On these reports, the schools are to indicate any portion of a reported employees' salary that is being covered by Federal funding. These reports stated that for the

Language Acquisition Specialist none of the salaries or fringe benefits were paid by Federal funds. In actuality, 100% of this position's salary of \$32,118 and fringes were paid by Federal funds. Additionally, the report stated that the Project Director's salary was paid by Federal funds. The salary information is correct, however the report did not indicate that any fringe benefits for this position were paid by Federal funds. This representation by the District results in reimbursements of these employees' salaries and fringe benefits being made by both the State and the Federal government. Potentially, this finding could apply to 44% of the salaries and fringe claimed under the grant or approximately \$149,750.

Additionally, the State reimburses schools for the health insurance expenses incurred by districts for their employees. The District is receiving reimbursement through the grant program for health insurance costs on the employees being charged to the grant program from the Federal government. The State Auditor also believes the District is receiving duplicate payments for the cost of this health insurance from the State.

Testing of Grant Disbursements to Determine Allowability of Cost and Proper Accounting for Federal Funds

Our review included testing of 45% of the total direct non-personnel related expenditures and review of personnel charges related to two positions being charged to the grant. The positions tested were judgmentally selected based upon the dollars being charged to the grant. Our review was conducted to determine the disbursement procedures of the grantee, the allowability of costs being charged to the grant, the adequacy of time and attendance records, and the appropriateness of the grantee's accounting for expenditures. The following areas of concern or questioned costs were identified:

- **Lack of Supporting Documentation**

The District was unable to locate the purchase order, invoice and receiving documentation on 12 of the 29 items selected for testing, totaling \$36,344 of direct non-personnel related expenditures. This represents a 41% error rate. The District indicated that it had been audited several times during the past year and believes that some files have been misplaced due to this audit activity. The District had pulled all Title III documentation by fiscal year from its regular numeric Purchase Order files; however, the majority of documentation from fiscal year 2003 – 2004 and 2004 – 2005 could not be located. We did vouch these disbursements to the cleared checks in the bank statements to determine the vendor being reimbursed and to ensure that the amount paid agreed to the financial records. However, without a purchase order, invoice or receiving documentation, it cannot be assured that grant funds are being utilized in an allowable manner.

- **Questioned Costs**

Our review of the remaining direct non-personnel related expenditures identified the following questioned costs:

- a. We noted the District claimed \$7,140.00 in expenses from Southwest Parks and Playgrounds related to the purchase of playground equipment. The remainder of this invoice was charged to a Carol White PE Grant. We noted no justification for the allocation of this expense as an allowable cost to the Title III grant.
- b. We noted that the District claimed \$574.50 in expenses paid to Carl Albert State College related to tuition payments for college courses for teacher aides. The classes being reimbursed were math courses and we noted no justification for the allocation of these expenses as an allowable cost to the Title III grant.
- c. We noted that a Literacy Specialist/Resource Teacher whose salary was charged in large part to the Title III grant was under contract to the District as a full time fourth grade teacher. The District was not able to explain how the employee could satisfactorily fulfill both duties on a full time basis. Time records did not support the charging of this salary to the Title III grant.

Physical Observation of Equipment Purchased with Federal Funds and Procedures Ensuring Proper Control of and Accounting for Equipment Inventory

From the listing of expenditures of major items of equipment purchased under the Title III grant, supporting documentation could not be located. Therefore, we were unable to identify or physically observe specific items charged to the grant. We did note that the District has a computer lab set up which it indicates was used for language studies by the LEP students. Without documentation of the specific items charged to the grant, however, we were not able to verify existence of the amounts charged. Without supporting documentation, we were not able to determine the overall dollars charged as equipment.

Conclusion

The District does have an overall accounting system capable of ensuring fiscal control for grant expenditures. However, the District did not provide for oversight of the grant nor did it have in place the procedures necessary to ensure fiscal control.

Concerns regarding the allowability and allocability of costs to the grant program as well as concerns over reimbursements of salaries and fringes by both the State and the Federal government remain. We recommend that sufficient controls be established and analyzed to maintain and ensure the proper stewardship of grant funds, as well as, the documentation of equipment purchases. We further recommend that any duplication of reimbursements between the State Department of Education and the U.S. Department of Education be fully investigated and documented to establish questioned costs under this grant.

District Comments

On-Site Review

The current Superintendent was not employed with Greasy School at the time of your initial on-site review of school records. On the date of your second site visit, neither the Administrative Assistant nor Encumbrance Clerk showed up for work. As stated above, these employees were the only individuals with firsthand knowledge concerning records and spending under the Title

III program. Neither the current secretary nor the current Superintendent had information concerning the details and whereabouts of supporting documentation relating to the Title III grant at that time, however, the auditor did not mention a lack of supporting documentation or request any additional information during the visit or after its conclusion.

Supporting Documentation

In May of 2008, our testing coordinator found three boxes of documents relating to the Title III program. The current Superintendent made numerous calls to the auditor in order to notify her about this additional information to ensure an accurate post-award review of our Title III program, however, the auditor failed to return the calls. In addition, the school did not receive a copy of your recently completed review in a timely manner because the auditor had sent the draft to the wrong address. This delayed the school's response to your findings.

Audit Findings

Greasy School has faced many challenging financial difficulties this year resulting from the employment of the former Superintendent and former Title III Program Director. Under the current Superintendent's supervision, the school has taken corrective measures to overcome the negative impact of the actions taken by these former employees including careful expenditure of funds and workforce reduction. Through these efforts and financial help from the Cherokee Nation the school is currently financially solvent. Greasy School is committed to taking the appropriate actions to reconcile the funding allocated from the State and the Federal government under the Title III grant, however, the school wants the appropriate parties to be held responsible for their inappropriate behavior.

Please contact the current Superintendent if you have any additional questions or concerns regarding these comments or the supporting documentation supplied by Greasy School. The school is willing to provide any additional information necessary to ensure an accurate post award review of our Title III Grant.

Audit Reply

The response provides additional background on the reason for the issues cited in the report. However, the information submitted within that response does not specifically dispute or provide evidence of resolution of any specific item within the report. The District has modified its postal address since the examination was conducted.

No modification to the report has been made as a result of the District's response.

This report is intended for the information of ED and the Greasy Public School District and is not intended to be and should not be used by anyone other than these specified parties.


McBride, Lock & Associates
June 11, 2008

ATTACHMENT

June 9, 2008

Robert J. Lock
McBride, Lock & Associates
Suite 900
1111 Main Street
Kansas City, MO 64105

RE: Greasy Public School

Dear Mr. Lock:

I am writing this response in regards to your letter dated May 30, 2008, in which you requested a response to a draft report completed by your accounting firm. I was hired as interim Superintendent of Greasy Public School on January 31, 2008. At the commencement of my employment, I had limited knowledge concerning the background history relating to the Title III American and Alaska Native Children in School Program ("Title III") grant awarded to Greasy School. Through careful review of available records as well as interviews from school personnel, I was able to ascertain the following information regarding the post-award review of Greasy Public School conducted by your firm.

Background History

Prior to my engagement at Greasy School, the former Superintendent, [REDACTED], and the former Title III Program Director, [REDACTED], had an altercation regarding the expenditure of school funds and the Title III grant award. Subsequent to this altercation, [REDACTED] resigned from his position and contacted state and federal officials resulting in audit(s) of the school's expenditures. Shortly afterward, school finances, pending audit reports and pressure from the board forced [REDACTED] to retire. Following the departure of [REDACTED], the only employees who had firsthand knowledge of the expenditures made under the Title III grant was the Encumbrance Clerk, [REDACTED], and Administrative Assistant, [REDACTED].

On-Site Review

I was not employed with Greasy School at the time of your initial on-site review of school records. On the date of your second site visit, conducted by [REDACTED], neither [REDACTED] nor [REDACTED] showed up for work. As stated above, these employees were the only individuals with firsthand knowledge concerning records and spending under the Title III program. Neither the current secretary, [REDACTED], nor myself had information concerning the details and whereabouts of supporting documentation relating to the Title III grant at that time, however, [REDACTED] did not

mention a lack of supporting documentation or request any additional information during the visit or after its conclusion.

Supporting Documentation

In May of 2008, our testing coordinator, [REDACTED] found three boxes of documents relating to the Title III program. I made numerous calls to [REDACTED] in order to notify her about this additional information to ensure an accurate post-award review of our Title III program, however, [REDACTED] failed to return my calls. In addition, the school did not receive a copy of your recently completed review in a timely manner because [REDACTED] had sent the draft to the wrong address. This delayed the school's response to your findings.

Audit Findings

Greasy school has faced many challenging financial difficulties this year resulting from the employment of the former Superintendent and former Title III Program Director. Under my supervision, the school has taken corrective measures to overcome the negative impact of the actions taken by these former employees including careful expenditure of funds and workforce reduction. Through these efforts and financial help from the Cherokee Nation the school is currently financially solvent. Greasy School is committed to taking the appropriate actions to reconcile the funding allocated from the state and the federal government under the Title III grant, however, the school wants the appropriate parties to be held responsible for their inappropriate behavior.

Please contact me if you have any additional questions or concerns regarding these comments or the supporting documentation supplied by Greasy School. The school is willing to provide any additional information necessary to ensure an accurate post-award review of our Title III grant.

Sincerely,

John Perry, Superintendent
Greasy Public School