



U.S. DEPARTMENT OF EDUCATION
OFFICE OF THE INSPECTOR GENERAL

AUG 04 2000

THE INSPECTOR GENERAL

ED-OIG/A09-90032

Ms. Arlene Ackerman
Superintendent
San Francisco Unified School District
135 Van Ness Avenue
San Francisco, CA 94102

Dear Ms. Ackerman:

This **Final Audit Report** (Control Number ED-OIG/A09-90032) presents the results of our audit of San Francisco Unified School District's (District) oversight of Title I funds for services to private school students, as authorized by the Elementary and Secondary Education Act. The purpose of our review was to determine if the District (1) generated and provided funds for Title I Services to private school students in proportion to the number of low-income private school students in participating school attendance areas, and (2) provided adequate oversight to ensure that Title I funds used to provide services for private school students were expended for intended purposes and were in compliance with Federal laws and regulations.

AUDIT RESULTS

During the school year ending June 30, 1999, the District complied, in general, with Federal laws and regulations when generating Title I funds for services to private school students. However, the District did not ensure that services were provided for eligible students who attend private schools located outside the District's boundaries. Also, we noted significant weaknesses in the District's financial management controls.

Our limited testing did not disclose instances where Title I program funds were misused. However, given the weaknesses noted in the District's financial management controls, we can not express an overall opinion on whether Title I funds used to provide services for private school students were expended for intended purposes and were in compliance with Federal laws and regulations.

The District concurred with our findings and recommendations and informed us that it is implementing actions to address the issues raised by our audit. A copy of the District's comments is included as an Attachment to this letter.

Finding No. 1 --The District Needs to Ensure that Title I Services Are Provided for Eligible Students Who Attend Private Schools Located Outside the District's Boundaries.

Title 34 of the Code of Federal Regulations (CFR) 200.10 states that the local educational agency (LEA) shall provide educational services to eligible private school students who reside in a participating school attendance area of the LEA. The U.S. Department of Education (Department) clarified the above requirement in its publication titled *Title I, Part A Policy Guidance – Improving Basic Programs Operated by Local Educational Agencies*, dated April 1996. In the "Equitable participation" section of the chapter titled "Providing Services to Eligible Private School Children," the Department stated that, "The LEA in which the child resides is responsible to provide services for the child. The LEA may, however, arrange to have services provided by another LEA, reimbursing that LEA for costs."

The District did not comply with this requirement. According to the Program Director for the District's Department of State and Federal Funded Projects (Projects Office), the District's practice is to (1) not provide Title I services to eligible students, residing within the District's boundaries, who attend private schools located in other school districts, (2) not arrange to have the other school districts provide services to these students, and (3) not reimburse other school districts for costs of Title I services provided to these students. The District's practices are in direct conflict with the cited Federal regulation.

Recommendations

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education:

- 1.1. Require the District to implement written policies and procedures that comply with the requirements of 34 CFR 200.10.
- 1.2. Coordinate with the California State Department of Education (the State agency responsible for providing program oversight for subrecipients of Title I funds) for a follow up review of the District's implemented corrective actions.

Finding No. 2 -- The District Needs to Improve Its Financial Management Controls Over Budgets, Expenditures, and Equipment Inventory.

Title 34 CFR 80.20(b) establishes the standards for financial management systems applicable to State and local governments that receive Federal funds. We concluded that the District did not meet these standards in its administration of Title I funds used to deliver services to eligible students attending private schools.

Budget Controls. Paragraph (4) of the cited CFR section states that, "Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant." The District did not meet this standard for budget controls because the Projects Office did not reconcile its own

records to the District's accounting system records. As a result, the Projects Office was unaware of its official budget and the expenditures incurred for administering the Title I program.

According to the Program Director, the Projects Office used its own records to monitor the Title I budget and expenditures rather than the report generated by the accounting system (called the "Monthly Budget Status Report"). However, since Projects Office staff did not reconcile their manual records to the reports from the accounting system, they were not aware of differences between the records. We found that the Program Director was unaware that:

- The "Monthly Budget Status Report" showed the amount budgeted for operations of the Projects Office was about \$68,000 or 13 percent less than the budget prepared by the Projects Office to monitor its use of funds.
- The Budget and Finance Office added State and local sales tax to amounts on out-of-State vendor invoices when the vendors did not include sales tax in their charges.

Financial information is an integral part of program management information systems, and relevant, reliable financial reports should be available to support managers' decision-making, accountability, and control needs.

Source Documentation. Paragraph (6) of 34 CFR 80.20(b) states that accounting records must be supported by source documentation, such as time and attendance records. The District did not meet this standard for payments to consultants who provided services for students attending private schools.

The Projects Office provided consultants, under contract with the District, with a schedule (called the "K" Resolution Request Form) specifying the planned dates, location, and number of hours/days that the contractor was to provide services to private school students. The contractors then submitted time reports showing the dates, locations and hours when the services were actually provided. The Projects Office used the information contained on the schedule to authorize payments to contractors without confirming from time reports that consultants actually worked the number of hours/days specified on the schedule.

During our audit period, the District paid a total of seven consultants for services provided to private school students. For one consultant, the Projects Office did not have time reports on file. We also found that the actual dates worked shown on the payment authorization did not always correspond to actual dates shown on the consultants' time reports. However, we were able to confirm from the District's records that amounts paid to the consultants were appropriate.

Internal Controls Over Equipment Inventory. Paragraph (3) of 34 CFR 80.20(b), which addresses internal controls states that, "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes." A subsequent section specifies the information that must be maintained in property records and the requirement to reconcile the records with a physical inventory at least once every two years [34 CFR 80.32 (d)(1) and (2)].

The California State Code of Regulations specifies State requirements for proper inventory control over equipment purchased with State and Federal Consolidated Application funds, which include funds from the Title I program.¹ The *Equipment Control Manual*, prepared by the California State Department of Education, Consolidated Projects Management Unit, provides California LEAs with guidance on the purchase, inventory, labeling and disposal of equipment procured with consolidated application funds. Section VIII of the manual addresses equipment purchased with Title I funds that is located at a nonpublic school. It states that, "Equipment purchased with consolidation application funds and on loan to a nonpublic school from a school district must be on the school's inventory list."

The District's property records did not accurately reflect the equipment, purchased with Title I funds, that was located at private schools. We reviewed the District's inventory records for eight private schools. Our review found that:

- District inventory records did not accurately reflect the location of equipment. Of the 284 equipment items listed for the 8 private schools, we found that 146 items (or about 50 percent of the listed equipment) were not at the listed locations. For example, one private school administrator told us that 18 items of equipment listed for the school had been returned to the District. District records showed that the District received 13 of the 18 equipment items in February 1998.
- Equipment was not listed in the District's inventory. Four of the eight private schools had equipment items, purchased with Title I funds, that were not included on the District's inventory. We identified 28 items that were not listed.
- Some of the equipment was not labeled with the District's name, Title I program or an identification number. Also, for the equipment with labels, the labels could be easily removed.
- The District's inventory records often lacked equipment identification numbers, serial numbers and cost/current value or the information was inaccurate.

Without complete and accurate inventory records, the District did not have effective control and accountability over the use of equipment purchased with Title I program funds. Also, the District had not provided important safeguards to prevent the loss, damage or theft of the equipment. In addition, the District did not have management information readily available to

¹ The California Code of Regulation, Section 3946 (b) states that all equipment purchased with consolidated application funds shall be subject to property management standards maintained by the recipient district, including, but not limited to, the controls provided in this section. Paragraph (1) of this section requires that an up to date inventory of each item of equipment shall be kept at the district office and at the appropriate school site. The inventory shall include a description, identification number, acquisition date and original cost, funding source, location and ultimate disposition data. Paragraph (2) states that each equipment item shall have a label that contains the name of the project, the identification number and name of the district.

assess whether existing equipment was sufficient to meet the needs of private school students, or if new purchases were needed.

Recommendations

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education require the District to:

- 2.1. Ensure that the Program Director is provided with appropriate reports from its accounting system that can be used to effectively manage Title I funds. Until such reports are made available, the Program Director should ensure that the Projects Office's own records are periodically reconciled to the District's accounting records.
- 2.2. Implement procedures to ensure that the actual time reports are obtained and used to prepare payment authorizations for consultants.
- 2.3. Take steps to ensure the completeness and accuracy of its inventory records for equipment located at private schools, including updating its records based on a physical inventory of equipment located at the private schools and the District.
- 2.4. Ensure that equipment located at private schools are affixed with a durable label that includes the District name, the Title I program and an identification number.

BACKGROUND

San Francisco Unified School District is the sole school district within the borders of the City and County of San Francisco. Federal funds authorized by Title I of the Elementary and Secondary Education Act are made available to the District through the California State Department of Education. For the fiscal year starting July 1, 1998, the District had about \$12.3 million of Title I funds available to cover allowable costs for supplemental services to students, other services and administration.

During fiscal year 1998-1999, the District provided Title I-funded services at 54 public elementary schools, 8 public middle schools and a public high school. In addition, Title I-funded services were provided to students attending 36 private schools. (A total of 123 private schools, located within the District's borders, had registered with the State.)

The District determined school eligibility for Title I-funded services based on the percent of students eligible for the National School Lunch Program administered by the U.S. Department of Agriculture. The District allocated the Title I funds for services at each eligible school based on the number of students who were eligible for the National School Lunch Program. For fiscal year 1998-1999, the District allocated \$437 per student.

AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

The purpose of our review was to determine if the District (1) generated and provided funds for Title I Services to private school students in proportion to the number of low-income private school students in participating school attendance areas, and (2) provided adequate oversight to ensure that Title I funds used to provide services for private school students were expended for intended purposes and were in compliance with Federal laws and regulations.

To accomplish our objectives, we reviewed the District's policies and procedures for allocating Title I funds for services at the District's public schools and private schools and identifying students eligible to receive Title I services. We reviewed budget reports used to monitor Title I expenditures and gained an understanding of the District's payroll system and procedures for approval and payment of goods and services. We tested selected financial transactions to assess the adequacy of the District's procedures. We obtained the District's equipment inventory listing and confirmed whether equipment purchased with Title I funds was located at the identified private schools.

Our review covered the school year ending June 30, 1999. We performed fieldwork at the District between August 1999 and March 2000. Our audit was performed in accordance with government auditing standards appropriate to the scope of the review described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we made an assessment of the District's management control structure, policies, procedures, and practices applicable to Title I services for private school children. The purpose was to assess the level of control risk, that is, the risk that material errors, irregularities, or illegal acts may occur. We performed the control risk assessment to assist us in determining the nature, extent, and timing of our substantive tests needed to accomplish our audit objective.

To make our assessment, we identified significant controls and classified them into the following categories:

- Budgeting
- School and Student Eligibility
- Purchase and Receipt of Goods
- Consultant Services
- Inventory
- Payroll

Due to inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the control structure. However, we identified significant material weaknesses in the District's budget controls, support for payments made to consultants and equipment inventory controls. These weaknesses are discussed in Finding No. 2.

ADMINISTRATIVE MATTERS

ADMINISTRATIVE MATTERS

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 Department of Education official, who will consider them before taking final Department action on the audit:

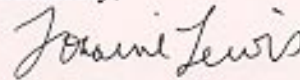
Michael Cohen
Assistant Secretary for Elementary
and Secondary Education
400 Maryland Avenue
Room 3W315
Washington, DC 20202

Office of Management and Budget Circular A-50 directs Federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemption in the Act.

If you have any questions or if you wish to discuss the contents of this report, please contact Ms. Gloria Pilotti, Regional Inspector General for Audit at 916-498-6609. Please refer to the control number in all correspondence related to the report.

Sincerely,



Lorraine Lewis

Attachment



Dr. Mary Welsh Byrd, Program Director

Department of State & Federal Funded Projects
20 Cook Street – Room 10
San Francisco, CA 94118-3311
TEL. (415)750-8555
FAX (415)750-8553
mbyrd@muse.sfusd.k12.ca.us

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

March 24, 2000

Gloria Pilotti
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
801 I Street, Room 219
Sacramento, CA 95814

Dear Ms. Pilotti:

We are responding to your letter of March 14, 2000 and the issues raised in the attached point sheets relative to the audit of the San Francisco Unified School District's oversight of Title I funds for services to private school students:

1. Finding Title: The District Needs to Ensure that Title I Services Are Provided for Eligible Students Who Attend Private Schools Located Outside the District's Boundaries

This issue had never been brought to the District's attention throughout various external audits and Consolidated Compliance Reviews conducted by the California Department of Education, until this particular audit. The issue has been discussed in a recent video presentation by the U.S. Office of Education and representatives of the CDE. It is to be further discussed by Hannah Walker, Assistant Superintendent/Director, Specialized Programs Division, CDE. This issue is evidently one which has recently arisen in several districts in California. CDE is to give guidance relative to policies and procedures to be used in implementing Title 34 of the Code of Federal Regulations (CFR), Section 200.10. The SFUSD's written policy and procedures should be developed by the Program Director of the Title I Nonpublic Program, reviewed by the SFUSD's attorney and CDE, and presented for approval by the San Francisco Board of Education by June 27, 2000, the last Board Meeting of the school year, so as to be implemented for the 2000-2001 school year.

2. **Finding Title: The District Needs to Improve Its Financial Management Controls over Budgets, Expenditures, and Equipment Inventory.**

Budget Controls

The audit point sheet very accurately describes the current conditions in the SFUSD relative to the reconciliation of the SFFP Department's expenditures with the District's records. It is a systemic problem, which is currently being corrected with both new hardware and software. Because of the installation of these new systems, the budgets and expenditures are months behind in being processed; therefore, there is no agreement or reconciliation of figures. The SFFPD relies on its own figures and considers them to be more accurate than the District's records because they are current. The Program Director has directed her concerns to the Chief Fiscal Officer and others in the District relative to this matter (see attachment addressed to Bill Coleman). However, until the "Monthly Budget Status Report" is brought up to date and reflects accuracy, she will reconcile the department's records with the District's accounting records on a quarterly basis, in September, December, March, and June.

Source Documentation

In response to the issues raised here, I am enclosing the memorandum to the Program Director from the TSA (Teacher on Special Assignment) who actually implements the Title I Nonpublic Program. There are some corrections to the issues raised and explanations, since there were no overpayments or underpayments made to consultants in this program. The Department will implement the use of a better form for the submission of proof of work done for payment. In addition, because of nature of the program, specific dates that do vary, will not be listed but rather a total number of days within a specified time period will be used in submitting the K form for consultants. [See **OIG Note below**]

Internal Controls Over Equipment Inventory

While the Department of State and Federal Funded Programs has maintained the inventory for the public schools, the Title I Nonpublic Program, as well as the Title I Neglected and Delinquent Programs, and the Title VI Innovative Programs, all of which are implemented through this department have been maintaining their own records and inventory. Beginning immediately, I am directing that all of these programs provide inventories to the TAS for Technology, who is responsible for maintaining the department's inventory. All equipment and materials will therefore be kept in one location.(See attached memorandum dated 3-24-00) In addition, the department will develop a form which indicates a change of location, when equipment is moved from one location to another site. This form will be completed and operative before the close of school year.

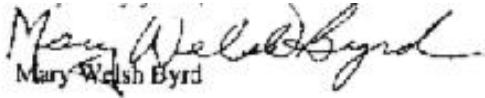
[OIG Note: The statement regarding overpayment and underpayment relates to a preliminary finding not included in the final report. The District provided data confirming that amounts paid to the consultants were appropriate.]

In the matter of providing a suitable label for the equipment, I am requesting that we continue to engrave new equipment and to continue to search for some type of label that is better (less easy to be removed) than the adhesive label that we are currently using.

We trust that these responses, clarifications, and attachments have served as a positive response to the issues raised thus far by the Title I Nonpublic Audit that has been undertaken by your office since August, 1999. If there are any further questions, please do not hesitate to contact me at (415) 750-8555.

Attachments

Very Truly yours,



Mary Welsh Byrd

cc: Linda Davis
Steve Hudgens

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