



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

NOV 14 2008

**MEMORANDUM**

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

Richard Smith  
Acting Assistant Deputy Secretary  
Office of English Language Acquisition

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

SUBJECT: Final Report on the Osage County Interlocal Cooperative  
Control Number ED-OIG/S14J0001

Attached is the final report on the Osage County Interlocal Cooperative (OCIC) conducted by our contract audit firm, McBride, Lock and Associates. This report was completed in response to a request from OELA staff for a fiscal review of OCIC.

The report identifies a variety of issues including OCIC's large cash balance, its allocation of direct and indirect costs, and some questionable charging practices. Therefore, our office is recommending that the Department conduct a financial monitoring review of OCIC's expenditure of federal grant funds.

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

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

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

Attachment

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

SUITE 900  
1111 MAIN STREET  
KANSAS CITY, MO 64105  
TELEPHONE: (816) 221-4559  
FACSIMILE: (816) 221-4563  
EMAIL: MCBRIDELOCK@EARTHLINK.NET  
CERTIFIED PUBLIC ACCOUNTANTS

---

## McBRIDE, LOCK & ASSOCIATES

U.S. Department of Education  
Washington, DC 20202

RE: Osage County Interlocal Cooperative – Hominy, Oklahoma

We have completed a post-award review of the Osage County Interlocal Cooperative (OCIC) Title III American and Alaska Native Children in School Program grant award, PR/Award Number T365C030038, known as Project Eagle. Our review was performed in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States and professional standards published by the American Institute of Certified Public Accountants. It was conducted during the period August 15, 2007 through February 15, 2008. The scope of our review included:

- Adequacy of OCIC to administer discretionary grants through fiscal control and fund accounting procedures;
- Review of the OCIC financial statement history and analysis of independent auditor results;
- Review of prior on-site reviews conducted by the U.S. Department of Education (ED) and follow-up from said review;
- Testing of grant disbursements to determine allowability of cost and proper accounting for Federal funds; and,
- Physical observation of equipment purchased with Federal funds and procedures ensuring proper control of and accounting for equipment inventory.

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

The review was performed for the period August 1, 2003 through January 31, 2008. During that period \$1,038,907 in expenditures have been charged to this grant and an additional \$61,428 is available for drawdown. A breakdown of charges is as follows:

	Amount	%
Payroll	\$425,975	41.00%
Fringe Benefits	87,002	8.37%
Other Direct	479,530	46.16%
Indirect	46,400	4.47%
	<u>\$1,038,907</u>	<u>100.00%</u>

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

### **Background of OCIC**

Oklahoma law established the OCIC as a public school district. Each calendar year the OCIC submits to the Oklahoma Department of Education copies of interlocal cooperative agreements with its participating individual school districts containing the authorized signatures of school superintendents and local boards of education presidents. The annual interlocal cooperative agreements specify the services, duties, functions, obligations, or responsibilities which are to be performed by the Interlocal Cooperative for its participating individual districts to include:

1. A centralized interlocal cooperative office to write grants and coordinate interlocal staff and programs;
2. An executive director;
3. A business manager/secretary;
4. A professional development center for teachers and parents;
5. Certified and non-certified staff to implement the specific and special programs authorized by the interlocal cooperative board of directors;
6. A comprehensive OCIC policy book; and,
7. A board of directors.

### **OCIC Comments**

The Osage County Educational Cooperative became an "Interlocal" in 1993 with passage of Oklahoma House Bill 1393. Prior to this legislation, the organization had existed mainly as a Special Education Coop, with one of the public schools serving as the Local Educational Agency (LEA). With the formation of the OCIC, an annual membership fee structure was established as part of the By-Laws. Initial membership in the OCIC required school districts to expend local funds to pay a joining fee and an annual membership fee thus creating a "cash fund balance" to be utilized by OCIC for operating expenses.

### **Audit Reply**

No modification was made to the final report as a result of the response.

### **Adequacy of the Organization to Administer Discretionary Grants**

OCIC maintains its financial records on a basis of accounting required by Oklahoma statutes and uses the Oklahoma Cost Accounting System (OCAS) using Municipal Accounting Systems, Inc. software. OCIC was able to readily identify all expenditures

under the grant award and these expenditure reports were tied to the drawdowns from the ED website portal for electronic grants without exception.

A review of OCIC's internal controls indicates that there is adequate segregation of duties over disbursements of grant funds. Overall, OCIC has created sufficient accounting systems and procedures to ensure and maintain proper stewardship of taxpayer dollars over Federal funds. However, compliance with established processes have caused concerns regarding the allowability of certain expenditures and financial management which are addressed in the balance of this report.

### **Review of Financial Statement History and Analysis of Independent Auditor Results**

The independent Office of Management and Budget (OMB) Circular A-133 audits for fiscal years 2003 through 2006 were reviewed. Each report included a qualified opinion with respect to the statutory basis of accounting and contained disclosure of lack of segregation of duties as a reportable condition in the internal controls over major programs, which was not considered a material weakness. The reports for all four years disclosed no instances of noncompliance material to the financial statements, no audit findings which are required to be reported under OMB Circular A-133 and an unqualified opinion report was issued on the compliance of major programs. Project Eagle was determined to be a major program in 2004 and in 2006.

While the independent audit determined the lack of segregation of duties as a reportable condition, this is considered an inherent limitation in small organizations. The organization has segregated the receipting function in the disbursement process. Additionally, the recording, disbursing and reconciliation functions have been segregated. We consider these compensating controls adequate to reduce the risk of any material misstatements, which the audit results support.

The audited financial statements indicate that from 90.7 to 93.5% of the total revenues of the OCIC are derived from Federal sources. Of these Federal sources, 78.5% are derived from direct program grants from ED with an additional 20% in pass through monies from ED through the Oklahoma Department of Education. The local sources account for only 3.2% of total revenues. Remaining funds are from state sources and earned interest.

The OCIC reported a cash fund balance at the end of fiscal year 2006 of \$1,410,291 and interest earnings for that year of \$24,919. The Federal grant funds have elected the option to be received on a reimbursement basis. Given this parameter, it is interesting to note the large cash balance is adequate to fund over 4.5 months of activity for the organization. The earning of interest income in an organization receiving predominantly Federal funds indicates that cash management concerns are likely present.

### **OCIC Comments**

In the Draft Review, it states "The earning of interest income in an organization receiving predominantly Federal funds indicates that cash management concerns are likely present." The large cash balance of OCIC is also called into question. The Draft Review

assumes that since these two things are present, there must be cash management concerns. In fact both items are not a problem once the facts are known.

The cash balance noted is a result of 13 years of conducting business to provide educational support services to member school districts. As set out above, each member of OCIC is required to pay a joining fee when the school district first joins, plus an annual membership fee. This money plus fees from professional development and special educational services, with the passage of time and frugal management by OCIC, has created the large cash balance noted in the draft report. In addition, this large cash balance has also created the interest income noted in the Draft Review. Since grant management by the OCIC operates on a reimbursement basis, an adequate cash balance is essential.

Since its inception as an Interlocal in 1993, the OCIC has utilized the auditing firm, SANDERS, BLEDSOE & HEWETT, Certified Public Accountants, LLP to perform annual audits (with an exception of a different auditing firm used in FY96). These annual audits, which are required by Oklahoma School Law, as well as by federal law, are reviewed by the OCIC Board of Directors. The OCIC Board of Directors consists of the superintendents of each of the fifteen member districts. As part of a monthly Board of Directors meeting, all revenue and expenditures are presented and approved by the said Board. Each annual audit report is then forwarded to the Oklahoma State Department of Education for further review. In reviewing 14 years of annual audit reports, no cash management concerns have been noted. Contact information for the auditing firm is: Stephen H. Sanders, CPA, Eric M. Bledsoe, CPA, and Jeffrey D. Hewett, CPA of the firm SANDERS, BLEDSOE & HEWETT, 112 W. Dallas St. Broken Arrow, OK 74013, (918) 449-9991.

Accordingly, the comments concerning the "large cash balance" and interest income should be deleted from the Draft Review.

#### Audit Reply

The OCIC reply provides certain additional information that was not previously provided. Accumulation of funds over a 13 year period could conceivably account for the significant cash balances. In evaluating individual revenue sources over the past four years, it is significant to note that over 90% of revenues are generated from Federal sources. It is therefore logical under this environment to further evaluate the cash management of Federal funds and the potential impact that these revenue streams have on allowing significant cash balances to exist.

No modification was made to the final report as a result of the response.

#### Prior On-Site Review

Staff members of the Title III Native American and Alaska Native Children in School Program of ED and the Oklahoma Department of Education conducted an on-site visit to the OCIC district during the period September 27 through September 28, 2006. As a

result of the visit, six areas of critical issues concerning project performance and fiscal compliance were identified and funding was temporarily halted, as follows:

- No grant file or other documentation to establish implementation of the grants in accordance with the approved applications;
- Grantee failed to establish that it is one of the eligible entities listed in section 3112(a);
- Both grants under the Native American and Alaska Native Children in School Program, Project Eagle and Project WOHALI (Working on High Achievement in Language Instruction), are intended to serve the same schools and grade levels, with the same project goals, objectives and activities;
- No evidence of Native American Limited English Proficiency (LEP) students participating in the program;
- Grantee failed to inform parents of the LEP students participating in the program, Section 3302 – Parental Notification; and,
- Entity received a subgrant under Title III, Section 3114 while receiving the Native American and Alaska Native Children in School grants, contrary to Section 3112(c) of the Elementary and Secondary Education Act (ESEA).

On November 15, 2006, based on ED's review and approval of OCIC responses and documentation provided regarding the concerns, the Office of English Language Acquisition (OELA) of ED allowed OCIC to resume withdrawal of funds from Project WOHALI.

ED learned of concerns which centered on discrepancies noted in the reporting of LEP students to the State versus those reported to the Federal government and also expressed concerns regarding the type of expenditures being made by the OCIC with Federal funds. The OCIC is working to ensure that those students who have been identified as LEP for the purposes of Federal funding also met the State requirements, due to differences in the criteria used by both. The required forms for the State have not yet been obtained on all students being served under the federal program. The initial determination of LEP students was questioned and has not been resolved between ED and OCIC. Concerns regarding types of expenditures are further addressed in this report in the section on testing of grant disbursements.

#### OCIC Comments

In reference to the *six areas of critical issues*, grant draw-downs were voluntarily suspended by the OCIC from September of 2006 to November of 2006 until all of the critical issues were addressed. As stated in the letter of November 15, 2006 from ED, all of the critical issues were resolved. It should be noted that several of the critical issues identified were merely communication issues. Information was available but was not requested during an on-site visit; the miscommunication issues were resolved quickly. The process of identifying LEP students and obtaining Home Language Surveys has been revised by the OCIC. It should also be noted that the abstract and the proposal narrative, which was approved by ED, states that Project EAGLE will serve LEP and non-LEP students in the four districts named in the grant proposal.

Discussions continue between the OCIC Project Director and the OELA Program Supervisor concerning the differences in the State of Oklahoma and ED definition of an LEP student. Accordingly, these comments regarding the six areas of critical issue should either be removed from the Draft Review or the Draft Review should reflect the information set out in this paragraph, since a failure to do so would give a false impression.

It should also be noted on page 4 of this section that the subgrant was received under Title III, Section 3114, and not Title II as reflected in the Draft Review.

#### Audit Reply

The final report includes the OCIC comments in full. The issues developed as a result of the review have not been modified as a result of the response.

The final report modified the typographical error regarding the reference to the Title III program.

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

Our review included testing of 55% of the total direct non-personnel related expenditures and review of personnel charges related to one of the project directors and a Curriculum Technology Specialist charged to the grant. These positions were determined to be of higher risk because of their lack of association with student activity. Our review was conducted to determine the disbursement procedures of the grantee, the allowability of costs being charged to the grant, the adequacy of time and attendance records, and the appropriateness of the grantee's accounting for expenditures. In determining the allowability of costs being charged to the grant we considered the basic guidelines affecting the allowability of costs, in addition to the concerns expressed in both the site visit and prior employee comments regarding duplicative efforts and unreasonable and unnecessary expenses. The following areas of concern or questioned costs were identified:

- Indirect versus Direct Costs

The review of direct non-personnel expenditures charged to the Project Eagle grant revealed many incidental items that would appear to be indirect in nature. For instance, charges to the grant were made for maintenance of the OCIC office color copier, toner cartridges for the OCIC office fax machine, monthly telephone bills and paper and other incidental office supplies. In addition, these expenditures were often found to be split between several federal grant programs.

Per OMB Circular No. A-87, direct costs are those that can be identified specifically with a particular final cost objective, while indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically



benefited. With regards to specific items of cost, OMB Circular No. A-87, states that "Only materials and supplies actually used for the performance of a Federal award may be charged as direct costs."

OCIC serves 15 different school districts, of which only four are participating in Project Eagle. Incidental materials and supplies used by the OCIC would be difficult to allocate on a direct basis, using a reasonable methodology, to any one particular Federal Grant award. Additionally, the fact that many of these expenditures are being charged to several projects as a direct charge would tend to support the conclusion that the costs could not specifically be identified with a final cost objective, or could allow for a situation in which duplicated costs could be charged to the various grant programs.

The OCIC also receives an indirect reimbursement of 4.5% of direct charges. This indirect rate is based upon an average of the State approved indirect rates for the four school districts that are the subject of the grant. This reimbursement rate bears no relationship with the indirect costs of the OCIC. These costs are also used by the OCIC in calculation of their reimbursement of the organizations overall expenditures. It could not be ensured that this charge was not duplicative of direct charges previously made.

#### OCIC Comments

On page 4 of the Draft Review, it is stated that the review of direct non-personnel expenditures "revealed many incidental items that appeared to be indirect in nature." On the original Project EAGLE budget, which was approved by ED, there was an annual line item for \$125.00/month for printing and copying materials as a direct cost. There was also a line item direct cost for office supplies in the amount of \$90.00/month for each year of the grant. This was approved by ED. In addition, since OCIC is on a reimbursement basis, each charge for these items is specifically approved again by ED prior to payment. These types of budget items are prevalent within most of the approved budgets of federal grants administered by the OCIC. Various grant activities listed in approved original budgets and narratives required printing and copying such as: newsletters, data analysis reports disseminated to participating districts, professional development training materials, family/parent education materials, native language materials, etc. A system currently is in place that identifies direct cost with a particular final cost objective for each grant program. For example, copying and telephone costs are tracked by employees utilizing codes specific to a grant. Accordingly, this portion of the Draft Review is inaccurate and should be changed to reflect this information or removed from the Draft Review.

It should also be noted that on page 5, under this section that OCIC serves 15 member school districts not 16 as noted in the Draft Review.

#### Audit Reply

The final report modifies the number of schools served from 16 to 15.

The issues developed as a result of the review have not been modified as a result of the response.

### **Questionable Costing Practices**

Because of the manner by which the organization computes grant reimbursement, several specific instances were noted that created concern regarding the allowability of certain costs to specific grants.

- In April of 2005, OCIC charged \$650 to the Project Eagle grant for a car lease for the prior Executive Director. Further review indicates that additional months at \$650 a month were charged to the following Federal grant projects: Tassels (2 months), Play (2 months), Icon, Clio and Pisces. Vehicle costs would generally be charged to various grants based on usage. If the usage is administrative in nature an allocation method should be demonstrated. It is unclear as to the manner the OCIC used to allocate such costs.
- In June of 2005, OCIC charged \$100 to the Project Eagle grant for cell phone usage of the prior Executive Director. Further review indicates that \$602 in total was charged to Project Eagle and other Federal grants for the April through July 2005 wireless bills. The support for the allocation basis to the grant was not present.
- In May 2007, a check for \$3,189 was written to the OCIC and charged to Project Eagle. Further investigation revealed that several projects were charged prorated amounts that were reimbursed to the OCIC for the purchase of a van to be used by OCIC and its personnel. A mileage log is being maintained, however, at the time of our review, trips recorded were for administrative duties rather than for any specific project related objective.
- In June of 2004, the Project Eagle grant was charged \$560 for installation of a document camera in the Board room. This charge would appear to be an indirect cost not specifically chargeable to any particular Federal grant since the use of the Board room would benefit the organization as a whole, rather than any specific grant.
- Employees, in addition to their base salary, often receive one time awards, resembling a year end bonus, or other stipends for additional duties. These additional duties, and one time payments, do not appear to benefit any specific grant program. These amounts are being charged to the grants in the same ratio as the employee's base salary. Specifically, the one time awards ranged between \$200/year for a part-time employee and \$400/year for a full-time employee. Stipends for additional duties varied. In one case, an additional stipend of \$930 was being paid to an employee being charged to the grant for Web Master duties for the organization.

### **OCIC Comments**

Beginning in July 2005, the OCIC implemented revised processes and procedures concerning requisitions, documentation of expenditures to grants, and reimbursement of

expenditures. Most of the "questionable costing practices" noted in the draft occurred prior to this time. The current procedures require detailed documentation of an expenditure before it can be charged to a specific grant. Efforts to ensure the allowability of expenditure now include consultation with the Business Manager and the Budget Director, and signatures by a Project Director and an OCIC Administrator. Responses to specific items of costing practices in the Draft Review follow:

Item #1 and #2

The process the OCIC used to allocate the cost of a car lease and cell phone costs was to divide the cost equally among the number of active grants that were in place at that time.

Item #3

After conversations with the auditor, on August 15, 2007, the Transportation Log kept in the van was revised to include: Date, Driver, Starting Mileage, Destination, Purpose, and Grant. According to the auditor, since this grant is not a "direct cost" grant, pre-billing for mileage to conduct grant activities when the OCIC van was utilized is acceptable. However the maximum rate that can be used is the IRS Approved rate (.485 for FY 07 and .505 for FY 08). A log must be kept showing staff member, date, destination, purpose, miles driven.

On May 15, 2007 Project EAGLE was billed \$3,189 for an estimated 4,251 miles for April, May, and June 2007. A rate of .75/mile was used which was the actual cost of leasing a van from a commercial company and then providing fuel and insurance for a maximum of 3,000 miles per month. The mileage estimate was based on a line item for transportation in the budget.

As a result of conversations with the auditor on August 15, 2007 and February 15, 2008, the Transportation Expense (May 15, 2007) for Project EAGLE will be adjusted according to miles actually documented in the Transportation Log at the IRS approved rate (.485/mile for FY07 and 50.5/mile for FY08). Adjustments will also be made to all grants that were charged a prorated amount for transportation expense in May 2007. The difference between the amount billed and the adjusted amount (utilizing Transportation Log miles and the approved rate) will be returned to ED.

Item #4

OCIC's response did not mention this issue.

Item #5

Professional Development Stipends have been paid to OCIC employees who complete optional professional development courses. The stipends are paid with grant funds, processed through payroll, and considered as part of the employee's salary.

The Extra-duty Contract for Web Master duties should have been paid with local funds, rather than grant funds, since that duty affects all activities of the OCIC. This amount will be returned to ED.

#### Audit Reply

The corrective action noted will benefit future accountability for the findings noted. No resolution was proposed in the response for previous inadequacies in accountability for items 1 and 2. For the remaining items, the proposed return of funds appears reasonable. However, final agreement for these amounts rests with ED.

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

We physically observed several items of equipment that had been charged to the grant program and identified as purchased for the nearby Hominy Elementary School. We were able to locate these items of equipment, find them on the inventory maintained by the grantee and observe the bar coded identification number assigned by the grantee. The procedures observed appear to be adequate to ensure proper control and accountability for equipment purchased with Federal funds. We were unable to verify the actual use of equipment.

#### **Conclusion**

The grantee has systems in place to ensure fiscal control for grant expenditures. However, due to the volume of Federal funds and the large variety of projects being administered, the accounting system is not adequate to ensure that the costs being charged to a particular program are allowable direct charges and that there is no duplication of charges to various grant programs.

Additionally, OCIC is expending in excess of \$3,500,000 with less than 3% of these expenditures being paid by local sources. We believe it is this local limitation of funding that has contributed to the need to charge non-grant specific costs to the grant programs as direct charges. Our review indicates that a cost audit of any particular grant program would necessitate reviewing the entirety of grant programs in order to accurately determine the allowability of costs. It is evident from our review of the Project Eagle that there are items of cost that have been charged to this project which would be considered unallowable or unallocable to the grant. We recommend that such a review be performed.

OCIC has a significant cash balance which requires additional analysis to determine its source. Accordingly, cash management of federal funds should be analyzed. The corresponding interest earnings also require additional scrutiny.

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

*McBride, Lock & Associates*  
McBride, Lock & Associates  
April 28, 2008

ATTACHMENT



OSAGE COUNTY INTERLOCAL COOPERATIVE

207 E. MAIN • HOMINY, OK 74035-1511

[www.ocic.k12.ok.us](http://www.ocic.k12.ok.us)

Dr. Gerald W. Harris, Executive Director

April 28, 2008

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

Dear Mr. Lock,

Enclosed is the **RESPONSE BY OCIC** to the draft of post-award review by McBride, Lock & Associates and communication on April 10, 2008. An electronic copy was sent by e-mail on Friday, April 25, 2008.

Further communication concerning the post-award review can be directed to Jacque Canady or myself at the OCIC.

Sincerely,

Gerald W. Harris, Ed.D.  
OCIC Executive Director

Ph: 918-885-2667

FAX: 918-885-6742



SCHOOL DISTRICT 57 K001



OSAGE COUNTY INTERLOCAL COOPERATIVE

207 E. MAIN • HOMINY, OK 74035-1511

[www.ocic.k12.ok.us](http://www.ocic.k12.ok.us)

Dr. Gerald W. Harris, Executive Director

## RESPONSE BY OCIC

### To Draft of Post-Award Review

By McBride, Lock & Associates & Communication on April 10, 2008

---

Set out below are a number of clarifications and comments regarding the Draft of the Post-Award Review ("Draft Review") by McBride, Lock & Associates sent to the Osage County Interlocal Cooperative ("OCIC") on April 10, 2008. The section headings are the same as set out in the Draft Review.

### Background of OCIC

The Osage County Educational Cooperative became an "Interlocal" in 1993 with passage of Oklahoma House Bill 1393. Prior to this legislation, the organization had existed mainly as a Special Education Coop, with one of the public schools serving as the Local Educational Agency ("LEA"). With the formation of the OCIC, an annual membership fee structure was established as part of the By-Laws. Initial membership in the OCIC required school districts to expend local funds to pay a joining fee and an annual membership fee thus creating a "cash fund balance" to be utilized by OCIC for operating expenses.

### Review of Financial Statement History and Analysis of Independent Audit Results

In the Draft Review, it states "The earning of interest income in an organization receiving predominantly Federal funds indicates that cash management concerns are likely present." The large cash balance of OCIC is also called into question. The Draft Review assumes that since these two things are present, there must be cash management concerns. In fact both items are not a problem once the facts are known.

The cash balance noted is a result of 13 years of conducting business to provide educational support services to member school districts. As set out above, each member of OCIC is required to pay a joining fee when the school district first joins, plus an annual membership fee. This money plus fees from professional development and special educational services,

Ph: 918-885-2667

Fax: 918-885-6742



SCHOOL DISTRICT 57 K001



with the passage of time and frugal management by OCIC, has created the large cash balance noted in the draft report. In addition, this large cash balance has also created the interest income noted in the Draft Review. Since grant management by the OCIC operates on a reimbursement basis, an adequate cash balance is essential.

Since its inception as an Interlocal in 1993, the OCIC has utilized the auditing firm, SANDERS, BLEDSOE & HEWETT, Certified Public Accountants, LLP to perform annual audits (with an exception of a different auditing firm used in FY96). These annual audits, which are required by Oklahoma School Law, as well as by federal law, are reviewed by the OCIC Board of Directors. The OCIC Board of Directors consists of the superintendents of each of the fifteen member districts. As part of a monthly Board of Directors meeting, all revenue and expenditures are presented and approved by the said Board. Each annual audit report is then forwarded to the Oklahoma State Department of Education for further review. In reviewing 14 years of annual audit reports, no cash management concerns have been noted. Contact information for the auditing firm is: Stephen H. Sanders, CPA, Eric M. Bledsoe, CPA, and Jeffrey D. Hewett, CPA of the firm SANDERS, BLEDSOE & HEWETT, 112 W. Dallas St. Broken Arrow, OK 74013, (918) 449-9991.

Accordingly, the comments concerning the "large cash balance" and interest income should be deleted from the Draft Review.

### **Prior On-Site Review**

In reference to the *six areas of critical issues*, grant draw-downs were voluntarily suspended by the OCIC from September of 2006 to November of 2006 until all of the critical issues were addressed. As stated in the letter of November 15, 2006 from the U.S. Department of Education, all of the critical issues were resolved. It should be noted that several of the critical issues identified were merely communication issues. Information was available but was not requested during an on-site visit; the miscommunication issues were resolved quickly. The process of identifying LEP students and obtaining Home Language Surveys has been revised by the OCIC. It should also be noted that the abstract and the proposal narrative, which was approved by the USDE, states that Project EAGLE will serve LEP and non-LEP students in the four districts named in the grant proposal. Discussions continue between the OCIC Project Director and the OELA Program Supervisor concerning the differences in the State of Oklahoma and the U.S. Department of Education definition of an LEP student. Accordingly, these comments regarding the six areas of critical issue should either be removed from the Draft Review or the Draft Review should reflect the information set out in this paragraph, since a failure to do so would give a false impression.

It should also be noted on page 4 of this section that the subgrant was received under Title III, Section 3114, and not Title II as reflected in the Draft Review.

### **Indirect vs. Direct**

On page 4 of the Draft Review, it is stated that the review of direct non-personnel expenditures “revealed many incidental items that appeared to be indirect in nature.” On the original Project EAGLE budget, which was approved by the USDE, there was an annual line item for \$125.00/month for printing and copying materials as a direct cost. There was also a line item direct cost for office supplies in the amount of \$90.00/month for each year of the grant. This was approved by the USDE. In addition, since OCIC is on a reimbursement basis, each charge for these items is specifically approved again by USDE prior to payment. These types of budget items are prevalent within most of the approved budgets of federal grants administered by the OCIC. Various grant activities listed in approved original budgets and narratives required printing and copying such as: newsletters, data analysis reports disseminated to participating districts, professional development training materials, family/parent education materials, native language materials, etc. A system currently is in place that identifies direct cost with a particular final cost objective for each grant program. For example, copying and telephone costs are tracked by employees utilizing codes specific to a grant. Accordingly, this portion of the Draft Review is inaccurate and should be changed to reflect this information or removed from the Draft Review.

It should also be noted that on page 5, under this section that OCIC serves 15 member school district not 16 as noted in the Draft Review.

### **Questionable Costing Practices**

Beginning in July 2005, the OCIC implemented revised processes and procedures concerning requisitions, documentation of expenditures to grants, and reimbursement of expenditures. Most of the “questionable costing practices” noted in the draft occurred prior to this time. The current procedures require detailed documentation of an expenditure before it can be charged to a specific grant. Efforts to ensure the allowability of an expenditure now include consultation with the Business Manager and the Budget Director, and signatures by a Project Director and an OCIC Administrator. Responses to specific items of costing practices in the Draft Review follow:

#### **Item #1 and #2**

The process the OCIC used to allocate the cost of a car lease and cell phone costs was to divide the cost equally among the number of active grants that were in place at that time.

#### **Item #3**

After conversations with [REDACTED], on August 15, 2007, the Transportation Log kept in the van was revised to include: Date, Driver, Starting Mileage, Destination, Purpose, and

Grant. According to [REDACTED], since this grant is not a "direct cost" grant, pre-billing for mileage to conduct grant activities when the OCIC Van was utilized is acceptable. However the maximum rate that can be used is the IRS Approved rate (.485 for FY 07 and .505 for FY 08). A log must be kept showing staff member, date, destination, purpose, miles driven.

On May 15, 2007 Project EAGLE was billed \$3,189 for an estimated 4,251 miles for April, May, June 2007. A rate of .75/mile was used which was the actual cost of leasing a van from a commercial company and then providing fuel and insurance for a maximum of 3,000 miles per month. The mileage estimate was based on a line item for transportation in the budget. As a result of conversations with auditor, [REDACTED], on August 15, 2007 and February 15, 2008, the Transportation Expense (May 15, 2007) for Project EAGLE will be adjusted according to miles actually documented in the Transportation Log at the IRS approved rate (.485/mile for FY07 and 50.5/mile for FY08). Adjustments will also be made to all grants that were charged a prorated amount for transportation expense in May 2007. The difference between the amount billed and the adjusted amount (utilizing Transportation Log miles and the approved rate) will be returned to the U.S. Department of Education .

#### **Item #5**

Professional Development Stipends have been paid to OCIC employees who complete optional professional development courses. The stipends are paid with grant funds, processed through payroll, and considered as part of the employee's salary.

The Extra-duty Contract for Web Master duties should have been paid with local funds, rather than grant funds, since that duty affects all activities of the OCIC. This amount will be returned to the U.S.D.E.

---

At the end of the Draft Review the date should be February 15, 2008, not 2007.