
**Pittsburg Pre-School and Community Council, Inc.'s
Use of Early Reading First and
Migrant Education Even Start Grant Funds**

FINAL AUDIT REPORT



**ED-OIG/A09F0010
March 2006**

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U.S. Department of Education
Office of Inspector General
Sacramento, California

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March 17, 2006

Frances Greene
Executive Director
Pittsburg Pre-School and Community Council, Inc.
1760 Chester Drive
Pittsburg, CA 94565

Dear Ms. Greene:

Enclosed is our final audit report, Control Number ED-OIG/A09F0010, entitled *Pittsburg Pre-School and Community Council, Inc.'s Use of Early Reading First and Migrant Education Even Start Grant Funds*. 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:

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Acting Chief Financial Officer
Office of the Chief Financial Officer
US Department of Education
400 Maryland Ave., SW, Room 4E313
Washington, D.C. 20202

Henry L. Johnson
Assistant Secretary
Office of Elementary and Secondary Education
US Department of Education
400 Maryland Ave., SW, Room 3W315
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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/
Gloria Pilotti
Regional Inspector General for Audit

Enclosure

EXECUTIVE SUMMARY

The purpose of the audit was to determine whether the Pittsburg Pre-School and Community Council, Inc. (PPCC) properly accounted for and used grant funds provided under the Early Reading First (ERF) Grant #S359B031058 and Migrant Education Even Start Grants #S214A000006 (2000 MEES) and #S214A040004 (2004 MEES) in accordance with the grant terms and applicable Federal laws and regulations. Our review covered grant expenditures recorded in PPCC's accounting system for the period October 1, 2003 through February 28, 2005. We concluded that—

- PPCC improperly charged the grants for \$98,862 of costs that were not necessary, approved, or related to grant activities. PPCC improperly charged the ERF grant account for construction, testing and data collection, playground equipment, conference fees and travel, and books and supplies. PPCC improperly charged the 2000 MEES grant accounts for flyers. PPCC also improperly charged \$21,046 of indirect costs to the MEES grant accounts.
- PPCC did not have required documentation for personnel costs charged to the grants. PPCC employee timesheets did not identify the activities that the employees were engaged in during the pay period and PPCC used predetermined percentages to distribute the employee's salary to the grants for employees whose salaries were charged in part to the grants. As a result, we were unable to determine whether the \$671,755 charged to the grant accounts for personnel costs was reasonable and allocable to the grants.
- PPCC did not provide adequate documentation for non-personnel costs charged to the grant accounts. Because PPCC did not provide adequate documentation, we were unable to determine whether \$118,554 of non-personnel costs were reasonable and allocable to the grants.
- PPCC did not meet grant matching costs requirements. PPCC provided a list of personnel and fringe benefits costs that it claimed were used to meet the required match for the ERF grant and the 2004 MEES grant, but the documentation provided was not sufficient to show that the claimed amounts were for grant-related activities. PPCC did not provide information on whether or how it met the required match for the 2000 MEES grant.
- PPCC drew down Federal funds for the 2004 MEES grant that were in excess of its immediate needs.
- PPCC procedures and practices did not meet Federal standards for financial management systems. PPCC's practices and weaknesses identified in its internal control placed grant funds at risk of loss or waste.

We recommend that the Acting Chief Financial Officer, in collaboration with the Assistant Secretary for Elementary and Secondary Education, require PPCC to return or adjust its claims for reimbursement for improper charges and unsupported costs charged to the grant accounts. We also recommend several actions that PPCC should take to improve the internal controls in its financial management system. PPCC generally disagreed with our findings and recommendations.

BACKGROUND

PPCC is a non-profit organization located in Pittsburg, California. PPCC, which has been in operation for over 30 years, provides programs and services to low-income and no-income families in Contra Costa County. These services include pre-school programs, youth services, senior services, job training, and health education. PPCC receives various grants from Federal and state agencies. The Schedule of Expenditures of Federal and State Awards, included in the A-133 audit report for the year ended June 30, 2004, shows that PPCC administered 15 Federally-funded grants and 5 State-funded grants during that year.

Grant	Performance Period	Grant Award (a)	Grant Funds Received as of 09/27/05
Early Reading First Grant (ERF Grant)	10/1/2003 through 9/30/2006	\$1,921,531	\$804,756
Migrant Education Even Start Grant (2000 MEES Grant)	11/1/2000 through 9/30/2004	\$975,427	\$975,427
Migrant Education Even Start Grant (2004 MEES Grant)	10/1/2004 through 9/30/2008	\$1,342,980	\$195,846
(a) The grants required PPCC to provide matching funds. Finding No. 4 provides details on the required match for each grant. The ERF grant provided for an indirect cost rate of a maximum of 8 percent. The MEES grant funds may not be used for indirect costs of the program.			

ERF is a discretionary grant program designed to prepare pre-school age children to enter kindergarten with the language, cognitive, and early reading skills necessary for reading success. The U.S. Department of Education (Department) provides ERF grants, for up to three years, to eligible local educational agencies and other organizations to transform early childhood programs into centers of excellence that provide high-quality education to pre-school age children, especially those from low-income families. The Student Achievement and School Accountability unit (SASA) within the Department's Office of Elementary and Secondary Education (OESE) administers the ERF program.

MEES is a discretionary grant program designed to break the cycle of poverty and improve the literacy of migrant families through a unified program of family literacy services. The Department provides four-year MEES grants to state educational agencies, local educational agencies, and nonprofit organizations to provide services and strategies to help parents and children meet their educational goals and to support parents in their role as their child's first teacher. Services are provided to migrant families that qualify for the program under Title I, Part C of the Elementary and Secondary Education Act (ESEA) and meet the eligibility requirements of the William F. Goodling Even Start Family Literacy Programs. The Office of Migrant Education (OME) within OESE administers the MEES program.

On November 1, 2004, SASA placed PPCC on “high-risk” status for the ERF grant and imposed special conditions on the grant. On May 11, 2005, the OME placed PPCC on “high-risk” status for the 2004 MEES grant. One of the special conditions imposed on the grants as a result of the “high-risk” designation was that PPCC receive grant funds on a reimbursement basis. Under the reimbursement basis, PPCC must provide documents and justifications for expenditures and obtain Department approval prior to requesting grant funds through the Department’s Grant Administration and Payment System. On August 12, 2005, PPCC informed SASA of the decision to voluntarily terminate its participation in the ERF program. On November 2, 2005, OME informed PPCC that it would not provide continuation funding for the remainder of the MEES grant performance period (October 1, 2005 through September 30, 2008).

AUDIT RESULTS

We concluded that PPCC used grant funds for unallowable costs, did not maintain required documentation for personnel costs charged to the grants, and did not have adequate documentation for other non-personnel costs charged to the grants. The below table shows the direct costs charged to each grant and the disallowed and unsupported direct costs identified in our review.¹

Table 2: Direct Costs Charged to PPCC's Grant Accounts					
Grant	Total Direct Costs Charged to the Grant Account	Disallowed Direct Costs	Unsupported Personnel Direct Costs	Unsupported Non-Personnel Direct Costs	Total Disallowed and Unsupported Direct Costs
ERF	\$688,416 (a)	\$98,429 (d)	\$364,865	\$90,179	\$553,473
2000 MEES	\$268,847 (b)	\$433	\$230,786	\$27,754	\$258,973
2004 MEES	\$85,278 (c)	---	\$76,104	\$621	\$76,725
Totals	\$1,042,541	\$98,862	\$671,755	\$118,554	\$889,171
<p>(a) Costs charged during period October 1, 2003 to February 28, 2005 less \$3,393 adjustment for erroneous recording of vendor credit memo as a vendor payment. As of March 1, 2005, PPCC had drawn \$636,610 of ERF grant funds.</p> <p>(b) Costs charged during period October 1, 2003 to September 30, 2004 (last year of the grant's four year performance period). PPCC made its final draw of 2000 MEES grant funds on September 14, 2004.</p> <p>(c) Costs charged during period October 1, 2004 to February 28, 2005. As of March 1, 2005, PPCC had drawn \$139,890 of 2004 MEES grant funds.</p> <p>(d) Includes \$2,541 for purchases for the ERF grant, other grants, and general purposes where the documentation provided by PPCC did not contain the information needed to identify the portion allocable to the ERF grant.</p>					

PPCC also improperly charged \$12,736 and \$8,310 of indirect costs to the 2000 MEES and 2004 MEES grant accounts, respectively. Additionally, we found that PPCC did not meet the required matching contribution for each of the three grants and, as a result, grant funds used for allowable costs will also need to be returned if PPCC does not provide adequate supporting documentation for its share of program costs. We found that PPCC drew down Federal funds for the 2004 MEES grant in excess of its immediate needs and its procedures and practices did not meet Federal standards for financial management systems.

¹ ED program staff have requested explanations and additional documentation on amounts claimed for reimbursement under the 2004 MEES grants. PPCC had yet to provide the requested information as of February 22, 2006. Thus, additional disallowed and unsupported costs may be identified as a result of the program staff reviews of the expenditures.

In its comments on the draft report, PPCC generally disagreed with our findings. PPCC's comments are summarized at the end of each finding and the full text of the comments is included as an enclosure to the report.

FINDING NO. 1 – PPCC Charged the Grants for Costs That Were Not Necessary, Approved, or Related to Grant Activities

PPCC improperly charged \$98,862 to the ERF and MEES grant accounts for costs that were not necessary, approved or allocable to the grants. PPCC also improperly charged the MEES grant accounts for indirect costs that were not allowed to the grants. Education Department General Administrative Regulations (EDGAR) 34 C.F.R. § 74.27 requires private nonprofit organizations, such as PPCC, to determine allowable costs in accordance with Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*. Attachment A, paragraph A.2.a of OMB Circular A-122 states that to be allowable under a grant, costs must “be reasonable for the performance of the award and be allocable thereto under these [cost] principles.”

Paragraph A.3, which defines reasonable costs, states—

In determining the reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.

Paragraph A.4.a, which defines allocable costs, states—

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. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

- (1) Is incurred specifically for the award.
- (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received....

OMB Circular A-122, Attachment B, paragraph 15 provides cost principles for determining the allowability of equipment and other capital expenditures. Paragraph 15.b. states—

- (1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency.

* * * * *

- (3) Capital expenditures for improvements to land, buildings, or equipment which materially increases their value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* provides standards for the administration of grants. Subpart C, paragraph 25 (a) and (b) states that

“[t]he budget plan is the financial expression of the project or program as approved during the award process” and that grant recipients “are required to report deviations from budget and program plans, and request prior approvals for budget and program plan revisions, in accordance with this section.” These provisions are also contained in EDGAR 34 C.F.R. 74.25(a) and (b).

PPCC staff responsible for purchasing stated that the accounting clerk identifies the PPCC account to be used for purchases and confirms the allowability of the purchase and that the appropriate budget line item contains sufficient funds for the purchase. Hence, if these procedures had been diligently performed, the PPCC accounting clerk would have properly: 1) identified the grant account to be charged for the purchase; 2) confirmed the allowability of using grant funds for the cost; 3) confirmed that the approved budget had funds available for the purchase; 4) obtained required prior approvals, when necessary; and 5) allocated vendor payments to the grant accounts identified on the documentation.

PPCC Charged Amounts to the ERF Grant That Were Not Necessary, Approved, or Allocable to the Grant

PPCC improperly charged the ERF grant account for \$98,429 of construction, testing and data collection, playground equipment, conference fees and travel, and books and supplies.

Construction. PPCC charged the grant account \$49,760 for construction costs for upgrading three existing classrooms and completing construction of two new classrooms.² EDGAR 34 C.F.R. § 75.533 states that “[n]o grantee may use its grant for acquisition of real property or for construction unless specifically permitted by the authorizing statute or implementing regulations for the program.” Also, OMB Circular A-122, Attachment B, paragraph 15.b. (3) states that capital expenditures, which materially increase the value of land and buildings, are not allowed unless prior approval is obtained from the awarding agency. The approved budget for the ERF grant did not include amounts for construction. However, paragraph 27 of the Circular allows the use of grant funds for costs incurred for the necessary maintenance and repair of buildings to keep the buildings in an efficient operating condition and the Department’s Guidance for the Early Reading First Program, dated March 17, 2003, states—

Early Reading First funds may be used for the reasonable and necessary costs associated with minor remodeling or alterations of classroom space to enhance early language and cognitive development activities. For example, funds may be used to create a separate reading center or “library” area, as long as there are no structural alterations to the building. However, Early Reading First funds may not be used to make structural alterations (such as moving walls) or for construction.

² The audit documentation for the Independent Public Accountant’s (IPA’s) OMB Circular A-133 audit report for the fiscal year ended June 30, 2004 showed that additional payments to the construction firm were charged to the 2000 MEES and ERF grants; however, the payments were not included in the list of grant charges provided to us from PPCC’s accounting system. The IPA’s audit documentation showed that Check # 40060 for \$15,000 was charged to the 2000 MEES grant on February 6, 2004 and Check # 40473 for \$35,000 was charged to the ERF grant on April 27, 2004. The IPA concluded that the payments were an allowable use of grant funds, but the audit documentation contained no indication that the IPA tested for compliance with EDGAR and OMB Circular A-122 requirements.

In a letter to SASA dated November 29, 2004, the Executive Director identified the following upgrades for rooms #1 through #3 (existing classrooms) and rooms #4 and #5 (new classrooms): installation of sprinkler system (rooms #4 and #5), interior and exterior painting (rooms #1, #4, and #5), interior finishing (rooms #1, #4 and #5), telephone and computer updates (rooms #1 through #5), and installation of vinyl floor & carpeting (rooms #4 and #5). Based on the information provided, we concluded that \$40,560 of the \$49,760 of construction costs was for completion of new classrooms, and thus, an unallowable use of ERF grant funds.

Testing and Data Collection. PPCC charged the grant account \$86,000 for quarterly installments on a contract for evaluation, data collection and testing administration, and other related services for the ERF program (four payments of \$21,500). The contract listed the following five tasks: 1) Provide consultation on the implementation of the project; 2) Create a data collection process by which the project is to report data; 3) Make at least eight onsite evaluation visits each year; 4) Provide a comprehensive evaluation of the ERF program in keeping with Federal guidelines, including an annual evaluation report each year; and 5) Participate in all Federally-mandated evaluation meetings related to the grant program. The approved budget for the ERF grant provided \$44,000 for the contract for the evaluation of PPCC's ERF program and \$42,000 for a full-time PPCC position titled "Testing and Data Collection Administrator." PPCC did not request or obtain prior approval to contract out for the data collection and testing administration.

EDGAR 34 C.F.R. § 74.25(c)(8) states—

For nonconstruction awards, recipients shall request prior approvals from [the Department] for one or more of the following program or budget related reasons:

* * * * *

(8) Unless described in the application and funded in the approved awards, the subaward, transfer or contracting out of any work under an award.

The \$42,000 is an unallowable charge to the ERF grant because PPCC failed to obtain SASA's prior approval. Also, as we discuss later in the report, PPCC did not provide documentation to confirm that the contractor performed the data collection and testing administration for which it was paid (Finding No. 3) and the contractor hired the PPCC Executive Director's son to assist with system analysis for the contract (Finding No. 6).

Playground Equipment. PPCC charged the ERF grant account for \$8,366 in playground equipment. Playground equipment was neither listed in the approved budget nor did the PPCC obtain prior approval before purchasing that equipment. Also, the equipment was not necessary or reasonable for performance of the ERF program because it had no specific literacy focus or purpose.

Conference Fees and Travel. PPCC improperly charged conference fees and travel costs for PPCC staff who did not work on the ERF activities or for costs that were unnecessary for performance of the grant.

- PPCC charged \$3,196 to the grant account for conference fees, travel, and related expenses for the MEES Project Director. The MEES Project Director was not assigned to perform work on the ERF grant. Therefore, none of the travel or conference expenses should have been charged to the grant.³
- PPCC erroneously charged \$375 to the ERF grant account for three staff to attend a conference sponsored by the Center for Substance Abuse Prevention. PPCC staff stated that the conference fees should have been charged to a U.S. Department of Health and Human Services (HHS) grant.

The PPCC Executive Director also attended the Center for Substance Abuse Prevention conference prior to attending an Early Reading First Grantees Meeting being held in the same city. MEES Project Director PPCC charged \$521, the entire cost of the airfare for the trip, to the ERF grant. PPCC should have allocated \$195 of the airfare to the HHS grant account.⁴

- Travel costs that PPCC charged for staff working on the ERF grant included amounts that were not necessary for the performance of grant activities. The grant account was charged \$171 for round-trip airfare for the PPCC Executive Director to leave an educational conference in Reno, Nevada to attend a meeting in the Bay Area and then return to the conference. The grant account was charged \$463 in excess of the normal airfare costs for the ERF Project Director to attend the Reno conference⁵ and the grant account was charged \$40 for one full day of per diem for the Project Director when her flight did not leave until 8:15 PM.

Books and Supplies. Books and supplies, totaling \$522, were improperly charged to the ERF grant account. The purchase orders or other provided documentation indicated the purchases were for other grant programs or should have been charged to PPCC's overhead account. The grant account was also charged \$2,541 for other purchases that should have been charged in part to other grants or the overhead account, but the documentation provided did not contain the needed information to identify the amount improperly charged to the ERF grant.

PPCC Charged an Amount to the 2000 MEES Grant That Was Not Necessary or Allocable to the Grant

PPCC charged the grant account \$433 for the printing of flyers (English/Spanish) that were for another PPCC program (Nuestra). The cost should not have been charged to the MEES grant because the cost was not necessary for the performance of the grant.

³ The travel costs of the MEES Project Director may be applied to the 2000 MEES grant account, if funds are available.

⁴ The Executive Director attended 1½ days of the Center for Substance Abuse Prevention conference (37.5 percent of her trip) and 2 ½ days of the Early Reading First Grantees Meeting (62.5 percent of her trip). Airfare of \$521 multiplied by 37.5 percent equals \$195, the amount that was improperly charged to the ERF grant.

⁵ The initial round-trip ticket between San Francisco and Reno was issued on February 13, 2004 at a cost of \$171 with a departure date of May 1, 2004. A second one-way ticket from San Francisco to Reno was purchased on April 20, 2004 at a cost of \$363 with a departure date of April 30, 2004. A ticket change at a cost of \$100 was made on May 2, 2004 for the trip from Reno to San Francisco. The charge to the grant for the trip should have been limited to the initial cost of \$171.

PPCC Improperly Charged Indirect Costs to the MEES Grant Accounts

PPCC improperly charged the 2000 MEES and 2004 MEES grant accounts \$12,736 and \$8,310, respectively, for indirect costs that were not allowed under the grants. The ESEA, Title I, Part B, Subpart 3 establishes requirements for the use of funds provided for MEES and other Even Start programs. ESEA § 1234(b)(3) states that Federal funds provided under these programs may not be used for indirect costs, unless the requirement is waived.⁶ In its applications for the 2000 MEES and 2004 MEES grants, PPCC did not include in its budgets an amount for indirect costs and did not request a waiver from the requirement. Nevertheless, PPCC charged indirect costs to its MEES grant accounts.

Recommendations

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

- 1.1 Return or adjust its claims for reimbursement, whichever is appropriate, for the \$95,888 improperly charged to the ERF grant account (plus related indirect costs) and \$433 improperly charged to the 2000 MEES grant account.⁷
- 1.2 Identify the portion of the \$2,541 that was improperly charged to the ERF grant account (plus related indirect costs) and return the amount or adjust its claims for reimbursement, whichever is appropriate.
- 1.3 Return or adjust its claims for reimbursement, whichever is appropriate, for the \$12,736 and \$8,310 charged for indirect costs to the 2000 MEES and 2004 MEES grant accounts, respectively, and any additional indirect costs charged after February 28, 2005.
- 1.4 Have an independent public accountant review costs charged to the ERF grant and 2004 MEES grant after February 28, 2005 to confirm that the costs were necessary, approved, and allocable to the grants and that amounts for any improper charges for that period have been returned to the Department or adjusted in its claims for reimbursement.
- 1.5 Implement additional controls in its procedures to ensure that purchases for Department-funded grants or subgrants are allowed by the grant terms and approved budgets, needed prior approvals are obtained, and the costs of items purchased are properly allocated to the appropriate grant and other PPCC accounts.

⁶ The Department may waive the requirement if an eligible recipient of funds demonstrates to the Secretary's satisfaction that the recipient otherwise would not be able to participate in the program.

⁷ The \$95,888 for the ERF Grant is comprised of the following amounts noted in the finding: \$40,560, \$42,000, \$8,366, \$3,196, \$375, \$195, \$171, \$463, \$40, and \$522.

PPCC Comments and OIG Response

PPCC concurred with the part of the finding addressing conference fees and travel and stated that the improper charges to the ERF grant had been corrected. However, PPCC disagreed with, or stated it was unable to comment on, other parts of the finding. PPCC also commented on computer software purchases cited in the draft report that we subsequently concluded were allowable uses of ERF funds and, thus, did not include in the final report.

Construction. PPCC stated that the construction costs were for internal remodeling of a classroom and a sprinkler system and that the remodeling was required for PPCC to conduct ERF grant activities in the classroom. PPCC cited the Departmental guidance and stated that the activities were not basic construction or structural alternations, but minor alterations of classroom space.

PPCC's comment that the construction costs were for internal remodeling of a classroom conflicts with statements in the Executive Director's letter to SASA that the costs were for upgrades for three existing classrooms and two new classrooms. We modified our finding to include the Department's guidance and, based on that guidance, we limited the disallowed costs to the \$40,560 related to construction of new classrooms.

Testing and Data Collection. PPCC disagreed with this part of the finding on the grounds that the amount paid to the contractor for the Data Collection Specialist (contractor's employee) was in the approved ERF budget. PPCC stated that the data collection was performed as required by the grant and paid for within limits approved in the grant.

PPCC comments did not address the fact that PPCC did not request or obtain the required approval to contract out the testing and data collection activities nor provide support for its statement that the data collection activities were performed.

Playground Equipment. PPCC disagreed with this part of the finding on the grounds that the equipment was for the exclusive use of ERF students.

Whether or not ERF students exclusively used the playground equipment is not relevant to the determination of the allowability of the purchase. As we noted in the finding, the equipment needed to have a specific literacy focus or purpose to use ERF funds for the purchase.

Books and Supplies and 2000 MEES Grant. PPCC stated it was unable to concur or disagree with these parts of the finding because it was unable to identify the cited amounts in the list of the items of concern given to PPCC at the time of the auditor's site visit.

We provided PPCC with the transaction detail for the cited items on September 8, 2005 (prior to the exit conference) and again on November 10, 2005 (after receipt of the first part of PPCC's comments on the draft report). PPCC did not ask for clarification during the exit conference or later, even though we had encouraged them to contact us if they had questions.

FINDING NO. 2 – PPCC Did Not Maintain Required Documentation for Personnel Costs Charged to the Grants

PPCC employees prepared semi-monthly timesheets showing arrival and departure times and hours worked, but the timesheets did not identify the activities that the employees were engaged in during the period. Also, for employees whose salaries were charged in part to the grants (split-funded employees), PPCC used predetermined percentages to distribute the employee's salary to the grants. As a result, we were unable to determine whether the \$671,755 charged to the grant accounts for personnel costs was reasonable and allocable to the grants.

OMB Circular A-122, Attachment B, paragraph 8.m. describes the support required for personnel costs charged to Federal grants. The subparagraph (1) states that “[t]he distribution of salaries and wages to awards must be supported by personnel activity reports as prescribed in subparagraph (2)” Subparagraph (2) states that “[r]eports 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” and that the reports maintained by non-profit organizations 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.

The timesheets met the requirements of paragraphs (b) and (d) above, but did not meet the other listed requirements. The timesheets did not identify the actual grant-related activities that the employees were engaged in during the hours worked. The employee and the employee's supervisor signed the timesheets. However, since there was no information on the timesheets regarding the employee's actual activities during the period, the signatures do not provide any assurance that the distribution of activity (100 percent or the predetermined percentage) represents a reasonable estimate of the actual work on grant activities. PPCC staff were unaware of the standards for personnel activity reports.

The following table shows the personnel costs charged to the grant accounts for employees whose salaries were charged entirely to the specified grant and for split-funded employees.

Grant	Salary Costs for Employees Whose Salary Was Charged Entirely to the Grant	Salary Costs Charged to the Grant for Split-Funded Employees	Fringe Benefits Charged to the Grant (a)	Total
ERF	\$192,208	\$79,755	\$92,902	\$364,865
2000 MEES	\$125,627	\$45,572	\$59,587	\$230,786
2004 MEES	\$35,425	\$17,286	\$23,393	\$76,104
Total	\$353,260	\$142,613	\$175,882	\$671,755

(a) PPCC did not provide the information needed to identify the payroll taxes and other benefits applicable to employees whose entire salary was charged to the grant account and those applicable to split-funded employees.

PPCC did not provide any additional documentation to support the personnel costs charged to the grants. Therefore, we have no assurance that personnel costs charged to the grants were for employees' time expended on grant-related activities.⁸

Recommendations

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

- 2.1 Provide adequate supporting documentation that the employees, whose personnel costs (salary and staff benefits) were charged 100 percent to the ERF or MEES grant accounts, actually worked solely on grant-related activities. If adequate documentation is not provided, PPCC should return or adjust its claims for reimbursement, whichever is appropriate, for the personnel costs (plus related indirect costs charged to the ERF grant account).

⁸ The Department raised other concerns regarding the personnel costs and other costs for the related employees. In the report on its April 7-8, 2005 monitoring visit, SASA informed PPCC that resumes provided for individuals employed as Early Reading Specialists and Coaches met none of the qualifications outlined in the approved grant application for Early Reading Specialists, and, as such, the costs for these individuals were not necessary and reasonable costs for the purpose of the ERF grant. In a letter to PPCC dated May 11, 2005, OME stated its concerns that PPCC had not requested or obtained required prior approval for changes in key personnel and that the MEES Project Director was assigned to work only 50 percent of her time on the 2004 MEES grant when the application specified that the Project Director would work full time. OME stated that the reduction in time violated 34 CFR 74.25(c)(3), which requires prior approval for a reduction of 25 percent or more in the time devoted to the project by the approved project director.

- 2.2 Provide adequate supporting documentation supporting the allocation percentages used to charge the ERF and MEES grant accounts for personnel costs of split-funded employees. If adequate documentation is not provided, PPCC should return or adjust its claims for reimbursement, whichever is appropriate, for the personnel costs (plus related indirect costs charged to the ERF grant account).
- 2.3 Implement a personnel activity report for employees working on Department-funded grants or subgrants that complies with the requirements of OMB Circular A-122.

PPCC Comments

PPCC claimed that it was unaware that the auditors needed more documentation for the personnel costs charged to the grants. PPCC stated that job descriptions document the exclusive duties of employees whose personnel costs are charged 100 percent to either the ERF or MEES grant program. PPCC also stated that daily logs are prepared for employees that work on more than one program and provided a copy of the “activity log” form that it developed for split-funded employees.

OIG Response

The OIG auditors informed PPCC during a meeting held May 16, 2005 and again on September 8, 2005 (prior to the exit conference) that the provided documentation did meet the requirements specified in OMB Circular A-122. Job descriptions are not an after-the-fact determination of the actual activity of the employee. As we noted in the finding, the daily logs (i.e., semi-monthly timesheets) referred to in PPCC’s comments did not identify the activities that the employees engaged in during the covered period.

The “activity log” form that PPCC has developed for split-funded employees will not meet the requirements of OMB Circular A-122 because it does not provide for the signature of the individual employee or a responsible supervisory official confirming that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the period covered by the activity log.

FINDING NO. 3 – PPCC Did Not Provide Adequate Documentation for Other Non-Personnel Costs Charged to the Grants

PPCC did not provide adequate documentation for \$118,554 charged to the grant accounts. OMB Circular A-122, Attachment A, Paragraph A.2, which lists the factors affecting allowability of costs, states that costs must “be adequately documented.” Because PPCC could not readily provide requested documentation, we concluded that PPCC either did not maintain the documentation needed or had maintained it in a manner that did not allow PPCC staff to locate the documentation for our review. Because PPCC did not provide adequate documentation, we were unable to determine whether the costs were reasonable for the performance of the award and allocable to the grants.

PPCC Did Not Provide Adequate Documentation For Costs Charged to the ERF Grant

PPCC did not provide adequate documentation to demonstrate that \$90,179 charged to the ERF grant account for program evaluations, gift cards, and other costs were reasonable and allocable to the grant.

Program Evaluations. As we noted in Finding No. 1, PPCC charged the grant account \$86,000 for quarterly installments on a contract for evaluation, data collection and testing administration, and other related services for the ERF program. PPCC provided the contractor's invoices, but the invoices did not provide any details on the work performed. PPCC did not provide us with the annual evaluation reports or any other documentation of the services provided under the contract. In Finding No. 1, we disallowed \$42,000 of the \$86,000 charged to for the contract. The balance of \$44,000 is included in the costs for which PPCC did not provide adequate documentation.

Gift Cards. PPCC charged the grant account \$9,308 for 265 gift cards.⁹ PPCC purchased 65 Target gift cards (\$20 each) in February 2004 for use as incentives to encourage teachers and parents to complete surveys related to the ERF program. PPCC purchased 100 WalMart gift cards (\$40 each) in July 2004 to be used as stipends for families participating in an evaluation study for the ERF program. The third purchase in December 2004 was for another 100 WalMart gift cards (\$40 each).¹⁰ The approved budget included \$15,000 for stipends for families' participation in experimental evaluation study (200 families at \$75 each).

PPCC provided us with its inventory control logs used to track the gift cards and 178 completed surveys. However, PPCC had no documentation confirming that the teachers and parents actually received the gift cards. PPCC did not require teachers and parents to sign the logs or other documentation to confirm receipt of the gift cards.

Other Costs. PPCC charged the grant account \$29,795 for costs for which it provided invoices or other documentation, but the provided documents did not contain sufficient information to determine whether the costs were an allowable use of grant funds. PPCC also charged the grant \$4,076 for costs for which PPCC only provided the credit card statement and \$3,000 for costs for which PPCC did not provide documentation. We were unable to determine whether the purchases were necessary and allocable costs for the grant.

⁹ This amount includes an \$8 fee for the cashier's checks used to purchase the gift cards.

¹⁰ The PPCC form used to request a check to purchase the cards did not specify the intended use of the gift cards on the form.

PPCC Did Not Provide Adequate Documentation For Costs Charged to the MEES Grants

2000 MEES Grant. PPCC did not provide adequate documentation to demonstrate that \$27,754 charged to the grant account was reasonable and allocable to the grant. PPCC charged the grant account \$22,500 for three quarterly installments on a contract for evaluation of the MEES program and database development and training (three quarterly installments of \$7,500). PPCC did not provide a copy of the contract or any documentation of the services provided under the contract.

PPCC provided invoices or other documentation for \$1,605 of travel, printing, supplies, and events costs charged to the grant account that did not contain sufficient information to determine whether the costs were an allowable use of grant funds. PPCC only provided a credit card statement for another \$1,281 of travel, supplies and conference costs and provided no documentation at all for \$2,368 charged to the grant account.

2004 MEES Grant. PPCC did not provide adequate documentation to demonstrate that \$621 charged to the grant account was reasonable and allocable to the grant. For \$110 of transportation and printing costs charged to the grant account, PPCC provided documentation that did not contain sufficient information to determine whether the costs were an allowable use of grant funds. PPCC provided no documentation for \$511 of telephone costs charged to the grant.

Recommendations

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

- 3.1 Provide adequate supporting documentation to demonstrate that the \$90,179 charged to the ERF grant account, \$27,754 charged to the 2000 MEES grant account, and \$621 charged to the 2004 MEES grant account were reasonable and allocable to the grants.¹¹ If adequate documentation is not provided, PPCC should return or adjust its claims for reimbursement, whichever is appropriate, for the costs and related indirect costs.
- 3.2 Implement procedures for contracts issued under Department-funded grants or subgrants that include: 1) requiring contractors to provide a list of activities completed and deliverables to support invoiced amounts; and 2) maintaining the documentation as support for charges to grant accounts.
- 3.3 Implement changes in its procedures for Department-funded grants or subgrants funds used for tracking gift cards and other incentives to identify individual incentive recipients and provide evidence that intended recipients took possession of the incentive.

¹¹ The \$90,179 for the ERF Grant is comprised of the following amounts noted in the finding: \$44,000, \$9,308, \$29,795, \$4,076 and \$3,000. The \$27,754 for the 2000 MEES Grant is comprised of the following amounts: \$22,500, \$1,605, \$1,281, and \$2,368. The \$621 for the 2004 MEES Grant is comprised of the following amounts: \$110 and \$511.

- 3.4 Implement changes in its procedures for administering Department-funded grants or subgrants to ensure that documentation for payments to vendors and credit card companies charged to grant accounts clearly identify the items purchased, the unit cost, and the grant program or other activity benefiting from the purchase.

PPCC Comments

PPCC disagreed with parts of the finding and stated it was unable to comment on other parts. PPCC stated that two program evaluation reports were provided to, and accepted by, ED program staff and that PPCC obtained signatures for receipts of gift cards and sent the documentation to the auditor. PPCC stated that it was unaware and was not asked for clarification on the invoices or other documentation related to the other costs for the ERF grant that were cited in the finding. In regards to the part of the finding related to the MEES grant, PPCC referred to the two program evaluations provided to ED program staff and stated that a letter from the evaluator was provided to the auditors explaining the performance of his functions. PPC also stated that documentation for the travel and other costs charged to the MEES grants were subsequently provided and that the conferences attended by PPCC staff did not provide “certificates of attendance.”

OIG Response

ED program staff have provided us with the program evaluation reports for the ERF and 2000 MEES grants; however, PPCC has not provided the contract for the MEES evaluation or other documentation of the actual services provided by the contractor for each payment. The program evaluation report for the 2000 MEES grant stated on its cover page that the report was prepared by the contractor, but there is no mention of the contractor’s role in the program evaluation report for the ERF grant. Contrary to PPCC statements, we did not receive documentation confirming that the teachers and parents actually received the gifts cards and, as mentioned earlier, we provided PPCC with the transaction detail on September 8, 2005 (prior to the exit conference) for the items cited in the finding that required additional documentation. PPCC has not provided adequate documentation for the travel and other costs charged to the MEES grants that are cited in the finding.

FINDING NO. 4 – PPCC Did Not Meet Grant Matching Cost Requirements

ESEA § 1234(b) requires that recipients of grants made under William F. Goodling Even Start Family Literacy Programs, which encompass the MEES grants, provide a matching share of the program costs. The ERF program does not have a statutory requirement for a matching share of program costs. However, in the approved ERF grant application, PPCC stipulated in the itemized budgets that PPCC would provide matching contributions. The regulations at 34 C.F.R. § 75.700 state that “[a] grantee shall comply with applicable statutes, regulations, and approved applications” Also, the grant award notification states that “[t]he amount of non-federal funds the recipient must contribute to the project as identified in the recipient’s application. When non-federal funds are identified by the recipient where a cost share is not a legislation requirement, the recipient will be **required** to provide the non-federal funds.” Thus, PPCC was required to provide the matching costs stipulated in the approved ERF grant application.

PPCC provided a list of personnel and fringe benefits costs that it claimed were used to meet the required match for the ERF grant and the 2004 MEES grant, but the documentation provided was not sufficient to show that the claimed amounts were for grant-related activities. PPCC did not provide information on whether or how it met the required match for the 2000 MEES grant.

Table 4: Grant Matching Requirements and PPCC's Claimed Match			
Grant	Period	Required Match	Claimed Match
ERF (a)	January 1, 2004 through December 31, 2004	\$395,549	\$405,014
2000 MEES (b)	October 1, 2003 through September 30, 2004	\$309,033	\$0
2004 MEES (c)	October 1, 2004 through September 30, 2005	\$941,551	\$129,398 (d)

(a) PPCC stipulated that it would provide personnel, fringe benefits, and supplies during the period January 1 through December 31, 2004. The provided list of matching costs consisted solely of personnel and fringe benefits costs.

(b) PPCC stipulated that it would provide personnel, fringe benefits, supplies, and contractual costs during the period October 1, 2003 through September 30, 2004.

(c) PPCC stipulated that it would provide personnel, fringe benefits, and supplies during the period October 1, 2004 through September 30, 2005. The provided list of matching costs consisted solely of personnel and fringe benefits costs.

(d) Claimed match for the initial five-month period of the grant (October 1, 2004 through February 28, 2005).

OMB Circular A-122 specifies the required documentation for personnel costs used to meet a matching requirement. Attachment B, paragraph 8.m. (4) states—

Salary and wages of employees used in meeting cost sharing or matching requirements on awards must be supported in the same manner as salaries and wages claimed for reimbursement from awarding agencies.

PPCC provided employees' semi-monthly timesheets as support for the claimed matching costs. As noted in Finding No. 2, the timesheets showed arrival and departure times and hours worked, but the timesheets did not identify the activities that the employees were engaged in during the period. Also, for employees whose salaries were charged in part to the grants (split-funded employees), PPCC used predetermined percentages to distribute the employee's salary to the grants. As a result, we were unable to determine whether the claimed matching costs were for time worked on grant-related activities.¹²

¹² The Department raised another concern regarding the matching costs claimed for teachers and aides for the ERF grant. In the report on its April 7-8, 2005 monitoring visit, SASA informed PPCC that the resumes of teachers and aides in the ERF classrooms document that none of the seven aides and only one teacher met the qualification specified in the grant application. SASA concluded that the claimed match was unallowable under 34 C.F.R. § 74.23(a)(3) and (4) which states that matching costs must be necessary and reasonable for the proper and efficient accomplishment of project or program objectives and be otherwise allowable under the applicable cost principles.

Thus, PPCC did not have the required supporting documentation for the claimed matching costs and, in the case of the 2000 MEES grant, did not provide information on how the match was met. In order to meet the matching requirement, a portion of the identified allowable costs, equivalent to the required match, must be funded from sources other than the ERF, 2000 MEES, and 2004 MEES grants. PPCC is ineligible for grant funds used for allowable grant costs if PPCC does not provide adequate supporting documentation for its share of program costs.

Recommendations

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

- 4.1 Provide adequate supporting documentation that the staff whose personnel costs were used to meet the required match for the ERF grant and the 2004 MEES grant actually worked on grant-related activities. If adequate documentation is not provided, PPCC should be required to return or adjust its claims for reimbursement for, whichever is appropriate, the portion of the allowable costs for each of the three grants that should have been met with the required match.
- 4.2 Return or adjust its claims for reimbursement, whichever is appropriate, for the portion of 2000 MEES grant costs for which PPCC did not meet the required match or does not provide adequate supporting documentation for matching costs.
- 4.3 Ensure that personnel costs used to meet the matching requirements for Department-funded grants or subgrants are properly documented in accordance with OMB Circular requirements and monitor each grant to ensure that matching cost requirements are met.

PPCC Comments

PPCC disagreed with the finding. PPCC stated that the auditors compared the actual matching costs for the early portion of the MEES program to the full year budgeted matching costs. PPCC stated that its matching costs for the months of June, July, and August 2005 have been provided to the Department and that PPCC is meeting or exceeding the matching requirement.

OIG Response

We clarified in Table 4 that the claimed match for the 2004 MEES grant was for the initial five months of the grant. To demonstrate that it has met the matching requirements, PPCC will need to provide adequate supporting documentation to the Department of the claimed match.

FINDING NO. 5 – PPCC Drew Down Federal Funds for the 2004 MEES Grant in Excess of Its Immediate Needs

PPCC requested Federal funds for the ERF and MEES grants through the Department’s Grant Administration and Payment System (GAPS). The GAPS shows that over the period from October 2004 through February 2005 (end of our audit period), PPCC made five draws of \$27,978 each for the 2004 MEES grant, totaling \$139,890. As of February 28, 2005, PPCC’s 2004 MEES grant account showed total expenditures of \$85,278 for direct costs and \$8,310 of indirect costs. Thus, as of March 1, 2005, PPCC had \$46,302 of Federal funds on hand for grant expenditures. PPCC’s monthly expenditures for the 2004 MEES grant averaged about \$18,700, which was significantly less than the \$46,302 of Federal funds on hand.

EDGAR 34 CFR § 74.22(b)(2) and (3) contain similar requirements to OMB Circular A-110 Subpart C, Paragraph 22(b) which states—

Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs

To remind grantees of the above requirement, GAPS asks grantees to respond to the following statement when initiating a request for Federal funds:

I certify, by processing this payment request and/or reallocation, that the funds are being expended within three business days of receipt for the purpose and condition of the grant or agreement. Are you sure you want to submit the request?

Rather than limiting draws to its immediate needs for grant expenditures, PPCC drew each month an amount equal to 1/12 of the total grant award. As a result, PPCC had Federal funds on hand in excess of its immediate needs.

Recommendations

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

- 5.1 Calculate the average daily balance of 2004 MEES grant funds on hand in excess of its immediate needs for payment of expenditures for grant activities for the period from October 1, 2004 to current, and reimburse the Federal government for interests costs incurred as a result of the excessive draws of Federal funds.
- 5.2 Implement procedures for Department-funded grants and subgrants to limit requests for Federal funds to PPCC’s immediate needs for performance of the grant.

PPCC Comments

PPCC disagreed with the finding, but did not explain the basis for its disagreement. PPCC stated that it had previous correspondence with the Department on this issue and provided a copy of a letter, dated August 31, 2005.

OIG Response

The provided letter has no relevance to the finding, as it contains no reference to PPCC's requests for Federal funds or its procedures for making such requests.

FINDING NO. 6 – PPCC Procedures and Practices Did Not Meet Federal Standards for Financial Management Systems

PPCC has not maintained a financial management system that meets the standards specified in OMB Circular A-110 and reiterated in EDGAR 34 CFR § 74.21. Subpart C, Paragraph 21(b) of the Circular states—

Recipients' financial management systems shall provide for the following.

- (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program . . .
 - (2) Records that identify adequately the source and application of funds for federally-sponsored activities . . .
 - (3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.
- * * * * *
- (6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.
 - (7) Accounting records including cost accounting records that are supported by source documentation.

As noted in the other findings in this report, the internal control in PPCC's financial management system did not ensure that costs charged to grant accounts were necessary, approved, and allocable to the grants, draws of Federal funds were limited to immediate needs, and matching requirements were met. The findings included recommendations to improve PPCC's internal control procedures. During our review, we identified the following additional practices and internal control weaknesses that place grant funds at risk of loss or waste.

PPCC's Procedures for Requesting and Approving Purchases Were Not Followed

The PPCC staff responsible for purchasing (who was also the MEES Project Director during the period covered by our review)¹³ provided the following description of the purchasing process. Project directors submit their request to the purchasing clerk, who conducts research to identify the vendor offering the best price for the requested items. The purchasing clerk gives the information to the accounting clerk who provides the PPCC account to be used for the purchase and confirms the vendor's prices, the allowability of the purchase, and that the appropriate budget line item contains sufficient funds for the purchase. The Executive Director then approves the purchase and the purchasing clerk places the order.

PPCC also provided us with its *Standard Operating Procedures (SOP)*, which describes accounting activities and the responsibilities of the accounting staff and others who interact with the accounting staff. The SOP specifies the procedures for purchases of \$200 or less (petty cash transactions) and purchases over \$200. SOP states that purchases over \$200 require the completion of a purchase order form.

From our review of supporting documentation for ERF and MEES grant expenditures, we found that the described procedures for requesting and approving purchases over \$200 were not consistently followed. We identified several purchases over \$200 that did not have purchase orders. The purchase orders that we reviewed contained no evidence that the Executive Director approved the purchase, did not always indicate the project for which the purchase was being made, and often had no price information for the items to be purchased. We noted an instance where the purchase order was created after the order was placed. We found vendor invoices that did not contain the Executive Director's initials indicating her approval for payment. We also found that staff were provided blank checks to pay for expenses such as hotel charges.

PPCC's Purchases Involved Related Parties

PPCC employs or conducts business with relatives of the Executive Director. The Executive Director's granddaughter was the MEES Project Director and purchasing clerk. Thus, the purchasing clerk was accepting purchase requests for her grandmother and the Executive Director was approving purchases made by her granddaughter.

PPCC purchased services from a company owned by her granddaughter and her granddaughter's husband. PPCC prepared vendor cost comparisons for some, but not all, types of services purchased from the company.

As noted in Finding No. 1 and Finding No. 3, PPCC charged \$86,000 to the ERF grant account for payments to a contractor for evaluations of its ERF program. Documentation obtained at PPCC shows that the contractor hired the Executive Director's son to assist with system analysis. The employment agreement states that he will be paid a \$37,500 base salary for 240 days of work. In a letter to SASA, dated January 28, 2005, the Executive Director stated that her son did the testing and data collection, including parent surveys.

¹³ The MEES Project Director stated that she places the orders in the evening from her home. The accounting clerk places the orders when situations arise that require purchases to be made during the day.

EDGAR 34 CFR Part 75 specifies the conditions that must be met by a grantee receiving Federal funds directly from the Department. The regulations at 34 C.F.R. § 75.525, which address conflict of interest in situations other than procurements, state—

- (a) A grantee may not permit a person to participate in an administrative decision regarding a project if:
 - (1) The decision is likely to benefit that person or a member of his or her immediate family; and
 - (2) The person:
 - (i) Is a public official; or
 - (ii) Has a family or business relationship with the grantee.
- (b) A grantee may not permit any person participating in the project to use his or her position for a purpose that is—or gives the appearance of being—motivated by a desire for a private financial gain for that person or for others.

EDGAR 34 C.F.R. § 75.524 (c) states that the conflict of interest regulations covering procurement contracts are in 34 C.F.R. Part 74. EDGAR 34 C.F.R. § 74.42 states, in part—

No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. A conflict would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award.

PPCC Incurred Excessive Shipping Costs

PPCC incurred excessive shipping or transportation costs for orders placed when it requested overnight or next day shipping. The following table shows item costs and shipping costs charged to the ERF grant account for one order that delivered in three shipments:

Table 5: Example of Excessive Shipping Cost				
Order Date	Items Ordered	Items Cost	Shipping Cost	Total Cost
11/30/04	100 copies of <i>Good Night Moon</i>	\$719	\$302	\$1,021
12/10/04	7 copies of <i>Freight Train</i>	\$38	\$21	\$59
12/14/04	87 copies of <i>To Market, To Market</i> 97 copies of a <i>Curious George</i>	\$1,466	\$556	\$2,022
Totals		\$2,223	\$879	\$3,102
Percent of total cost incurred for shipping charges (\$879 divided by \$3,102)				28 Percent

PPCC Did Not Promptly Pay Vendor and Credit Card Invoices Charged to Grant Accounts

PPCC had not paid vendor invoices, dating as far back as April 2004, for purchases charged to the grant accounts. Most of the unpaid invoices were for supplies and books. For example, at the time of our review in March 2005, PPCC had not paid one vendor for six invoices, totaling \$22,605, for invoices dated in August and September 2004. Additionally, we found that PPCC had incurred finance charges and over-the-limit fees on credit card statements.

Recommendations

In addition to the recommended corrective actions in the other findings, we recommend that the Acting Chief Financial Officer, in collaboration with the Assistant Secretary for Elementary and Secondary Education, require PPCC, with regards to all Department-funded grants and subgrants, to—

- 6.1 Provide training to staff on its procedures for requesting and approving purchases and implement procedures for an independent review to ensure that requestors, purchasing clerk, accounting clerk, and Executive Director adhere to the procedures and fulfill their assigned responsibilities.
- 6.2 Implement additional safeguards in its procedures to preclude actual conflicts of interest and address the appearance of conflicts of interest in its administration of grants, especially in the hiring and assignment of project staff and the procurement of goods and services.
- 6.3 Implement changes in its purchasing procedures that provide for earlier submission of purchase orders to avoid excessive shipping costs.
- 6.4 Promptly pay vendors for purchases charged to grant accounts for which PPCC has received Federal funds.

PPCC Comments

PPCC confirmed that it had written procedures and concurred that PPCC did not consistently follow to its procedures for approving purchases. PPCC stated that the family relationships were unavoidable because PPCC could not afford to hire new staff for the programs and concluded that corrective action to address the family relationships (i.e., potential conflicts of interest) was not required because its ERF and MEES programs had ended. PPCC stated that its Board of Directors, whose members were unrelated to the Executive Director and her family members, approved the purchases of services from the granddaughter's company and that PPCC was not made aware of the purchases for which comparisons were not provided to the auditors. PPCC confirmed the information reported in the finding related to the contractor's employment of the Executive Director's son and stated that the Executive Director's son had been previously employed by the contractor for such duties. PPCC concurred that excessive shipping costs were incurred and explained that shipments had been expedited to meet program deadlines.

OIG Response

Both the ERF and MEES grants provided funding for staff positions to administer the programs. Thus, PPCC had the option to hire additional staff for those programs rather than having family members fill the positions. During our review, we found checks that were signed by the Executive Director and another individual and that PPCC's written procedures state that the Board of Directors is provided a summary report (a manually-prepared report providing a summary of detailed monthly reports) and an administrative report (a manually-prepared report providing information on administrative and financial issues, such as taxes, insurance, etc.). However, PPCC written procedures did not address the Board of Director's involvement, if any, in the selection of individuals for PPCC positions and vendors. When a conflict of interest exists, PPCC needs to have procedures in place to preclude actual conflicts of interests, and in the case of procurements, the appearance of conflicts of interest. Even though PPCC no longer administers the ERF and MEES programs, it needs to have such procedures in place to ensure it properly addresses conflicts of interest provisions applicable to other Federal programs administered by PPCC. We provided PPCC with information on the two purchases from the granddaughter's company for which PPCC had not provided vendor cost comparisons. On March 15, 2006, PPCC provided us with vendor cost comparisons that did not include cost comparisons for the two purchases.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine whether PPCC properly accounted for and used grant funds provided under the ERF, 2000 MEES, and 2004 MEES grants in accordance with the grant terms and applicable Federal laws and regulations. Our review covered the period October 1, 2003 to February 28, 2005.

To accomplish our objective, we reviewed PPCC's ERF and MEES grant applications, budgets,, and OMB Circular A-133 audit reports for the years ended June 30, 2003 and June 30, 2004. We also reviewed PPCC's written policies and procedures applicable to charges made to the ERF and MEES grants and matching contributions. We interviewed PPCC officials and staff responsible for implementing the financial and program portions of the ERF and MEES grants. We also communicated with the SASA staff within OESE responsible for administering the ERF program and with the OME staff responsible for administering the MEES program.

To achieve our audit objective, we relied on reports of ERF and MEES grant expenditures for the period October 1, 2003 through February 28, 2005, which PPCC staff generated from its financial accounting system. We verified the completeness of the data by comparing the total expenditures on the report to the total amount drawn down as shown in GAPS. We also compared report information to information on source documents for all listed transactions. Based on the results of these tests, we concluded that the reports were sufficiently reliable to be used in meeting the audit objective.

We gained an understanding of PPCC's internal control system related to personnel and purchasing transactions. We interviewed PPCC staff responsible for these areas and performed detailed testing to confirm our understanding. Due to time constraints, we interviewed PPCC staff responsible for maintaining inventory information, but did not perform any testing or analysis related to the inventory of equipment and other purchases. However, we performed 100 percent testing of the direct costs charged to the ERF and MEES grant accounts for the period October 1, 2003 through February 28, 2005.

We performed our fieldwork at PPCC in Pittsburg, California during the period March to May 2005. We held an exit briefing with PPCC officials on September 28, 2005. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described.

Enclosure: PPCC's Comments on the Draft Report

The attachments referenced in PPCC's letter, dated November 8, 2005, are not included. The documents relate to items that were not included as questioned or unsupported costs reported in the final report.

PITTSBURG PRE-SCHOOL AND COMMUNITY COUNCIL, INC.
One Stop Shop For Family Services

08 November 2005

United States Department of Education
Office of Inspector General
501 "1" Street, Suite 9-200
Sacramento, Ca 95814

Control Number ED-OIG/A09F0010

*Preschool and Community Council, Inc., 's Use of Early Reading First
and Migrant Education Even Start Grant Funds.*

Response of Pittsburg Pre-School and Community Council to the October 11, Draft Audit
Report of the United States Department of Education Office of Inspector General

This response will be organized according to the order of the findings as listed in the
table of contents of the Draft Audit.

Finding No.1—PPCC Charged and Grants for Costs That Were Not Necessary, Approved
or Related to Grant Activities.

Response to Finding No.1.

We do not concur with this finding. Our reasons for disagreement

Construction.

Our disagreement is based on we did internal remodeling to the classroom and a sprinkler system, which was required by code for the early Reading First activities we were to provide in that room. We depended upon the instruction in documentation entitled “Early Reading First Guidance”, dated March 17, 2003. Paragraph E-7, May a grantee use Early Reading First Grant funds to change the pre-school physical environment? Yes. Early Reading First funds may be used for the reasonable and necessary costs associated with minor remodeling or alterations of classroom space to enhance early language and cognitive development activities. For example, funds may be used to create a separate reading center or “library” area, as long as there are no structural alterations to the building. However, Early Reading First funds may not be used to make structural alterations to the building. However, Early Reading First funds may not be used to make structural alterations (such as by moving walls) or for construction. These were not basic construction nor structural alterations, but minor alterations of classroom space.

Testing and Data Collection.

We disagree with this finding on the grounds that the amount being disallowed was in the budget and was approved. Our Evaluator used an employee of CER to do the Data Collection on behalf of Pittsburg Pre-School And Community Council, Inc. The data collection was performed as required by the grant and paid for within limits approved in the grant. Since the Data Collection Specialist used had been a pre-existing employee of the Evaluator (CER) so was neither initially hired for this project.

Computer Software.

We disagree with the finding on the grounds that the Computer Software was applicable to pre-school children. Attachment 1 is the Vendor’s description of the program’s components. You will see that the components that we purchased and billed to this grant are directly relevant to preschool children. Attachment 2 is another copy of a document from the vendor which identifies in details the software purchased.

Playground Equipment.

We disagree with the finding on the grounds that the equipment was for the exclusive use by ERF students.

Conference fees and Travel.

We concur with these findings and have corrected the charges. \$125.00 which charged in error to Early Reading First has been corrected and charged to the appropriate health and Human Services Grant. The \$521.00 charged for Kimberly Payton tickets has been corrected and charged to the general fund.

Books and Supplies.

We are unable to concur or disagree with the findings in this category because we can not find the amounts referred to by the auditors in our list of the items of concern given to us by the auditors at the time of their visit.

If the details can be given us with the respect to dates and items questioned, we will be able to respond.

2000 MEES Grant.

We are unable to concur or disagree with the findings in this category because we can not find the amounts referred to by the auditors in our list of the items of concern given to us by the auditors at the time of their visit.

If the details can be given us with the respect to dates and items questioned, we will be able to respond.

Finding No, 2

We were not aware, as the auditors did not tell us that they needed more documentation for the payroll. They requested time sheets, outside payroll records. We do have daily logs for the employees that are working split programs.

We are sending you this response though it is incomplete to comply with your time line given us. However, due to our accounting problems, which we have explained in the past, we need more time to give details on our response. However, it is our intent to disagree with findings 2-6 and we need two weeks to prepare those responses. We are hampered by the need to ask our controller to come out of retirement on an as available basis. We, thus request a two week additional time to answer the remaining findings.

FOR OUR FAMILIES

/s/

Francis Greene
Executive Director

FG/jm

PITTSBURG PRE-SCHOOL AND COMMUNITY COUNCIL, INC.
One Stop Shop For Family Services

19 November 2005

United States Department of Education
Office of Inspector General
501 "1" Street, Suite 9-200
Sacramento, Ca 95814

Continued Response:

Control Number ED-OIG/A09F0010

*Preschool and Community Council, Inc., 's Use of Early Reading First
and Migrant Education Even Start Grant Funds.*

This is the continued response of Pittsburg Pre-School and Community Council to the October 11, Draft Audit Report of the United States Department of Education Office of Inspector General. We appreciate the extension given to facilitate our further response. Though we are continuing the experience difficulties due to personnel changes in accounting, the additional time as allowed us to respond further.

This response will be organized according to the order of the findings as listed in the table of contents of the Draft audit, beginning with Finding No. 2, where our initial response ended.

The information is available

- For the employees who are 100% on either the ERF or the MEES Grant Education program, the job descriptions document their exclusive duties in the sole relevant program.

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Pittsburg, CA 94565
(925) 439-2061 (925) 432-7473 FAX
www.ppscc.info

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- Attached is an example of the activity log that we have developed for split-funded employees.

Finding No. 3:

We disagree with this finding.

The auditors continued to combine program evaluation testing and data collection in a manner that is causing some confusion. These are two separately budgeted items

- We provided reports by the initial evaluator and the replacement that was eventually approved by the Early Reading Administrators. We had great difficulty getting approval, in spite of submitting names of various qualified evaluators. However, once that approval was received we acted promptly and the resulting evaluation was sent to Early Reading, that evaluation incidentally was very favorable.
- Data collection was sub-contracted out to CER (which was the evaluating entity) to facilitate articulation between the two functions. That item was originally in the budget as an employee of ours. Thus, the services came within the budgeted amount and there is no discrepancy
- With regard to the gift cards, documentation exists, which was shown. When the auditors were here, they requested signatures for receipt of the gift cards to the parents. That was accomplished upon their request and sent after they had left. It appears that they are not aware that we had complied with their request.

Other Costs:

- We are not aware and were not asked for clarification on any invoice or other documentation that the auditors felt did not contain sufficient information. If such demand for clarification had been made, we would have accommodated the auditors. Without further clarification as to what is being questioned, we can not concur nor disagree with this finding.
- As noted above, the evaluation was subsequently completed and provided to the funding source. In fact, they have been provided two evaluations. Information requested by the auditors on the evaluator's status and duties was subsequently sent. A letter from the evaluator explaining his performance of his functions was prepared at the request of the auditors and sent to them.
- The auditors request for documentation on travel and other items included in the MEES grant, where available, were subsequently provided. We checked the availability of the "certificates of attendance" that the auditors asked for at certain conferences and were informed by the people who ran the conferences that they do not issue such certificates.

- The same documentation that was subsequently submitted to the auditors is still available.

Finding No. 4:

- In regard to the issue of our meeting the grant matching requirement, we disagree with the auditors. The auditors only reported current match for the MEES program, early in that program. That partial match was compared to a full year budgeted match. We have subsequently provided the grantor an updated programmatic match for the months of June, July and August. It is apparent that we are meeting or exceeding our match requirement as originally approved when the entire program year is considered.

Finding No. 5:

- With regard to the finding that the “draw downs” exceeded our immediate needs, we disagree. We had previous correspondence with the grantor on this issue, as a result of our investigation into that question, it was determined that the amount of \$21,262.00, which was identified as drawn down prematurely, was in fact used within one month. In fact, the money was not enough to cover the June expenses. This was explained in a letter drafted by our controller, dated August 31, 2005, a copy of which is attached.

Finding No. 6:

- This finding assumes in a summary fashion the items dealt with above, such as lack of a match. However, we do have written accounting procedures in place. We did concur with a few items as mentioned above.
- With regard to the issue brought up by the auditors, while here, as to the dates of approvals of expenses in some instances, we concur and have taken steps to correct that practice.
- As the number of programs grew for our small Agency, we could not afford the luxury of hiring new staff, which would have avoided the family relationship discussed in the evaluation. Since both programs have ended, we have no corrective action to take.
- In effort to deal with individual problem of printing service, we submitted price comparisons for the company owned by the granddaughter’s husband, with the price of other vendors that showed that those items were purchased at lower than market cost. Those purchases were also approved by the Board of Directors, which has no relatives of the individuals mentioned. Those were approved because of the favorable price. We submitted comparisons to the auditors when

they were here and are not aware of which purchases they are questioning, so that we can provide comparisons with respect to such purchases.

- There is no inconsistency in the answers which have been given concerning the employment of John Greene. It is correct as reported by our director that he did the testing and data collection, including parent survey. It is also true, that he performed those services employed by CER, the evaluator. As noted, the evaluating agency did report the circumstances of John Greene's employment with them. It is also, been explained to the funding source that John Greene had been a previous employee of CER for such duties in the past.
- The complaint about excessive shipping costs does accurately reflect our shipping costs at a time when we were operating under emergency conditions and needed those items expedited to us. That was because of a problem with the initial program director, who had not ordered sufficient supplies and we needed the supplies to meet our program deadlines. This emergency has been fully discussed with the funders.

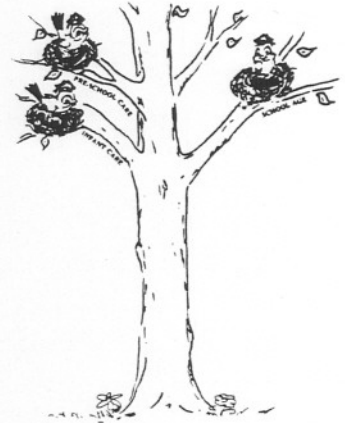
FOR OUR FAMILIES

/s/

Francis Greene
Executive Director

FG/jm

Pittsburg Pre-School and Community Council, Inc.



31 August 2005

U.S. Department of Education
ATTN: Mary Gonzales
Office of Elementary and Secondary Education
Office of Migrant Education

In reference to your memorandum dated 08/29/2005, the following applies:

The explanation about the amount of time and effort for the listed staff includes: Staff training, observation of children, assessment of children, teaching, parent meeting, parent conferences, curriculum planning and implementation. The listed staff are program staff and match staff. Please see the list sent on August 25, 2005.

Please be advised that Even Start funds are not being used as a source of matching funds for Migrant Education Event Start.

The listed staff in our August 19th fax was the administrative, home education and the teaching staff that work with the children. The staff for the match work 100% with the children and is equaled to 100% match. The source of the matching funds is from the State.

In reference to the "curriculum/instructional materials", listed on the spreadsheet contributed to the MEES project.

Curriculum materials in the amount of \$8,100.00, includes:

The pre-school curriculum:

- The curriculum "Let's Begin Curriculum, which includes:
CIRCLE Manual
Let's Begin Handout
- PALS II Curriculums, which includes

- 12 Videotapes
- Facilitator Manual
- Video Manuals
- Home Visitor manuals
- Parent Workbooks (English/Spanish)
- Home visitor bag
- Coaching bag

The training included

- Pals II Training for 4 days, for 4 staff.
- Let's Begin Training for 5 staff
- PALS Site Visit

The travel benefited the MEES project because this was intensive training for program staff.

\$21,262 was used to pay for the portion of the June 2005 expenditures, for June 2005 amounting to \$32, 516.20

\$511,266.23, represents the updated match, which supersedes the amount reported in item 8(b) Non-Federal funds.

In accordance to our records we are on schedule to meet the required match.

FOR OUR FAMILIES

Aurora Domingo
Controller

