
NEW ORLEANS EDUCATIONAL TALENT SEARCH PROGRAM, INC.

FINAL AUDIT REPORT



ED-OIG/A06-D0015

October 2004

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Department's programs and operations.



U.S Department of Education
Office of Inspector General
Dallas, Texas

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OCT 21 2004

Robert McFarland, Executive Director
New Orleans Educational Talent Search Program, Inc.
4215 S. Claiborne Avenue
New Orleans, Louisiana 70125

Dear Mr. McFarland:

Enclosed is our final audit report, Control Number ED-OIG/A06-D0015, entitled New Orleans Educational Talent Search Program, Inc. (NOETSP). This report incorporates the comments you provided in response to the draft report. 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
Lead Action Official
400 Maryland Avenue, S.W.
Washington, D.C. 20202

Sally Stroup
Assistant Secretary, Office of Postsecondary Education
U.S. Department of Education
1990 K Street, N.W.
Washington, D.C. 20006

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 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,

/s/
Sherri L. Demmel
Regional Inspector General
for Audit

Enclosure

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EXECUTIVE SUMMARY

New Orleans Educational Talent Search Program, Inc., (NOETSP), a nonprofit corporation, materially failed to comply with the Higher Education Act of 1965 (HEA), as amended, regulations governing the Talent Search Program, and its approved grant application. During the period September 1, 1998, through December 31, 2002, NOETSP did not (1) comply with the grant performance requirements, and (2) properly account for \$1,937,980 in Talent Search Program funds.

Violation of Program Regulations – NOETSP materially failed to comply with Talent Search Program regulations, and did not meet the grant performance objectives stipulated in its approved grant application. Specifically, NOETSP did not (1) document needs assessments for its participants, including whether the students were low-income or prospective first-generation college students, and (2) maintain a record of services provided and educational progress made by each participant as a result of the services. Based on its material failure to comply with the grant objectives, NOETSP was not entitled to retain the \$1,937,980 received on this grant.

Excess Cash – NOETSP drew down more money from the Department of Education (Department) than it expended. For the period September 1, 2001, through December 31, 2002, NOETSP drew down an excess of \$301,034.

Unallowable/Unsupported Costs – For the period September 1, 1998, through December 31, 2002, NOETSP received \$1,564,061 that was either not allowable or not adequately documented to support that the cost was allowable under Federal cost principles.

Single Audits Were Not Properly Submitted to the Clearinghouse – NOETSP did not comply with the Single Audit Act by failing to submit its audit reports for the fiscal years ending June 30 of 2000, 2001, and 2002. We notified the Department of this condition during our audit.

We recommend that the Chief Financial Officer, in collaboration with the Assistant Secretary for Postsecondary Education—

- 1.1 Require NOETSP to return the questioned costs of \$1,937,980.
- 1.2 Calculate and collect imputed interest on the \$1,937,980.
- 1.3 Take appropriate action pursuant to 34 C.F.R. § 74.62 to protect future Talent Search funds.
- 2.1 Require NOETSP to return \$301,034 in excess cash.
- 2.2 Calculate and collect imputed interest on the \$301,034.
- 2.3 Calculate and collect excess cash and imputed interest for the period December 31, 2002, to present.
- 3.1 Require NOETSP to return \$1,564,061 in unallowable or unsupported costs.
- 3.2 Calculate and collect imputed interest on the \$1,564,061.
- 4.1 Require NOETSP to submit all required audit reports to the Single Audit Clearinghouse.
- 4.2 Require NOETSP to resolve the questioned costs of \$228,575 and \$262,293 shown in the audit reports, for the years ended June 30, 2000 and 2001, respectively, and any additional corrective action issues identified in the audit resolution process.

(The questioned costs in Findings 2, 3, and 4 are duplicative of the total grant costs questioned in Finding 1.)

AUDIT RESULTS

NOETSP materially failed to comply with the HEA, specific Talent Search Program regulations, and its approved grant application. Specifically, NOETSP demonstrated weak management controls and (1) did not comply with program regulations, (2) drew down more funds than it expended, (3) spent grant funds on items that were either unallowable under Federal cost principles or did not adequately document the expenditures, and (4) did not comply with the Single Audit Act by failing to submit its audit reports for the fiscal years ending June 30 of 2000, 2001, and 2002.

We provided a draft of this report to NOETSP. We received a response dated August 22, 2004, and received an addendum to the response dated August 25, 2004. We have included the entire response and addendum as Appendix C to this report. In its response, NOETSP disagreed with each finding and recommendation, and submitted an explanation and various exhibits to support its position. We have summarized NOETSP's response to each finding in the AUDIT RESULTS section of this report. We also have assessed NOETSP's general concerns not specific to the audit findings, and have included that assessment as Appendix D to this report.

After assessing NOETSP's response and addendum, we have not changed our findings or recommendations, but we have revised our report to more clearly and fully address issues raised by NOETSP's response.

FINDING NO. 1 VIOLATION OF PROGRAM REGULATIONS

Participant Eligibility Was Not Documented

NOETSP did not document the required needs assessment for any of its student participants, and did not document that at least two-thirds of the participants were both low-income and potential first-generation college students.

A grantee must determine whether a participant is eligible to participate in a Talent Search Program under 34 C.F.R. § 643.3, which includes determining whether the participant needs one or more of the services that may be provided pursuant to 34 C.F.R. § 643.4. For each participant, a grantee must maintain a record of the basis for its determination that the participant is eligible to participate, including the needs assessment for the participant (34 C.F.R. § 643.32).

Under 34 C.F.R. § 643.10 and § 643.32(b), a Talent Search grantee must serve a minimum of 600 participants per year, and must ensure that at least two-thirds of the participants served will be low-income individuals who are potential first-generation college students.

A low-income individual is defined, in §402A(g)(2) of the HEA, as an individual from a family whose taxable income for the preceding year did not exceed 150 percent of an amount equal to the poverty level determined by using criteria of poverty established by the Bureau of the Census.

HEA § 402A(g)(1) defines a first-generation college student as an individual where neither parent has completed a baccalaureate degree; or in the case of any individual who regularly resided with and received support from only one parent, an individual whose only such parent did not complete a baccalaureate degree.

For dependent students, HEA § 402A(e)(1) states that documentation of status as a low-income individual is to be made by providing the Department with:

- (A) A signed statement from the individual's parent or legal guardian;
- (B) Verification from another governmental source;
- (C) A signed financial aid application; or
- (D) A signed United States or Puerto Rico income tax return.

For independent students, HEA § 402A(e)(2) states that documentation of status as a low-income individual is to be made by providing the Department with:

- (A) A signed statement from the individual;
- (B) Verification from another governmental source;
- (C) A signed financial aid application; or
- (D) A signed United States or Puerto Rico income tax return.

Based on guidance from the Department, examples of available records that we considered to be adequate documentation were:

- Student Eligibility Form – This form was acceptable for low-income status if (1) “low income” was checked on the form or a dollar amount was filled in and (2) the file contained a tax return or other financial information that appeared to support a low-income status.
- Consent/Income Documentation Form – This form was acceptable for first-generation status if the form was (1) checked that neither parent had completed college, and (2) the information had been obtained from the parent, the guardian, or the participant.

Although NOETSP had individual student files for some of the participants, most of the files reviewed contained insufficient information to substantiate the eligibility of the participants to receive grant services. For 1998-1999 through 2001-2002, NOETSP received funding to assist 7,200 individuals (1,800 per budget period). At least 4,800 (66%) of the 7,200 students should have been documented as being both “low-income” and “first-generation.” However, only 31 students were documented as both low-income and first-generation students during this four-year period. Our review of NOETSP's documentation disclosed 109 low-income students, 47 first-generation students, and 31 students documented as both low-income and first-generation. The number of adequately documented students was only 0.65 percent (31/4800) of the required minimum number.

Due to the lack of documentation, NOETSP could not demonstrate that it served the minimum of 600 participants per budget period. To be credited for serving 600 participants, NOETSP must document each year that 400 (66%) of its program participants were both low-income and first-generation students. For program years 1998-1999 through 2001-2002, we found only 31 such participants, which is only 1.9 percent (31/1600) of the required minimum number.

NOETSP Did Not Provide Services to Participants

NOETSP did not maintain a record of services provided to and the educational progress made by each of the 7,200 participants for whom it received funding for the four-year period reviewed. According to 34 C.F.R. § 643.32(c), a grantee must maintain a record of the services provided to the participant and the specific educational progress made by the participant as a result of the services. Grantees are required to maintain all supporting documents and records pertinent to an award for a period of three years from the date of submission of the final expenditure report (34 C.F.R. § 74.53(b)).

To assess NOETSP's performance, we reviewed all available records for Program Years 1998-1999 through 2001-2002. We reviewed the *Annual Performance Reports* for Program Years 1998-1999 and 2001-2002 and supporting documentation provided by NOETSP. Although requested, neither NOETSP nor the Department was able to provide the *Annual Performance Reports* for Program Years 1999-2000 and 2000-2001.

In support of the services provided to participants, the documentation provided to us was very limited and insufficient. Records provided by NOETSP consisted of a wide range of documents. Many student files contained only a profile sheet and a self-assessment inventory, neither of which showed services provided. Some of the files contained only consent/income documentation forms and Free Application for Federal Student Aid forms. Additionally, documentation of outreach services often consisted of only a summary page and accompanying sign-in rosters. We did not consider the documentation reviewed to be adequate to substantiate services provided, and the Department agreed that the documentation was not adequate.

In performing our review, we gave NOETSP credit wherever possible, even though much of the student-level contact information was limited. For example, we counted a student as a "client served" if we saw any indication that the student participated in a financial aid application session or financial aid workshop. In some cases, we obtained names from roster or sign-in sheets; in other cases, we obtained names from individual student profile sheets. In all cases, we attempted to obtain data regarding name, address, telephone number, social security number, school, grade level, acceptance basis, intended college, and service provided. In many cases, we had only part of such information. Most of the data was handwritten, and we had difficulty reading some of the names. Some cases might exist where we counted a student twice because names appeared to be spelled differently, even though the names were quite similar.

Using the expansive approach described above, we reviewed NOETSP's supporting documentation for grant performance. NOETSP purportedly had contact with at least 1,800 students in each of the program years, but documentation to substantiate that contact was inadequate to prove that services were provided. For example, our examination of those records for Program Year 2001-2002 disclosed that services were provided to only 165 participants, even

though NOETSP received funding for 1,800 and reported to the Department that it served 1,950. The report showed that the total of 1,950 included 1,412 continuing participants. The document provided by NOETSP to substantiate the number served showed the "TOTAL STUDENTS SERVICED 2001-2002" to be 1,412 students, and not the 1,950 reported to the Department. However, that document included the name of the school attended by the student, activities, and numbers served at the respective schools, but did not include any student names. Furthermore, 97 students were reportedly served in November 2002, which was beyond August 31, 2002, the end of the budget period. In addition to the document mentioned above which showed 1,412 students served, we obtained another record from NOETSP that showed only 228 students were served during Program Year 2001-2002. The additional record we received was a computer file that showed, "Total Students Served 2001-2002", dated January 28, 2003, which was approximately five months after the end of the program year.

For Program Year 2001-2002, we determined that NOETSP served no more than 165 students. Therefore, based on our review, the percentage of students that actually received services was 9.2% (165/1800) of the funded student participants, and only 8.5% (165/1950) of the reported student participants. In each case, the number is well below the regulatory minimum of 600 participants per year.

The documentation of services provided did not satisfy regulatory program requirements. Neither did the documentation support either the grant performance objectives or the *Annual Performance Reports*. If a grant recipient materially fails to comply with the terms and conditions of an award, the Department can take action to withhold cash payments, disallow all or part of the costs of the activity, wholly or partly suspend or terminate the current award, and withhold further awards for the project or program (34 C.F.R. § 74.62).

Because NOETSP did not document the required needs assessment for any of its student participants, did not document that at least two-thirds of the participants were both low-income and prospective first-generation college students, and did not maintain a record of services provided and educational progress made by each participant, NOETSP was not entitled to retain any of the \$1,937,980 in Talent Search Program funding it received during the period September 1, 1998, through December 31, 2002.

RECOMMENDATIONS

We recommend that the Chief Financial Officer, in collaboration with the Assistant Secretary for Postsecondary Education—

- 1.1 Require NOETSP to return the questioned costs of \$1,937,980.
- 1.2 Calculate and collect imputed interest on the \$1,937,980.
- 1.3 Take appropriate action pursuant to 34 C.F.R. § 74.62 to protect future Talent Search funds.

NOETSP's Comments

Participant Eligibility Was Not Documented

NOETSP stated that it conducted more than 100 site visits and assisted more than 6,000 students during the period examined. NOETSP attached Exhibits 7 and 8 to provide examples of Student Profile Sheets, stating that Exhibit 7 was a revised form, which asked for information regarding the parent's education. NOETSP also said that 98 percent of its services are provided to students of the Orleans Parish Public School System (Orleans), stating that 93.5 percent of the Orleans students are African American and that 75.5 percent of those students are eligible for free and reduced lunch. NOETSP attached Exhibit 6 to show those Orleans statistics from October 2003. In addition, NOETSP attached Exhibit 4 to show the income eligibility of Orleans students and the percentage of Orleans students who were at or below the poverty threshold for Fiscal Years 2002-2003. NOETSP maintained that 60 to 85 percent of the students it served were at or below the poverty level.

NOETSP Did Not Provide Services to Participants

NOETSP stated, "The staff and management of NOETSP totally and categorically disagree with this statement." NOETSP attached Exhibits 1, 2, and 3 to show dates, schools, services provided, and the number of students served. NOETSP said that each visit outlined in those exhibits can be confirmed and stated, "A telephone call or letter and the OIG's site visits should have confirm[ed] the adequacy of this document." NOETSP said that it provided more than 5,000 documents to ED/OIG during the three-year period November 2001 through September 2003, and stated that it made every effort to deliver that information in a timely and orderly manner. NOETSP attached Exhibit 5 to show that ED/OIG acknowledged receipt of the performance report for 2000-2001, and attached Exhibit 9 to show that performance reports were sent to ED/OIG. NOETSP also referred to its September 2003 visit to the Dallas ED/OIG Office, stating, "it appears that records initially shipped in November and December of 2001 was [sic] not available and apparently stored in a different location from the records shipped in May of 2003."

OIG's Response to NOETSP's Comments

Participant Eligibility Was Not Documented

NOETSP's comments and attached exhibits did not cause us to change the finding or the recommendations. The exhibits included both sample documentation forms and statistical data related to the economic status of NOETSP's student clients. However, those exhibits still did not satisfy the requirement that, for each participant, a grantee must maintain a record of the basis for its determination that the participant is eligible to participate, including the needs assessment for the participant (34 C.F.R. § 643.32). Neither did the exhibits satisfy the requirements that a Talent Search grantee must serve a minimum of 600 participants per year, and must ensure that at least two-thirds of the participants served will be low-income individuals who are potential first-generation college students. (34 C.F.R. § 643.10 and § 643.32(b))

According to Section 402A(e)(2) of the HEA, documentation of status as a low-income individual is to be made by providing the Department with:

- A signed statement from the individual's parent or legal guardian;
- Verification from another governmental source;
- A signed financial aid application; or
- A signed United States or Puerto Rico income tax return.

As stated in the draft report, NOETSP had individual student files for some of the participants, but most of the files reviewed contained insufficient information to substantiate the eligibility of the participants to receive grant services.

NOETSP Did Not Provide Services to Participants

NOETSP's comments and attached exhibits did not cause us to change the finding or the recommendations. The sample documentation forms provided still did not satisfy grant requirements. According to 34 C.F.R. § 643.32(c), a grantee must maintain a record of the services provided to the participant and the specific educational progress made by the participant as a result of the services. As stated in the draft report, NOETSP did not maintain a record of services provided and the educational progress made by each of the 7,200 participants for whom it received funding for the four-year period reviewed.

FINDING NO. 2 EXCESS CASH

NOETSP drew down an excess of \$301,034 more than it expended for the period September 1, 2001, through December 31, 2002. According to 34 C.F.R. § 74.22, grant recipients are paid in advance, provided they minimize the time elapsed between the transfer of funds from the United States Treasury and the subsequent disbursement of those funds. Cash advances to grantees are limited to the minimum amounts needed, and should be timed to occur as close as is administratively possible to actual disbursements. We analyzed NOETSP's General Ledger expenditures and determined that NOETSP did not make disbursements in a timely manner. Thus, NOETSP did not comply with 34 C.F.R. § 74.22 because it maintained a large amount of cash in excess of documented expenditures. The following table presents a synopsis of drawdowns, recorded expenditures, and excess draws for the period September 2001 through December 2002. We did not include the period September 1998 through August 2001 because NOETSP did not provide sufficient documentation for a proper analysis.

Time Period	Amount Drawn	Recorded Expenditures	Excess Draws Over Recorded Expenditures
09/01/01-08/31/02	\$ 417,980	\$ 349,749	\$ 68,231
09/01/02-12/31/02	\$ 380,000	\$ 147,197	\$ 232,803
Total	\$ 797,980	\$ 496,946	\$ 301,034

RECOMMENDATIONS

We recommend that the Chief Financial Officer, in collaboration with the Assistant Secretary for Postsecondary Education—

- 2.1 Require NOETSP to return the excess cash of \$301,034.
- 2.2 Calculate and collect imputed interest on the \$301,034.
- 2.3 Calculate and collect excess cash and imputed interest for the period December 31, 2002, to present.

(The excess cash amount in Recommendation 2.1 is duplicative of the total grant costs questioned in Finding 1. Therefore, the recovery of funds under Recommendations 2.1 and 2.2 must be coordinated with the actions taken under Finding 1.)

NOETSP's Comments

NOETSP stated that the excess cash amount of \$232,803 was spent subsequent to December 31, 2002. NOETSP emphasized that the program year ended on August 31, 2003, and stated that the excess cash was expended between January 1, 2003 and August 31, 2003. NOETSP further stated that its records show expenditures in excess of \$417,980 for the year ended August 31, 2002. NOETSP also stated that the expenditures shown in the draft audit report did not include or consider the following:

1. Overlapping time periods for the organization's fiscal year, which is July 1, to June 30th, and the program year, which is September 1, through August 30th.
2. Accrued and accrual – the draft report appears only to consider the cash expenditures for the period and does not take into consideration expenses paid after 8/31/02 for this program year.

OIG's Response to NOETSP's Comments

NOETSP's comments did not cause us to change the finding or the recommendations. According to 34 C.F.R. § 74.22, grant recipients are paid in advance, provided they minimize the time elapsed between the transfer of funds from the United States Treasury and the subsequent disbursement of those funds. Cash advances to grantees are limited to the minimum amounts needed, and should be timed to occur as close as is administratively possible to actual disbursements. The issue in this finding is neither the overlapping of the fiscal year and the program year nor the cash versus accrual basis of accounting. The issue is that NOETSP regularly drew down funds that exceeded monthly expenditures shown in the organization's general ledger. For the year ended August 31, 2002, NOETSP stated that its records show expenditures in excess of \$417,980 (the amount drawn), but the general ledger provided to us showed expenditures of \$349,749. For the period September 2002 through December 2002, the following table shows amounts drawn versus general ledger expenditure amounts.

Month	Amount Drawn	Amount Expended	Excess Cash
September 2002	\$225,000.00	\$ 29,348.40	\$195,651.60
October 2002	\$ 65,000.00	\$ 48,205.47	\$ 16,794.53
November 2002	\$ 40,000.00	\$ 31,818.76	\$ 8,181.24
December 2002	\$ 50,000.00	\$ 37,823.91	\$ 12,176.09
Total	\$380,000.00	\$147,196.54	\$232,803.46

NOETSP stated that the excess cash amount of \$232,803 (61 percent of total drawdowns) was spent subsequent to December 31, 2002. However, as shown in the table, most of that amount was drawn into NOETSP's bank account during the first month of the program year. Therefore, cash advances were not limited to the minimum amounts needed, and they were not timed to occur as close as was administratively possible to actual disbursements.

FINDING NO. 3 UNALLOWABLE/UNSUPPORTED COSTS

NOETSP expended \$1,564,061 in grant funds on items that were either unallowable under Federal cost principles or were not adequately documented. Examples of supporting documentation that we reviewed, if available, included general ledger, bank statements, cancelled checks, payroll records, invoices, vouchers, and receipts. For the September 1998 through August 2001 portion of our audit period, NOETSP did not provide sufficient documentation for a proper analysis of expenditures. On that basis, we determined that \$1,140,480 in grant funds received for that period was unallowable.

NOETSP provided records for September 1, 2001, through December 31, 2002. For that period, NOETSP recorded grant expenditures of \$496,946 in its general ledger. We determined that \$423,581 of those costs was either unallowable or unsupported. As shown in Appendix A of this report, \$109,115 of the \$423,581 was not allowable under Federal cost principles, and \$314,466 was not adequately documented to support that the costs were allowable under Federal cost principles. The following table presents a synopsis of recorded expenditures and unallowable/unsupported expenditures for the period September 1, 1998, through December 31, 2002. The unallowable expenditure amounts for September 1, 1998, through August 31, 2001, represent the entire amount of funds drawn from the Department for those three budget periods.

Time Period	Recorded Expenditures	Allowable/Supported Expenditures	Unallowable/Unsupported Expenditures
09/01/98-08/31/99	Unknown	\$ 0	\$ 372,000
09/01/99-08/31/00	Unknown	\$ 0	\$ 381,000
09/01/00-08/31/01	Unknown	\$ 0	\$ 387,480
09/01/01-08/31/02	\$ 349,749	\$ 48,708	\$ 301,041
09/01/02-12/31/02	\$ 147,197	\$ 24,657	\$ 122,540
Total	\$ 496,946	\$ 73,365	\$ 1,564,061

Office of Management and Budget Circular A-122 "Cost Principles for Non-Profit Organizations" (A-122), effective June 1, 1998, gives detailed guidance concerning allowable grant costs. Both Attachment A and Attachment B of A-122 prescribe important principles that relate to NOETSP's grant administration. Selected portions of A-122 are presented in Appendix B of this report.

For the period September 1, 2001, through December 31, 2002, over 72 percent of NOETSP's unallowable or unsupported costs consisted of payments for salaries, contract labor, and the mortgage on its building. Appendix A of this report shows the breakdown of all those questioned costs. NOETSP made mortgage payments that were not approved by the Department, thereby violating the requirement of A-122, Attachment B-15.c, which states, "Capital expenditures for land or buildings are unallowable as a direct cost except with the prior approval of the awarding agency." NOETSP's grant application included "Office Space Rental" in the budget. However, records obtained from NOETSP do not show that any payment was ever made for rent or lease purposes. Records obtained from NOETSP show that grant funds were used to make mortgage payments on the building. One of those records is a letter to us from NOETSP which states that the "bank loan is the mortgage on the building."

The NOETSP Director was paid \$129,053 during the 16 months ended December 31, 2002. The detail budget submitted by NOETSP shows the Director's salary to be \$61,660 for this time period. We consider the difference of \$67,393 to be unallowable as not reasonable or necessary for the performance of the grant. In addition, the NOETSP Director received \$14,350 in reimbursement for agency expenses for which there was no documentation. Some of the other unsupported costs included checks totaling \$7,897 made payable to cash for which there was no documentation to show the reason for the expenditure.

NOETSP did not comply with A-122, did not obtain approval for all expenditures, and did not maintain adequate documentation for grant costs. The result of that noncompliance is a questioned cost amount of \$1,564,061 for the period September 1, 1998, through December 31, 2002.

RECOMMENDATIONS

We recommend that the Chief Financial Officer, in collaboration with the Assistant Secretary for Postsecondary Education—

- 3.1** Require NOETSP to return \$1,564,061 in unallowable or unsupported costs.
- 3.2** Calculate and collect imputed interest on the \$1,564,061.

(The unallowable or unsupported costs in Recommendation 3.1 are duplicative of the total grant costs questioned in Finding 1. Therefore, the recovery of funds under Recommendations 3.1 and 3.2 must be coordinated with the actions taken under Finding 1.)

NOETSP's Comments

NOETSP stated that it “expended every dollar of the grant funds as provided by OMB Circular A-122 ‘Cost Principles for Non-Profit Organization’ and provided adequate documentation to support these expenditures.” NOETSP said that 85 percent of its total expenditures were for personnel costs and that NOETSP staffing was consistent until this OIG audit began. In addition, NOETSP’s comments included the following statements:

Time reports and copies of cancelled checks were submitted as documentation for all personnel cost. The lack of adequate documentation for personnel cost was obviously an omission and can be obtained.

The mortgage payment was paid in lieu of rent. Additionally, we provided a copy of the lease agreement whereas NOETSP charged the DOE program monthly rents of \$2,400. See a copy of the commercial lease, exhibit 12.

Routine expenses . . . are documented with a cancelled check, invoice and payment requisition. Any expense where there may be missing documentations, duplicate copies may be obtained.

OIG's Response to NOETSP's Comments

NOETSP’s comments did not cause us to change the finding or the recommendations. We reviewed all records provided to us, including time reports, cancelled checks, the lease agreement, and other supporting documentation. We did not see adequate documentation that NOETSP “expended every dollar of the grant funds as provided by OMB Circular A-122.” In the draft report, we did not address personnel costs as a percentage of total expenditures, but we did show that the NOETSP Executive Director was paid about twice the amount budgeted for his position. During the 16 months ended December 31, 2002, he was paid \$129,053, but the detailed budget submitted by NOETSP showed his salary to be \$61,660 for that time period. We still consider the difference of \$67,393 to be unallowable as not reasonable or necessary for the performance of the grant.

During the performance of the audit, we made multiple requests for information, documents, and records. During our exit conference on September 4, 2003, NOETSP confirmed that all records had been sent to us, even though NOETSP subsequently found and sent to us six more boxes of performance data. We received those boxes on September 17, 2003. NOETSP also provided to us a management representation letter dated January 28, 2004. That letter included this confirmation, “We have provided to you all records which support our expenditures of grant funds and our performance of grant objectives.” If NOETSP has any additional documentation for review, it should be provided to the Department officials identified in the cover letter to this report.

FINDING NO. 4

SINGLE AUDITS NOT PROPERLY SUBMITTED TO THE CLEARINGHOUSE

NOETSP did not comply with the Single Audit Act Amendments of 1996 by failing to timely submit its audit reports for the fiscal years ending June 30 of 2000, 2001, and 2002. After the start of our audit, reports were submitted for the years ending June 30, 2000 and 2001, but the Single Audit Clearinghouse rejected them because the reports were incomplete. As of September 27, 2004, we have no evidence that NOETSP had an audit performed for the fiscal year ending June 30, 2002. NOETSP stated that, in the past, the auditor forwarded all reports to the proper agencies. The audit reports for the years ended June 30, 2000 and 2001 show questioned costs of \$228,575 and \$262,293, respectively.

OMB Circular A-133, Subpart B, § 200(a) states, "Non-Federal entities that expend \$300,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part." Further, Subpart C of the Circular, § 320(a) states, "The audit shall be completed and the data collection form . . . shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period . . ." and § 320(d) states, "All auditees shall submit to the Federal clearinghouse designated by OMB the data collection form . . . and one copy of the reporting package . . ."

During the audit, we notified the Department that NOETSP delayed our access to grant records and had not submitted its audit reports to the Single Audit Clearinghouse as required. We recommended that the Department take action to withhold cash payments from NOETSP's current grant and any future grants, until all records were provided and outstanding Single Audits were submitted. After our notification, the Department released funds to NOETSP only on a reimbursement basis (see Background section of this report for details).

RECOMMENDATIONS

We recommend that the Chief Financial Officer, in collaboration with the Assistant Secretary for Postsecondary Education—

- 4.1** Require NOETSP to submit all required audit reports to the Single Audit Clearinghouse.
- 4.2** Require NOETSP to resolve the questioned costs of \$228,575 and \$262,293 shown in the audit reports, for the years ended June 30, 2000 and 2001, respectively, and any additional corrective action issues identified in the audit resolution process.

(The questioned costs in Recommendation 4.2 are duplicative of the total grant costs questioned in Finding 1. Therefore, the recovery of funds under Recommendation 4.2 must be coordinated with the actions taken under Finding 1.)

NOETSP's Comments

NOETSP stated that it paid a public accounting firm to complete a Single Audit as provided by OMB Circular A-133, and said that its fee accountant signed the audit forms to transmit the documents to the Single Audit Clearinghouse. The response included as Exhibits 10 and 11 copies of the Data Collection Form for the 2000 and 2001 audits. NOETSP assumed that the audit and all transmittals were complete, but was later informed that certain submittals were not made and proceeded to correct the discrepancy. Further, NOETSP stated that it has provided copies of all audits to every requestor, including ED/OIG.

OIG's Response to NOETSP's Comments

NOETSP's comments did not cause us to change the finding or the recommendations. OMB Circular A-133, Subpart C, § 320(d) states, "All auditees shall submit to the Federal clearinghouse designated by OMB the data collection form . . . and one copy of the reporting package . . ." We queried the database for the Single Audit Clearinghouse several times during the performance of the audit, and did so again after receiving NOETSP's response to the draft audit report. As stated in the draft report, NOETSP did submit reports for the years ending June 30, 2000 and 2001, but the Single Audit Clearinghouse rejected the reports because they were incomplete. A query as of September 27, 2004, showed that the June 30, 2000 report status was "Missing Form" and that the June 30, 2001 report status was "Missing Components/Form Errors." The Single Audit Database did not show that a report was submitted for the year ending June 30, 2002. Neither has NOETSP provided us with a copy of the audit report for that year. On the basis of these facts, we still conclude that NOETSP did not comply with audit report submission requirements of the Single Audit Act.

BACKGROUND

NOETSP is a nonprofit corporation that was organized in 1970 under the laws of the State of Louisiana. The corporation is organized to provide postsecondary educational opportunities to high school graduates, dropouts, and college students. The organization seeks to achieve its primary goal by offering financial aid assistance, academic assistance, American College Test (ACT) preparatory sessions, and outreach counseling sessions. In general, NOETSP seeks to provide the youth of the Greater New Orleans metropolitan area with the opportunity to become successful citizens through educational means. The corporation is supported primarily through grants.

Sections 402A and 402B of the HEA authorize the Talent Search Program, one of the Department's TRIO Programs. The Program is governed by the regulations in 34 C.F.R. Part 643. The Talent Search Program provides grants to projects designed to (1) identify qualified youths with potential for education at the postsecondary level and encourage them to complete

secondary school and undertake a program of postsecondary education; (2) publicize the availability of student financial assistance for persons who seek to pursue postsecondary education; and (3) encourage persons who have not completed education programs at the secondary or postsecondary level, but who have the ability to do so, to reenter these programs (34 C.F.R. § 643.1).

The Louisiana Office of State Inspector General performed an audit of NOETSP for the period July 1996 through June 1999, and issued its audit report on May 1, 2000. The report documented numerous problems with NOETSP's administration of its Talent Search Program. Those problems included incomplete financial records, multiple billings, false claims, and NOETSP's refusal to provide full access to required records and information.

Additionally, NOETSP's audited financial statements for the years ending June 30, 2000, and June 30, 2001, presented respective questioned costs of \$228,575 and \$262,293. Multiple audit findings included (1) NOETSP's failure to reconcile significant differences between the general ledger and supporting documentation, and (2) NOETSP's expenditure of grant funds in a manner that might have violated certain provisions of the grants.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine if NOETSP complied with the HEA of 1965, as amended, specific regulations governing the Talent Search Program, and its approved grant application. Specifically, we determined whether NOETSP (1) complied with the grant performance requirements, and (2) properly accounted for Talent Search Program funds.

We held an entrance conference at NOETSP on April 22, 2003, and attempted to begin our fieldwork at that time, but were denied access to records. We notified the Department that NOETSP had delayed our access to the requested grant records and that NOETSP had not submitted its audit reports to the Single Audit Clearinghouse as required. We recommended that the Department withhold funds from NOETSP until all records were provided and outstanding Single Audits were submitted. We also recommended that the Department consider suspension and termination of the grant awards. After this notification, the Department began to release funds to NOETSP only on a reimbursement basis.

Before our audit began, we obtained some NOETSP documents in response to a 2001 OIG subpoena. After being denied access to records when we initiated our audit, we obtained additional documents in response to a 2003 OIG subpoena. We subsequently made multiple information requests to obtain all documents and records that had been subpoenaed, but never performed any on-site audit procedures at the grantee's office. We conducted an exit conference by telephone on September 4, 2003. However, after completion of the exit conference, NOETSP officials found additional information pertaining to grant performance. They made that information available to us by shipping it to our Dallas office. We received a shipment of documents on September 17, 2003. NOETSP officials also visited our Dallas office on September 18, 2003, to explain some of the documents.

To accomplish our objective, we performed the following procedures:

- Reviewed applicable Federal law and regulations.
- Reviewed grant applications.
- Reviewed prior audit reports.
- Reviewed performance reports.
- Examined NOETSP records, including general ledger, invoices, canceled checks, outreach rosters, and student files.
- Visited selected schools and interviewed officials concerning services to students.

Because of our concern about weak management controls, we performed a review of all records that were made available to us. For the period September 1998 through August 2001, we were not provided sufficient documentation to determine what expenditures were made by NOETSP. Additionally, most of the documentation that was provided contained insufficient information to substantiate that grant services were delivered or that funds were properly expended. Due to this scope limitation, we questioned all grant funds drawn down during our audit period.

We did not use any sampling technique. We obtained funding data from the Department's *Grants Administration and Payment System*, and we assessed the reliability of funds drawn by comparing the draws to NOETSP records. We concluded that the data obtained from the Department was reliable for the purpose of this audit. Our audit period was September 1, 1998, through December 31, 2002. We performed the audit in accordance with generally accepted government auditing standards appropriate to the scope of the review, except as discussed above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we reviewed all records that were made available to us. We did not consider it necessary to gain an understanding of the system of management controls, policies, procedures, and practices applicable to NOETSP's administration of the Talent Search Program. However, our review disclosed weak management controls that adversely affected NOETSP's ability to administer the Talent Search grant, and resulted in non-compliance with Federal regulations, grant terms, and cost principles. Those weaknesses and their effects are discussed in the AUDIT RESULTS section of this report.

Unallowable/Unsupported Costs

September 1, 1998 – December 31, 2002

Cost Category	Unallowable Costs	Unsupported Costs	Total Amount	OMB Circular A-122 Criteria (See Appendix B)
Grant Funds Drawn from 09/01/98 through 08/31/01 for Which There Was No Supporting Documentation	\$1,140,480.00		\$1,140,480.00	A-A.2.g
Salaries	\$ 67,392.89	\$ 135,184.85	\$ 202,577.74	A-A.3 & B-7.m(1,2)
Contract Labor		\$ 64,316.18	\$ 64,316.18	A-A.2.g & B-7.m(1,2)
Mortgage on Building	\$ 40,768.42		\$ 40,768.42	A-A.2.a, g & B-15.b,c,d,e
Bank Payments		\$ 14,620.72	\$ 14,620.72	A-A.2.g
Program Expenses		\$ 13,843.63	\$ 13,843.63	A-A.2.g
Travel and Entertainment		\$ 13,196.31	\$ 13,196.31	A-A.2.g & B-55.a
Professional Fees		\$ 11,217.50	\$ 11,217.50	A-A.2.g
Dues and Subscriptions		\$ 9,388.30	\$ 9,388.30	A-A.2.g
Repairs		\$ 8,980.00	\$ 8,980.00	A-A.2.g
Agency Activities		\$ 8,500.00	\$ 8,500.00	A-A.2.g
Senior Counselor		\$ 7,500.00	\$ 7,500.00	A-A.2.g
Telephone		\$ 7,463.38	\$ 7,463.38	A-A.2.g
Equipment Rental		\$ 6,517.06	\$ 6,517.06	A-A.2.g
Office Supplies		\$ 4,212.76	\$ 4,212.76	A-A.2.g
Consulting		\$ 3,000.00	\$ 3,000.00	A-A.2.g
Insurance		\$ 2,717.30	\$ 2,717.30	A-A.2.g
Utilities		\$ 2,099.46	\$ 2,099.46	A-A.2.g
Other Expenses		\$ 1,120.00	\$ 1,120.00	A-A.2.g
Bank Charges	\$ 513.95		\$ 513.95	A-A.2.a
Accounting	\$ 440.00		\$ 440.00	A-A.2.a
Printing & Reproduction		\$ 350.00	\$ 350.00	A-A.2.g
Legal Fees		\$ 200.00	\$ 200.00	A-A.2.g
Miscellaneous		\$ 38.00	\$ 38.00	A-A.2.g
Total	\$1,249,595.20	\$ 314,465.45	\$1,564,060.65	

Selected Portions of *OMB Circular A-122*

- A-A.2.a - To be allowable under an award, costs must be reasonable for the performance of the award and be allocable thereto.
- A-A.2.g - To be allowable under an award, costs must be adequately documented.
- A-A.3 - Costs must be reasonable. A cost is reasonable if, in its nature or 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 costs.
- A-A.4.a - A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received.
- B-7.d.(1) - Costs for which amounts or types of compensation appear unreasonable require special consideration and possible limitations. Among such conditions is compensation to members of non-profit organizations, trustees, directors, associates, officers, or the immediate families thereof. Determination should be made that such compensation is reasonable for the actual personal services rendered rather than a distribution of earnings in excess of costs.
- B-7.f.(2) - Fringe benefits are allowable, provided such benefits are granted in accordance with established written organization policies. Such benefits, whether treated as indirect costs or as direct costs, shall be distributed to particular awards and other activities in a manner consistent with the pattern of benefits accruing to the individuals or group of employees whose salaries and wages are chargeable to such awards and other activities.
- B-7.m (1), (2) & (3) - **(1)** Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency. (See subparagraph E.2 of Attachment A.) **(2)** Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards: (a) The reports must reflect an *after-the-fact* determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards. (b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization. (c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports. (d) The reports must be prepared at least monthly and must coincide with one or more pay periods. **(3)** Charges for the salaries and wages of nonprofessional employees, in addition to the supporting documentation

described in **subparagraphs (1) and (2)**, must also be supported by records indicating the total number of hours worked each day maintained in conformance with Department of Labor regulations implementing the Fair Labor Standards Act (FLSA) (29 CFR Part 516). For this purpose, the term "nonprofessional employee" shall have the same meaning as "nonexempt employee," under FLSA.

- **B-15.b, c, d, & e** - **b.** (1) Capital expenditures for general purpose equipment are unallowable as a direct cost except with the prior approval of the awarding agency. (2) Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5000 or more have the prior approval of awarding agency. **c.** Capital expenditures for land or buildings are unallowable as a direct cost except with the prior approval of the awarding agency. **d.** Capital expenditures for improvements to land, buildings, or equipment, which materially increase their value or useful life, are unallowable as a direct cost except with the prior approval of the awarding agency. **e.** Equipment and other capital expenditures are unallowable as indirect costs. However, see **paragraph 11** for allowability of use allowances or depreciation on buildings, capital improvements, and equipment. Also, see **paragraph 46** for allowability of rental costs for land, buildings, and equipment.
- **B-46** - **a.** Subject to the limitations described in **subparagraphs b through d**, rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased. **b.** Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the organization continued to own the property. **c.** Rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the organization. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to those between (i) divisions of an organization; (ii) organizations under common control through common officers, directors, or members; and (iii) an organization and a director, trustee, officer, or key employee of the organization or his immediate family either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest. **d.** Rental costs under leases which are required to be treated as capital leases under GAAP, are allowable only up to the amount that would be allowed had the organization purchased the property on the date the lease agreement was executed, i.e., to the amount that minimally would pay for depreciation or use allowances, maintenance, taxes, and insurance. Interest costs related to capitalized leases are allowable to the extent they meet criteria in **subparagraph 23.a**. Unallowable costs include amounts paid for profit, management fees, and taxes that would not have been incurred had the organization purchased the facility.
- **B-55** - **a.** Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the organization. Travel costs are allowable . . . , when they are directly attributable to specific work under an award or are incurred in the normal course of administration of the organization. **b.** Such costs may be charged on an actual basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used results in charges consistent with those normally allowed by the organization in its regular operations.



NEW ORLEANS EDUCATIONAL TALENT SEARCH PROGRAM, INC.

4215 SOUTH CLAIBORNE AVENUE
NEW ORLEANS, LOUISIANA 70125
(504) 821-8844

August 22, 2004

Ms. Sherri L. Demmel
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
1999 Bryan Street, Suite 2630
Dallas, Texas 75201-6817

Re: **Response to Draft Audit Report
Control Number ED-OIC/A16-D0015**

Dear Ms. Demmel:

We thank you for the opportunity to respond to the draft audit report which presents the result of the audit of New Orleans Educational Talent Search Program, Inc. covering the period beginning September 1, 1998 to December 31, 2002. We disagree with each finding and recommendation and submit the explanation below and exhibits to support our position.

As you are aware from your review of the organization's formation documents, New Orleans Educational Talent Search Program, Inc. (NOESTP) has been in existence for more than 30 years. Over this period of time the organization has assisted more than 30,000 disadvantage youths to continue and complete high school and continue on with post secondary education and training. Thousands have graduated from colleges and universities across this nation and the organization has earned the respect and gratitude of these students, their family and friends. NOESTP is proud of its accomplishments and contributions to this community and is committed to continue to provide this vitally needed assistance to the citizens of New Orleans and this nation.

The organization during the period of September 1, 1998 to August 31, 2002 provided service to more than 8,000 middle and high school youth in New Orleans. Our record and documentation of such service is indisputable.

This current program year (covering the period 9/1/03 to 8/31/04, we are proud to announce that we will meet our stated program goal of 1,800 students served. This accomplishment is in spite of the fiscal constraints that have been imposed on our program by the National Trio Office via the reimbursement process that was assigned in September 2003. This process has resulted in our program being due over \$220,000 in grant funds for this program year.

The process has also cost untold man hours in valuable time that could have been directed at positive program services instead of the burdening time consuming engagements required by the program reimbursement procedures that has been imposed this entire year.

In addition to our response to the findings and recommendation, the management of NOETSP has several concerns regarding the methodology and procedures as it relates to how the audit engagement was conducted.

1. The management of NOETSP was informed by several local high schools that the OIG/DOE had conducted unannounced on site visits. Evidently, these site visits did not result in findings contrary to the documents submitted roster numbering over six thousand signatures of students who received services. Since there was no mention of this in the draft audit, we can only conclude there were nothing for the auditors to cite.

2. The length of the audit and duplication of records requested.

The length of the audit and duplication of requests for records has seriously handicapped the agency's ability to provide the level of service it is accustomed. The initial contact was made September 2001 (three years ago) and the OIG investigation was to originally cover the period beginning January 1, 1994 to September 2001. NOETSP was subpoenaed and commanded to appear with the records in Dallas, Texas and the records were boxed and shipped to Dallas. The organization requested additional time and made two shipments to Dallas on November 5, 2001 and December 14, 2001. The first shipment include three (3) storage boxes of records and the second shipment

included four (4) storage boxes. As explained in our previous letter to you dated April 25, 2003, the location of the field examination was not a question of compliance or cooperation, however, a matter of coordination and communication. The original OIG subpoena (Subpoena #1) requested records from 1994 to 2001 which was shipped to Dallas. The Subpoena #2 requested records from September 1998 to December 2002. It was obviously to this management that Subpoena #2 period overlapped Subpoena #1. Additionally, the unannounced visit to begin an examination for which you OIG/DOE started 18 months previous was very confusing the management and staff. Since this was an ongoing investigation in which the organization had not received any correspondence or communication regarding its status from December 2001 to May 2003, management was perplexed by the surprise visit requesting records and information which had been previously forwarded to Dallas.

3. The draft audit report reflects **duplication of questioned and unsupported costs** and should be revised as to avoid misleading the reader or user of this report. Page 1 of the draft report note at the bottom of the page states "The questioned costs in Finding 2 and 3 are duplicative of the total grant costs questioned in Finding 1". These duplicate findings and the enumeration thereof clearly represent faulty and irresponsible reporting of the organization's compliance during the years under audit. It appears from the draft audit report that the organization misspent \$3.8 million whereas the total award during the period was approximately \$2 million. On pages 5 and 7, the practice and notes continued to overstate the results of the examination. Hopefully, the final report is revised to eliminate the duplicate findings.

4. NOETSP is concern about the **circulation of the draft audit report** without the benefit of this organization's response. We understand that the draft report was circulated only within the Department of Education. However, even such limited distribution, may have a negative impact on the viability of this organization should the user of this report use it to evaluate the performance of this organization without the benefit of our response. Is this standard auditing procedure to circulate a report without the benefit of management response?

Finding 1

NOETSP DID NOT MEET GRANT PERFORMANCE OBJECTIVES

Participant Eligibility Was Not Documented

Acknowledged by the OIG, NOETSP, provided auditors with files and documentations that more than 6,000 middle and high school students were served during the periods being examined. Additionally the OIG visited several of the schools to confirm the accuracy of the documentation. We have attached as exhibit 1, 2 and 3, the list of the schools and the students served during the period under examination. We conducted more 100 site visits and assisted more than 6,000 students.

We have attached as exhibit 7 and 8 a copy of the Student Profile Sheet that we used as a part of our documentation during the audit period and the revised form we are currently using. The revised form (Exhibit 7) asks for information regarding the parent's education.

Participant eligibility - The vast majority (98%) of the services NOETSP provides is to students of the Orleans Parish Public School System. Orleans Parish Public School comprises of 68,000 students of which 93.5% are African American and 75.5% are eligible for free and reduced lunch. See exhibit 6, study conducted by University of New Orleans which summarizes the state of Louisiana statistics from October 2003. The middle and high school students NOETSP serve are from the poorest areas of the City of New Orleans and their statistics reflect even higher percentages of students on the free and reduced lunch program. We have attached (exhibit 4) the statistics to support the income eligibility of the students we serve and the number of students attending these schools who are at or below the U.S. Guidelines for poverty.

If we conducted a college-testing workshop at Lawless Sr. High School in New Orleans, La on October 14, 1999 and 107 students are in

attendance and 87% of the students attending Lawless are from families that income is below the federal guidelines for poverty, it is reasonable to suspect that 87 of these students meets the income eligibility as required by the federal regulation.

For students to qualify for free or reduced meal the student must be from a household with total income below 130 percent of the federal guideline for poverty limits. To receive reduced-price meals, household income must be between 130 to 185 of the federal poverty level. More than 80% of the student populations we serve are with these guidelines. Additionally, students from households that receive food stamps or TANF (Temporary Assistance for Needy Families) are automatically eligible for the free school meals. **Please note that Talent Search regulation only requires that 2/3 of the students served meet both 1st generation and low-income criteria.**

The annual statistics provided by the State of Louisiana Department of Education shows that 60 to 85 percent of students at or below the poverty level at the schools we service. Comparing the outreach service documentations we provided to the chart attached, please note during the period under review we visited every high school on this list. These are the schools with the greatest need.

NOETSP Did Not Provide Services to Participants

The staff and management of NOETSP totally and categorically disagree with this statement. Exhibits 1, 2 and 3 list the dates, schools, activities (Services provided) and the number of students served. The staff of NOETSP would conduct workshops with as many as 150 to 200 students in attendance. These workshops were coordinated with the principals and counselors of the schools listed. We would disseminate information regarding post-secondary education, ACT Assessment Testing and other pertinent college preparatory information. The coordination and planning for these workshops would normally involve weeks of preparation and discussions with school representatives.

Some of the workshops were conducted exclusively with NOESTP personnel. Some workshops and particularly career day programs, may have involved other participants, such as local university representatives, community and civic leaders, etc. Depending on the type of workshop being conducted, the documentation to the students served may have varied. A workshop in which NOESTP conducted exclusively, students may have been required to sign in and complete

a student profile sheet. The amount of time allocated to NOESTP staff also determined the amount and type of documentation.

However, each visit outlined in exhibit 1, 2 and 3 can be confirmed and it should be noted in the audit report if the workshop was or was not conducted and attended by NOESTP staff. **A telephone call or letter and the OIG's site visits should have confirm the adequacy of this document.**

NOESTP provided the OIG/DOE with more than 5,000 documents over a three-year period beginning in November 2001 to September 2003. We made every effort to deliver this information in a timely and orderly manner. This audit period and scope was extensive and massive and this tiny community based organization, unlike large universities with massive staff and support personnel, has been severely hampered during this period. We have, however, managed to continue providing services to the citizens of this community.

Cataloging and inventorying this massive amount of documents has been quite a chore of this small staff. However, with regards to the Annual Performance report for year 2000-2001, your office acknowledge receipt of it on page 17 of 17, which I have label as exhibit 5. Box number 4 of the initial boxes mailed in December of 2001 included performance reports and may have included the 1999-2000 report. See exhibit 9 "item 56 - performance reports". Earlier pages listed performance reports and during our visit in September 2003, it appears that records initially shipped in November and December of 2001 was not available and apparently stored in a different location from the records shipped in May of 2003.

FINDING 2

EXCESS CASH

Finding number 2 states that the organization drew down an excess of \$301,034 more than it expended for the period September 1, 2001 through December 31, 2002.

The excess cash in the amount of \$232,803, for the audit period ended December 31, 2002 was spent subsequent to December 31, 2002. The audit cut off period is mid year (an interim period) and the

program year ended August 31, 2003. The excess cash was expended between January 1, 2003 and August 31, 2003.

Based upon the records of NOESTP, the organization expenditures for the year ended August 31, 2002, exceeded \$417,980. It appears that the expenditures reported in the draft audit report do not include or consider the following:

1. Overlapping time periods for the organization's fiscal year, which is July 1, to Jun 30th, and the program year, which is September 1, through August 30th.
2. Accrued and accrual – the draft report appears only to consider the cash expenditures for the period and does not take into consideration expenses paid after 8/31/02 for this program year.

FINDING 3

UNALLOWABLE/UNSUPPORTED COSTS

NOETSP expended every dollar of the grant funds as provided by OMB Circular A-122 "Cost Principles for Non-Profit Organization" and provided adequate documentation to support these expenditures.

Eighty-five (85%) percent of the total expenditures are personnel cost. The staff of NOETSP was consistent until this OIG audit began. The staffing consisted of Director, Deputy Director/Sr. Counselor, Outreach Coordinator, Financial Aid Counselor, secretary/receptionist and support personnel, to include work-study students, a janitor and fee accountant. Time reports and copies of cancelled checks were submitted as documentation for all personnel cost. The lack of adequate documentation for personnel cost was obviously an omission and can be obtained. We had lengthy discussion with staff regarding the signing of the time sheets by the Executive Director. The position of NOESTP is that with the approval of the check disbursement documents was adequate authorization that the employees time was accurate. Additionally, each of the organizations primary full time staff was paid a fixed salary and accumulated monthly annual and sick leave.

The mortgage payment was paid in lieu of rent. Additionally, we provided a copy of the lease agreement whereas NOESTP charged the DOE program monthly rents of \$2,400. See copy of the commercial lease, exhibit 12.

Routine expenses such as telephone, equipment rental, building repairs, insurance, utilities, senior counselor and office supplies are documented with a cancelled check, invoice and payment requisition. Any expense where there may be missing documentations, duplicate copies may be obtained.

FINDING 4

SINGLE AUDITS NOT PROPERLY SUBMITTED TO THE CLEARINGHOUSE

NOETSP engaged a local public accounting firm, Charmaine Philips Platenburg and paid this firm to complete a single audit as provide by OMB A-133. The firm completed its fieldwork in September 2001 and we obtained a completed copy of the report in October 2001. On October 4, 2001 my fee accountant signed the audit forms to transmit the documents to the Single Audit Clearinghouse (See exhibits 10 and 11) We paid the balance (\$2,500) of the \$10,000 audit fee on November 27, 2001 with the assumption that the audit and all submittals were complete.

We were later informed that certain submittals were not made and immediately preceded to correct this discrepancy. However, to date we have provided every requestor including the Department of Education Trio Program, ED's Post Audit Group and OIG/DOE staff with copies of all audits

New Orleans Educational Talent Search Program, Inc. Audit Response to OIG/DOE
Report #ED-OIG/A06-D0015 Date of Response August 22, 2004

Again, we thank you for the opportunity to respond to this draft report and would hope some of the comments and concerns listed below can be corrected and/or addressed in the final report.

Should you have any questions, need additional information or clarification, please advise.

Sincerely,



Robert P. McFarland

Cc: Enclosures

NEW ORLEANS EDUCATIONAL TALENT SEARCH PROGRAM
OUTREACH SERVICE

Exhibit 1

Appendix C

Fiscal Year 1998/1999	BOX # 3
SEPTEMBER 15, 2003	

Date	School	Activity	Number of of Students Served	Box #	Item #
3/25/1999	S.T. Reed Sr High	FAFSA	37	3	9972
2/28/1999	S.T. Reed Sr High	FAFSA	24	3	9973
4/27/1999	S.T. Reed Sr High	FAFSA	8	3	9974
2/23/1999	Douglas Sr. High	FAFSA	54	3	9975
2/25/1999	Kennedy Sr. High	ACT Workshop	127	3	9976
2/9/1999	Kennedy Sr. High	FAFSA	51	3	9977
9/10/1998	Kennedy Sr. High	ACT Workshop	198	3	9978
9/10/1998	Kennedy Sr. High	FAFSA	298	3	9979
10/7/1998	Lawless Sr. High	FAFSA	41	3	9980
10/12/1998	Warren Easton Sr.	FAFSA and ACT	186	3	9981
10/15/1998	Clark Sr. High	ACT Workshop	41	3	9982
10/29/1998	Carver Sr. High	ACT Workshop	28	3	9983
11/9/1998	Abramson Sr. High	ACT Workshop	40	3	9984
11/10/1998	Cohen Sr. High	Career Day	26	3	9985
12/8/1998	Landry Sr. High	ACT Workshop	19	3	9986
12/10/1998	S.T. Reed Sr High	ACT Workshop	40	3	9987
1/6/1999	John McDonogh	ACT Workshop	24	3	9988
2/9/1999	Kennedy Sr. High	FAFSA	198	3	9989
3/9/1999	Fortier Sr. High	FAFSA	17	3	9990
3/5/1999	Success Express	FAFSA	30	3	9991
3/2/1999	Carver Sr. High	FAFSA	24	3	9992
3/30/1999	McDonogh #28 Middle School	Career Day	71	3	9993
2/11/1999	Rabouin Sr. High	FAFSA	117	3	9994
2/27/1999	Natl Trio Day	Univ. of La SE	22	3	9997
8/31/1999	Walk in sheets	Walk in	30	3	9996
8/31/1999	Kennedy Sr. High	Followup contact sheets	104	3	9978
Total outreach served			1855		
Follow up contact					
8/31/1999	Various outreach sheets with contacts with counselors and/or students				9995
12/12/2002	Lawless Sr.	Folders omitted	64		

NEW ORLEANS EDUCATIONAL TALENT SEARCH PROGRAM
OUTREACH SERVICE

Exhibit 2

Appendix C

Fiscal Year 2000/2001	BOX # 2
SEPTEMBER 15, 2003	

Date	School	Activity	Number of of Students Served	Box #	Item #
9/19/2000	Abramson Sr. High	ACT	170	2	36 178
9/7/2000	Carver Sr. High	ACT	32	2	38 32
9/20/2000	Fortier Sr. High	ACT	151	2	35 151
11/8/2000	Fortier Sr. High	ACT	150	2	42 150
9/28/2000	Kennedy Sr. High	ACT	93	2	34 93
2/5/2001	Kennedy Sr. High	ACT	167	2	47 167
12/11/2000	Kennedy Sr. High	ACT	79	2	48 79
12/14/2000	Kennedy Sr. High	Financial Aid	25	2	51 25
11/2/2000	L. B. Landry High Sc	FASFA/ACT	27	2	46 27
11/10/2000	L.B. Landry High Sc	FASFA/ACT	83	2	45 83
4/10/2001	L.B. Landry Jr. Hi	8th graders	74	2	43 74
5/22/2001	L.B. Landry Sr. Hi	ACT	13	2	44 13
1/25/2001	L.B. Landry Sr. Hi	Financial Aid	67	2	53 80
9/18/2000	Lawless Sr. High	ACT	18	2	37 18
2/19/2001	Rabouin Sr. High	ACT	98	2	49 98
2/22/2001	Various	ACT	76	2	50 76
7/9/2127	Various	Financial Aid	120	2	52 120
8/31/2001	Folders of walk ins	Financial Aid	5	2	54 5
1/23/2001	Abramson Sr. High	Financial Aid	3	2	55 3
11/8/2000	B.T. Washington Sr	Financial Aid	14	2	56 14
11/30/2000	L. B. Landry High Sc	ACT	3	2	57 3
11/29/2000	Fortier Sr. High	ACT	42	2	58 42
10/20/2000	Kennedy Sr. High	College Day	55	2	59 55
10/27/2000	O.Perry Walker	Financial Aid	111	2	60 112
12/6/2000	Cohen Sr. High	Financial Aid	34	2	71.1
2/15/2001	Cohen Sr. High	FASFA/ACT	20	2	71.2
11/9/2000	L.B. Landry High Sc	FASFA/ACT	24	2	71.3
TOTAL COUNT OF STUDENT OUTREACH			1754		1698
8/31/2001	Various Folders	Student Profile Sheets	333	4	333
8/31/2001	Various Folders	Student Profile Sheets	251	5	251
TOTAL COUNT OF STUDENT OUTREACH			2338		2282

Appendix C

Date	School	Activity	Number of Students Served	Box #	item #	
1/6/2000	John Mc Donogh	Financial Aid	52	1	1	52
1/11/2000	Fortier Sr. High	Financial Aid	74	1	2	79
1/10/2000	Robouin Sr. High	Financial Aid	129	1	3	147
1/13/2000	Lawless Sr. High	Financial Aid	107	1	4	107
11/10/1999	Cohen Sr. High	College Day	52	1	5	52
10/29/1999	O. Perry Walker Sr	College/Career Day	58	1	6	58
10/22/1999	Fortier Sr. High	ACT	98	1	7	98
11/8/1999	Fortier Sr. High	ACT (Entrepreneural Class)	17	1	8	20
9/15/1999	John Mc Donogh	ACT	17	1	9	16
9/14/1999	Carver Sr. High	Financial Aid/ACT	84	1	10	100
11/2/1999	Kennedy Sr. High	Financial Aid/ACT	194	1	11	199
10/13/1999	L.B. Landry Sr. High	Financial Aid	42	1	12	43
10/14/1999	Lawless Sr. High	ACT	51	1	13	51
9/16/1999	M. Abramson Sr Hi	ACT	1	1	14	1
2/3/2000	Cohen Sr. High	ACT Seminar	24	1	15	24
1/27/2000	Landry Sr. High	Financial Aid	64	1	16	64
2/23/2000	Kennedy Sr. High	Financial Aid	61	1	17	61
2/19/2000	Fellowship Baptist Church	Financial	13	1	18	13
2/9/2000	S.T. Reed Sr. High	Financial Aid	41	1	19	41
1/25/2000	McMain Magnet HS	Financial Aid	10	1	20	10
2/14/2000	F. Douglas Sr. High	Financial Aid	37	1	21	37
4/18/2000	S.T. Reed Sr. High	Financial Aid	28	1	22	28
3/28/2000	S.T. Reed Sr. High	ACT 7th Graders	28	1	23	28
3/24/2000	B.T. Washington	Career Day	4	1	24	4
3/16/2000	Abramson Sr. High	Financial Aid	33	1	25	34
3/1/2000	Kennedy Sr. High	Financial Aid	70	1	26	78
2/29/2000	Rabouin Vacational	Financial Aid	3	1	27	3
1/19/2000	B.T. Washington Sr	Financial Aid	30	1	28	30
9/13/1999	YMCA	Financial Aid	4	1	29	4
11/2/1999	O. Perry Walker Sr	Financial Aid	69	1	30	69
11/1/1999	John Mc Donogh	ACT	19	1	31	19
11/5/1999	S.T. Reed Sr. High	ACT	34	1	32	34
11/3/1999	Abramson Sr. High	ACT	169	1	33	169
8/17/2000	Villarge D'Armes	ACT	14	1	39	14
3/28/2000	F.C. Williams	Career Day Middle Sch 7th & 8th	44	1	40	44
5/11/2000	Fortier Sr. High	Financial Aid	52	1	41	52
3/21/2000	B.T. Washington	Career Day	26	1	54	26

TOTAL COUNT OF STUDENTS OUTREACH

1853

1909

FY 2002-03 MFP Accountability Report

School Name	City	School Data				Accountability Data		Student Data		
		Type of School	Oct 1 Enrollments	Grade Span	Performance Score	Performance Label	% Poverty	% Minority	# Taking AP Courses	
Orleans Parish - 64										
Marton Abramson Senior High School	New Orleans	High	1,757	8-12	22.4	U/S	81.7	99.1	4	
Alcee Fortier High School	New Orleans	High	1,003	8-12	13.0	U/S	59.8	99.7	N/A	
Booker T. Washington School	New Orleans	High	697	8-12	10.9	U/S	72.3	100.0	N/A	
Fredrick A. Douglass High School	New Orleans	High	935	8-12	13.7	U/S	85.9	99.6	N/A	
John F. Kennedy Senior High School	New Orleans	High	1,482	8-12	25.1	U/S	40.0	99.7	N/A	
John McDonogh Senior High School	New Orleans	High	1,260	8-12	22.2	U/S	66.9	99.2	N/A	
Joseph S. Clark Senior High School	New Orleans	High	867	8-12	22.2	U/S	69.9	99.8	58	
L.B. Landry High School	New Orleans	High	582	8-12	21.8	U/S	59.8	99.3	N/A	
Lawless High School	New Orleans	High	609	8-12	25.7	U/S	87.0	100.0	N/A	
O. P. Walker Senior High School	New Orleans	High	1,077	8-12	27.0	U/S	61.4	98.0	N/A	
Rabouin Career Magnet High School	New Orleans	High	719	8-12	51.7	A/W	76.8	99.2	N/A	
Sarah Towles Reed Senior High School	New Orleans	High	1,386	8-12	36.2	U/S	49.5	99.1	N/A	
Walter L. Cohen High School	New Orleans	High	796	8-12	12.8	U/S	69.7	99.2	N/A	
Carver Middle School	New Orleans	Mid	365	7-8	26.7	U/S	84.4	99.5	N/A	
Charles J. Colton Middle School	New Orleans	Mid	882	6-8	29.8	U/S	90.2	99.7	N/A	
Edward Phillips Middle School	New Orleans	Mid	331	6-8	24.4	U/S	87.9	99.7	N/A	
F.W. Gregory Junior High School	New Orleans	Mid	999	7-9	39.5	U/S	61.9	99.8	N/A	
Fannie C. Williams Middle School	New Orleans	Mid	1,150	6-8	39.9	U/S	86.8	99.3	N/A	
Israel Meyer Augustine Middle School	New Orleans	Mid	595	6-8	22.3	U/S	87.1	99.7	N/A	
L. B. Landry Middle School	New Orleans	Mid	316	7-8	24.8	U/S	90.2	99.4	N/A	
Livingston Middle School	New Orleans	Mid	929	6-8	25.2	U/S	92.2	99.0	N/A	
Martin L. King Middle School	New Orleans	Mid	431	7-8	32.9	U/S	91.9	99.8	N/A	
McDonogh #28 Middle School	New Orleans	Mid	333	7-8	34.5	U/S	92.5	99.1	N/A	
Murray Henderson Middle School	New Orleans	Mid	274	6-8	44.7	U/S	94.2	99.6	N/A	
P.A. Capdau Middle School	New Orleans	Mid	250	7-8	25.1	U/S	82.4	99.6	N/A	
S.J. Green Middle School	New Orleans	Mid	437	6-8	23.7	U/S	87.9	99.3	N/A	
Sophie B. Wright Middle School	New Orleans	Mid	501	6-8	25.9	U/S	90.0	98.4	N/A	

Appendix C

No label on the box

In the top of the box was a small paper box containing:

1. An invoice from IOSCapital
2. Vendors Lists pages 1-8 and 13-16
3. General Ledger as of May 9, 2003 pages 1-24
4. Balance Sheet as of September 2, 2001
5. Balance Sheet as of June 3, 2002
6. Balance Sheet as of December 31, 2002
7. Profit & Loss Setember 2001 through June 2002 (2 pages)
8. Profit & Loss July 2001 through December 2002 (2 pages)
9. Profit & Loss Detail September 1, 2001 through May 9, 2003 (13 pages)

Then there were folders

Labeled

- 1 Old Timesheets

Not in a folder:

- Outreach Summary 2002-2003
- Outreach Summary 2001-2002
- High School Profile Sheets 2000-2001
- Outreach Summary 1999-2001

Labeled Folders:

- 2 TRIO Day 2001
 - Field Trip 2001 Birmingham/Tuskugee Trip
- 3 Chaperons Consent/Roster
- 4 Field Trip Consent Forms (Original)
- 5 Birmingham Tuskogee Confirmations
- 6 Trip Orientations
- 7 Annual TRIO Trip Colleges-Museums-McWane Ctr 2002
- 8 TRIO Day 2001
- 9 High School Info Forms
- 10 Talent Search Audit Reports 2000 & 2001
- 11 Grant Award Notification 2003-2004; 2004-2005
- 12 Grant Award Notification 9-01-00 - 2001
- 13 TS Award Notification 1999-2000; 2000-2001; 2001-2002
- * 14 TS Annual Performance Reprot YR 2001-02
- 15 Bank (Whitney) FY01 and 02
- 16 Organizational Chart & Board of Directors
- 17 Current & Former Employees
- 18 Board Minutes
- 19 Description of Accounting System & Chart of Accounts
- 20 Policy & Procedure Manual
- 21 LSED Grant #267 43,000
- 22 Balance Sheet as of 5/31/00
- 23 LSED Grant (extra copies)

Orleans Parish Public Schools

Exhibit 6

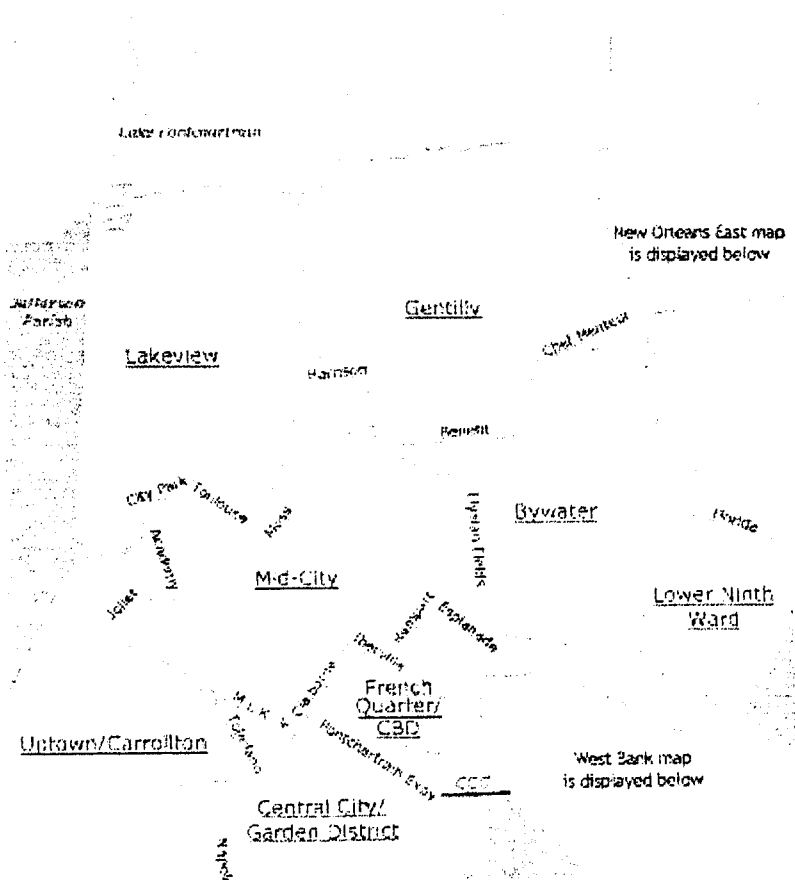
Appendix C

Orleans Parish Public schools is the largest school district in the state of Louisiana. State statistics from October 2003 found:

- 74.5% attend public schools
- 68,354 students
- 93.5% African American
- 6,592 (9.7%) Special Education
- 75.5% Free and Reduced Lunch
- 4,552 teachers
- 711 instructional aides
- 130 schools

Next: Summary of Testing Data Previous: M³ Goals

Map of Orleans Parish



NEW ORLEANS EDUCATIONAL TALENT SEARCH PROGRAM, INC.

Appendix C

4215 SOUTH CLAIBORNE AVENUE

NEW ORLEANS, LOUISIANA 70125

(504) 821-8844

STUDENT PROFILE SHEET PLEASE PRINT

DATE: _____

Student's Name: _____

Student's Social Security #: _____ U.S. Citizen: Yes ___ No ___

Date of Birth: _____ Race: _____ Sex: _____

Address: _____ (zip)

Telephone #: _____
(Home) (Work) (Cell/Beeper)

Parent's Name: _____

Intended College(s):

1. _____	3 _____
2. _____	4 _____

College Major: _____

School's Name: _____ Grade: _____

Counselor: _____ Phone Number: _____

G.P.A.: _____ ACT Score: _____ Rank: _____

Service(s) needed; please check all that apply:

- | | |
|---|---|
| <input type="checkbox"/> ACT Workshop | <input type="checkbox"/> G.E.D. Information |
| <input type="checkbox"/> Career Day/Career Counseling | <input type="checkbox"/> Voc-Tech Information |
| <input type="checkbox"/> Financial Aid Workshop | |
| <input type="checkbox"/> Other | |

Does either parent have a baccalaureate (4year) college degree? _____



NEW ORLEANS EDUCATIONAL TALENT SEARCH PROGRAM, INC.

4215 SOUTH CLAIBORNE AVENUE

NEW ORLEANS, LOUISIANA 70125

(504) 821-8844

STUDENT PROFILE SHEET

Date: 11-7-03

Student's Name: EDITED

Student's Social Security #: EDITED Driver's License #: _____

Address: EDITED

Telephone Number: EDITED (Home) (Work) (Cell/Beeper)

Parent's Name: EDITED

- Intended College(s): 1. LSU 2. SU 3. ULL

College Major: Accounting

School's Name: O. Perry Walker

Counselor: EDITED Phone Number: EDITED

G.P.A. 2.8 ACT Score: Rank:

Please check:

- ACT Workshop
Financial Aid Workshop
Career Day/Career/College Counseling
Other

Appendix C

- 41 Newsweek
- 42 Office Depot
- 43 Petty Cash
- 44 PBCC
- 45 P C World
- 46 Fed Ex
- 47 Coca Cola
- 48 Cox Communications
- 49 AT&T Communications
- 50 Armstrong Business Center
- 51 AT&T
- 52 Bell South
- 53 National Insurance Service
- 54 Office Sign-In Sheets
- 55 Office Policies/Procedures
- 56 ✱ Performance Reports
- 57 Six Month Report
- 58 FAFSA Sessions (Sign In)(Walk In)(Appointments)

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN TO Single Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132

PART I GENERAL INFORMATION (To be completed by auditee, except for item 7)

1. Fiscal year ending date for this submission Month Day Year 4 1 30 1200	2. Type of Circular A-133 audit 1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit
---	---

3. Audit period covered 1 <input checked="" type="checkbox"/> Annual 2 <input type="checkbox"/> Biennial 3 <input type="checkbox"/> Other - Months	4. Date received by Federal clearinghouse
--	---

5. Employer Identification Number (EIN)

a. Auditee EIN 720700653 b. Are multiple EINs covered in this report? 1 Yes 2 No

6. AUDITEE INFORMATION

a. Auditee name
New Orleans Educational Talent Search Program

b. Auditee address (Number and street)
4215 S. Claiborne Ave.
City New Orleans
State LA ZIP Code 70125

c. Auditee contact
Name Robert McFarland
Title Executive Director

d. Auditee contact telephone
(504) 821-4488

e. Auditee contact FAX (Optional)
() -

f. Auditee contact E-mail (Optional)

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name
Charmaine Philips Plateburg, CPA

b. Auditor address (Number and street)
1342 Poydras St. Suite 2130
City New Orleans
State LA ZIP Code 70112

c. Auditor contact
Name Rickey B. Vaughn
Title Audit Manager

d. Auditor contact telephone
(504) 561-1111

e. Auditor contact FAX (Optional)
(504) 561-1114

f. Auditor contact E-mail (Optional)

g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) Engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Signature of certifying official Robert P. McFarland Date 10/1/01
Name/Title of certifying official

g. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 5 and 6, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is **not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor Charmaine Philips Date 10/4/01
Month Day Year

AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS

Appendix C

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN TO Single Audit Clearinghouse 1201 E. 10th Street Jeffersonville, IN 47132

PART I GENERAL INFORMATION (To be completed by auditee, except for Item 7)

1. Fiscal year ending date for this submission
 Month Day Year
 6 / 30 / 2001

2. Type of Circular A-133 audit
 1 Single audit 2 Program-specific audit

3. Audit period covered
 1 Annual 3 Other - Months
 2 Biennial

4. Date received by Federal clearinghouse
 FEDERAL GOVERNMENT USE ONLY

5. Employer Identification Number (EIN)
 a. Auditee EIN 720700653 b. Are multiple EINs covered in this report? 1 Yes 2 No

6. AUDITEE INFORMATION

a. Auditee name
 New Orleans Educational Talent Search Program, Inc.

b. Auditee address (Number and street)
 4215 S. Claiborne Ave
 City: New Orleans
 State: LA ZIP Code: 70125

c. Auditee contact
 Name: Robert McFarland
 Title: Executive Director

d. Auditee contact telephone
 (504) 821-4488

e. Auditee contact FAX (Optional)
 () -

f. Auditee contact E-mail (Optional)

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name
 Charmaine Phillips Platenburg, CPA

b. Auditor address (Number and street)
 1320 Poydras St., Suite 2130
 City: New Orleans
 State: LA ZIP Code: 70112

c. Auditor contact
 Name: Ricky R. Vaughn
 Title: Audit Manager

d. Auditor contact telephone
 (504) 561-1111

e. Auditor contact FAX (Optional)
 (504) 561-1114

f. Auditor contact E-mail (Optional)

g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) Engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Signature of certifying official
 Robert P. McFarland
 Date: 10/4/01
 Name/Title of certifying official

9. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 5 and 6, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor
 Charmaine Phillips Platenburg, CPA
 Date: 10/4/01

COMMERCIAL LEASE

Appendix C

This lease is made between New Orleans Educational Talent Search Agency, herein called Lessee, and New Orleans Educational Talent Search Program, Inc., herein called Lessor. Lessee hereby offers to lease from Lessor the premises situated in the City of New Orleans, County/Parish of Orleans, State of Louisiana, described as the two-story, steel and cement block office building comprising approximately 4,000 square feet with adjacent land measuring approximately 60' x 155' zoned B-2, bearing municipal address of 4215 South Claiborne Avenue, New Orleans, Louisiana 70125, upon the following TERMS and CONDITIONS:

1. **Term and Rent.** Lessor demises the above premises for a term of _____ years, commencing July 1, 1999, and terminating on end of contract period or sooner as provided herein at the annual rental of Two Thousand Four Hundred Dollars (\$2,400.00), payable in equal installments in advance on the first day of each month for that month's rental, during the term of this lease. All rental payments shall be made to Lessor at the address specified above.

2. **Use.** Lessee shall use and occupy the premises for Office and program space. The premises shall be used for no other purpose. Lessor represents that the premises may lawfully be used for such purpose.

3. **Care and Maintenance of Premises.** Lessee acknowledges that the premises are in good order and repair, unless otherwise indicated herein. Lessee shall, at his own expense and at all times, maintain the premises in good and safe condition, including plate glass, electrical wiring, plumbing and heating installations and any other system or equipment upon the premises and shall surrender the same, at termination hereof, in as good condition as received, normal wear and tear excepted. Lessee shall be responsible for all repairs required, excepting the roof, exterior walls, structural foundations, and

be maintained by Lessor. Lessee shall also maintain in good condition such portions, adjacent to the premises, such as sidewalks, driveways, lawns and shrubbery, which would otherwise be required to be maintained by Lessor.

4. **Alterations.** Lessee shall not, without first obtaining the written consent of Lessor, make any alterations, additions or improvements, in, to or about the premises.

5. **Ordinances and Statutes.** Lessee shall comply with all statutes, ordinances and requirements of all municipal, state and federal authorities now in force, or which may hereafter be in force, pertaining to the premises, occasioned by or affecting the use thereof by Lessee.

6. **Assignment and Subletting.** Lessee shall not assign this lease or sublet any portion of the premises without prior written consent of the Lessor, which shall not be unreasonably withheld. Any such assignment or subletting without consent shall be void and, at the option of the Lessor, may terminate this lease.

7. **Utilities.** All applications and connections for necessary utility services on the demised premises shall be made in the name of the Lessee only, and Lessee shall be solely liable for utility charges as they become due, including those for sewer, water, gas, electricity, and telephone services.

8. **Entry and Inspection.** Lessee shall permit Lessor or Lessor's agents to enter upon the premises at reasonable times and upon reasonable notice, for the purpose of inspecting the same, and will permit Lessor at any time within sixty (60) days prior to the expiration of this lease, to place upon the premises any usual "To Let" or "For Lease" signs, and permit persons desiring the lease the same to inspect the premises thereafter.

9. **Possession.** If Lessor is unable to deliver possession of the premises at the commencement hereof, Lessor shall not be liable for any damage caused thereby, nor shall this lease be void or voidable, but Lessor shall not be liable for any rent until possession is delivered. Lessee may terminate this lease if possession is not delivered within _____ days of the commencement of the term hereof.

10. **Indemnification of Lessor.** Lessor shall not be liable for any damage or injury to Lessee, or any other person or in any property, occurring on the demised premises or any part thereof, and Lessee agrees to hold Lessor harmless from any claims for damages, no matter how caused.

11. **Insurance.** Lessee, at his expense, shall maintain plate glass and public liability insurance including bodily injury and property damage insuring Lessee and Lessor with minimum coverages as follows:

Lessee shall provide Lessor with a Certificate of Insurance showing Lessor as additional insured. The Certificate shall provide for a ten-day written notice to Lessor in the event of cancellation or material change of coverage. To the maximum extent permitted by insurance policies, which may be owned by Lessor or Lessee. Lessee and Lessor, for the benefit of each other, waive any and all rights of subrogation which might otherwise exist.

12. **Eminent Domain.** If the premises or any part thereof or any estate therein, or any other part of the building materially affecting Lessee's use of the premises, shall be taken by eminent domain, this lease shall terminate on the date when title vests pursuant to such taking. The rent, and any additional rent, shall be apportioned as of the termination date, and any rent paid for any period beyond that date shall be repaid to Lessee. Lessee shall not be entitled to any part of the award for such taking or any payment in lieu thereof, but Lessee may file a claim for any taking of fixtures and improvements owned by Lessee, and for moving expenses.

ADDENDUM TO DRAFT AUDIT RESPONSE DATED August 25, 2004

This submittal is a follow up to the telephone conversation on Monday evening, August 23, 2004, between Mr. Philip Cook and Mr. Robert P. McFarland where NOETSP informed the OIG's office of this follow up documentation.

Based on advisement from our legal team we respectfully submit this addendum to be included as a part of the original submittal.

The most critical factor with respect to the audit report is the performance evaluation review technique used by the auditor. If there is an error in the premise there will be an error in the conclusion.

That section of the report captioned OBJECTIVE, SCOPE AND METHODOLOGY states, "We did not use any sampling technique". However the preceding paragraph states: "To accomplish our objective, we performed the following procedures... Visited selected (emphasis ours) schools and Interviewed officials concerning services to students".

This is certainly a recognized and accepted audit procedure. Otherwise, It would be impossible to perform any audit.

Therefore we question the refusal of the auditor to accept our statistical calculation that given the fact that 93.5% of the school system Is African American and 75.5% are eligible for free lunch/ then that 75.5% are also eligible for NOET5P services.

For the auditor to state that because there were only 165 official student eligibility forms on file that is the total number of students qualified to receive services Is Illogical. To then extrapolate that figure into a two million dollar overpayment defies ail auditing guidelines.

To take this one-step further. Did the auditor exam each and every check and voucher in the boxes of material submitted??? This is not to say that corrections and changes are not in order. The computerization of the entire office has been undertaken and is 35% complete.

Lastly, we find it odd that the auditors have claimed to have found only 165 student records; one of our senior counselors alone produced over 300 fully documented folders annually from her "inhouse/inreach" student services activities. The director annually served 400 students per year facilitated and leverage by his 34 years experience and outreach into the community. The other in house counselors numbering three annually served 150 students each. Students served during large events "such as **Annual Student College Interview** session sponsored by the National Scholarship Service and Fund for Negro Students at the New Orleans Convention Center may not have been counted in your audit review. In one of those years 2001/2002 we serviced over 250 students with over 3000 students in attendance. CSX Railroad College Jamboree, held at the Union Train Station of New Orleans and we serviced more than 150 students. Another important event that it appears the auditors missed, was the NOESTP sponsored a three-day bus trip to Tuskegee University and the University of Alabama at Birmingham. The pertinent highlights of this trip included the following:

1. Twenty five (25) students with three parent chaperones and three staff.
2. Very modern Loew's bus line transportation mode.
3. Visits to comprehensive science complex in downtown Birmingham and the IMAX Theater.
4. An outstanding dining experience at outstanding restaurants in the Birmingham area.
5. Three night stay at the newest Marriott in the Birmingham area.
6. An all day visit to college day at Tuskegee Institute, in Tuskegee, Alabama.
7. A visit to the Booker T. Washington and Carter G. Woodson Federal shrine located on the campus.
8. One and a half page summary from each of the students participants describing what the trip experience meant to them.

"We consider this to rank among the finest of some estimated 1500 students trips that take place in the Trio Community annually".

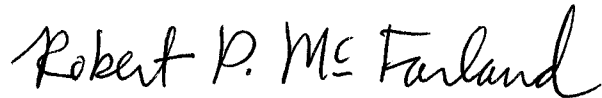
You probably don't have these numbers either, however, these services are documented and can readily be made available.

We would like to suggest that before the audit report is finalized that our accountant/information systems consultants meet with the auditor to

New Orleans Educational Talent Search Program, Inc. Audit Response to OIG/DOE
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review the program evaluation procedures and make any needed adjustments.

Sincerely,



Robert P. McFarland

Cc: Enclosures

NOETSP's General Concerns

In both the draft report response and the related addendum, NOETSP expressed concerns about our audit methodology and procedures. We have summarized those general concerns below and provided our response to those concerns. The general concerns expressed by NOETSP in its response were presented as Numbers 1 through 4. The concerns expressed by NOETSP in the addendum were not numbered, but we have numbered them in this report for ease of reference. These concerns are presented sequentially, beginning with Number 5.

1 - OIG Visits to Selected High Schools

The management of NOETSP was informed by several schools that ED/OIG conducted unannounced site visits. Since we did not mention those visits in the draft report, NOETSP concluded that we received nothing from our school visits to cite in the report. NOETSP stated, "Evidently, these site visits did not result in findings contrary to the documents submitted [including] roster[s] numbering over six thousand signatures of students who received services."

OIG's Response

NOETSP's conclusion about the site visits is incorrect. We made the visits in an effort to obtain reasonable assurance that additional performance documentation provided by NOETSP in September 2003 (after our exit conference) was valid. We sought that assurance by obtaining verification through interviews that NOETSP provided services at schools that were listed in the documents. Nothing came to our attention that caused us to conclude that the additional documentation was not valid. However, we did not obtain assurance that the documentation of services provided was sufficient.

2 - Length of Audit and Duplication of Records Requested

NOETSP stated that the length of the audit and the duplication of requests for records seriously handicapped the agency's ability to provide the level of service to which it is accustomed. NOETSP referred to records requested by means of two ED/OIG subpoenas, and stated that the time periods covered by those subpoenas overlapped. The following timeline and statements summarize the points made by NOETSP:

- September 2001 – ED/OIG began an investigation that was to cover the period January 1, 1994, through September 2001.
- November 5, 2001 – After requesting additional time, NOETSP made two shipments to Dallas in response to a 2001 OIG subpoena. The first shipment was made on this date.
- December 14, 2001 – The second of the two shipments was made to Dallas on this date.
- April 25, 2003 – NOETSP sent a letter to ED/OIG stating that the location of the field examination was a matter of coordination and communication instead of a question of compliance or cooperation.
- Subpoena #1 – This subpoena requested records for the period 1994 to 2001.

- Subpoena #2 – This subpoena requested records for the period September 1998 to December 2002.
- Overlap – It was obvious to NOETSP that the time periods covered by the subpoenas overlapped.
- Surprise Visit – NOETSP stated that it had not received any OIG correspondence or communication regarding its status from December 2001 to May 2003. NOETSP stated that “the unannounced visit to begin an examination for which you OIG/DOE started 18 months previous was very confusing [to] the management and staff.” NOETSP stated that it was perplexed by ED/OIG’s surprise visit requesting records and information, which had been previously forwarded to Dallas.

OIG’s Response

The length of the audit and the need for duplicate record requests was directly attributable to NOETSP’s continued inability or unwillingness to provide records and documents in a timely manner. As discussed in the OBJECTIVE, SCOPE, AND METHODOLOGY section of this report, we were denied on-site access to records when we initiated the audit, so we never performed any audit procedures at the grantee’s office. Therefore, we requested documents by means of a subpoena issued in May 2003. We subsequently made multiple information requests in an effort to obtain all documents and records that had been subpoenaed.

3 – Duplication of Questioned and Unsupported Costs

NOETSP referred to our statement that “The questioned costs in Findings 2 and 3 are duplicative of the total grant costs questioned in Finding 1.” NOETSP stated that the draft audit report “should be revised as to avoid misleading the reader or user of this report,” and also stated its desire for the final report to be “revised to eliminate the duplicate findings.” NOETSP also made the following statements:

These duplicate findings and the enumeration thereof clearly represent faulty and irresponsible reporting of the organization’s compliance during the years under audit. It appears from the draft audit report that the organization misspent \$3.8 million whereas the total award during the period was approximately \$2 million.

OIG’s Response

Each finding, along with its questioned cost amount, is valid and stands on its own. For Findings 2, 3, and 4, we noted that the questioned costs were duplicative because we had already questioned total grant costs in Finding 1. If the Department requires the return of total questioned costs in Finding 1, then NOETSP would not return the costs associated with Findings 2, 3, and 4 because those costs are already included in the total questioned costs in Finding 1. However, if the Department does not require the return of all funds under Finding 1, then the questioned costs in Findings 2, 3, and 4 would have to be addressed and any amount disallowed by the Department would have to be returned. Therefore, the questioned costs are not

duplicative, and our reporting is not faulty and irresponsible. Additionally, our objective review of NOETSP's records does not allow us to eliminate any finding. We would have questioned the amount for Finding 2, Finding 3, or Finding 4 if there had been no other finding. In our opinion, the findings and questioned costs are clearly presented, and they should not be misleading to readers and users of the report.

4 – Circulation of Draft Audit Report

NOETSP stated its understanding that the draft audit report was distributed only within the Department of Education, but was concerned about the circulation of the report without the benefit of NOETSP's response. NOETSP said that "even such limited distribution, may have a negative impact on the viability of this organization should the user of this report use it to evaluate the performance of this organization without the benefit of our response." NOETSP also asked, "Is this standard auditing procedure to circulate a report without the benefit of management response?"

OIG's Response

Prior to submitting its response to the draft report, NOETSP called ED/OIG to express its concern on this subject, and asked if its response could be sent to other recipients of the report. We explained that NOETSP's complete response would be included with the final audit report. We also told NOETSP that a copy of the response could be sent to the Assistant Secretary of the Office of Postsecondary Education. The standard OIG procedure calls for an auditee such as NOETSP to submit its response to ED/OIG, who will in turn include that entire response with the final audit report package. In our opinion, NOETSP's concern about circulation of the draft audit report has no impact on either the audit or its resolution.

5 – Performance Evaluation Review Technique

NOETSP stated, "If there is an error in the premise there will be an error in the conclusion." NOETSP referred to the procedure that we performed by visiting selected schools and interviewing officials concerning services provided to students, and recognized that the procedure was necessary to perform any audit. Then NOETSP questioned our assessment of student eligibility, maintaining that eligibility for free lunch equates to eligibility for Talent Search services. Specifically, NOETSP stated that 93.5 percent of the school system is African-American and that 75.5 percent of the students are eligible for free lunch, emphasizing that the free-lunch students (75.5 percent) are also eligible for NOETSP services. NOETSP also stated that it is illogical for us to report that the total number of students qualified to receive services was limited to 165 students that had official student eligibility forms on file. In addition, NOETSP stated that our extrapolation of that figure into a two million dollar overpayment defies all auditing guidelines.

OIG's Response

As stated by NOETSP, we did visit schools and interview officials. We also performed the other five procedures listed in the Objective, Scope, and Methodology section of the report. We did not base our assessment of student eligibility or grant performance merely on school visits and interviews. NOETSP quoted accurately our draft report statement, "We did not use any sampling technique." We did not employ sampling because, as we stated in the draft report, "we performed a review of all records that were made available to us." Audit sampling is used when only a limited number of records is to be reviewed.

We do not question the percentages of African-American students and those eligible for free lunches. However, we do question NOETSP's documentation of student eligibility, and emphasize that regulations require grantees to maintain eligibility records for each participant on an individual basis. "For each participant, a grantee must maintain a record of the basis for its determination that the participant is eligible to participate, including the needs assessment for the participant" (34 C.F.R. § 643.32). We cannot accept NOETSP's "statistical calculation" that students are eligible for Talent Search services just because they are eligible for free lunches. Our review of all records provided to us did not support a conclusion that NOETSP maintained adequate eligibility records on an individual participant basis. NOETSP's reference to "165 official student eligibility forms" is incorrect. We reported 165 students as the number that received services during Program Year 2001-2002. Concerning the "two million dollar overpayment," we did not extrapolate any number. We questioned total grant costs because NOETSP did not demonstrate that it properly documented student eligibility and grant performance, including NOETSP's failure to meet the regulatory requirement to serve a minimum of 600 participants per year. In our opinion, we have made no error in either premise or conclusion.

6 – Examination of Checks and Vouchers

NOETSP wanted to know if we examined every check and voucher in the boxes of material submitted for our review. NOETSP also stated, "This is not to say that corrections and changes are not in order. The computerization of the entire office has been undertaken and is 35% complete."

OIG's Response

We examined all records, including every check and every voucher, provided to us. We did not question any cost for which we saw adequate documentation. We do not know what type of corrections and changes might be in order. The 35 percent completion of the office computerization is irrelevant. Whether records are computerized or not, adequate documentation must always be maintained. This concern about checks and vouchers does not change our audit conclusions.

7 – Student Service Activities

NOETSP was concerned that we might have missed some documents pertaining to services provided to students, and specifically mentioned the following things:

- One senior counselor produced over 300 fully-documented folders annually.
- The Director himself served 400 students annually.
- Each of the other three in-house counselors served 150 students annually.
- Students served at large events might not have been counted. More than 250 students were served at one event, and more than 150 were served at another.
- NOETSP sponsored a three-day bus trip to Tuskegee University and the University of Alabama at Birmingham, and listed pertinent highlights of the trip. The last highlight stated that the 25 student participants prepared summaries (one and one-half pages in length) that described what the trip experience meant to them.

NOETSP also stated, “You probably don’t have these numbers, either, however, these services are documented and can readily be made available.”

OIG’s Response

We examined all records that were provided to us, and did not question any service for which we saw adequate documentation. Concerning the three-day field trip to Alabama, we reviewed information that showed the trip was made in April 2001. An overall summary of the trip stated that students were to submit essays summarizing their experiences, but we saw no essay in the records provided to us, even though we did see a blank student evaluation form. Since NOETSP has confirmed, through its Management Representation Letter dated January 28, 2004, that all records have been made available to us, there should be no pertinent documents available at this point that we have not already evaluated. Therefore, NOETSP’s concern about student service activities, including the field trip, has no impact on our audit conclusions.

8 – Desire to Meet with Auditor

At the end of the addendum, NOETSP stated, “We would like to suggest that before the audit report is finalized that our accountant/information systems consultants meet with the auditor to review the program evaluation procedures and make any needed adjustments.”

OIG’s Response

We conducted our audit in accordance with generally accepted government auditing standards appropriate to the scope of the review, so we see no need for the accountant or the consultants to review our program evaluation procedures. NOETSP denied on-site access to records; yet we allowed multiple opportunities for NOETSP to send records to us. Additionally, the Director and his accountant made a trip to Dallas to explain the performance documents in the six boxes that NOETSP found after our audit work was concluded and an exit conference was conducted. At that time, NOETSP confirmed that all records had been made available to us. If more documents are now available, they should be provided to the Department officials identified in the cover letter to this report.