



**AUDIT OF THE OFFICE OF JUSTICE PROGRAMS
GRANT ADMINISTERED BY THE
EDUCATIONAL ADVANCEMENT ALLIANCE, INC.
PHILADELPHIA, PENNSYLVANIA**

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AUDIT OF THE OFFICE OF JUSTICE PROGRAMS GRANT ADMINISTERED BY THE EDUCATIONAL ADVANCEMENT ALLIANCE, INC. PHILADELPHIA, PENNSYLVANIA

EXECUTIVE SUMMARY¹

The Department of Justice Office of the Inspector General, Audit Division, has completed an audit of the Office of Justice Programs (OJP), Office of Juvenile Justice and Delinquency Prevention grant, number 2005-JG-FX-0259, including one supplement, awarded to the Educational Advancement Alliance, Inc. (EAA).² The congressionally-directed grant was awarded to EAA, but the ultimate beneficiary of the funds was Philadelphia College Opportunity Resources for Education (CORE).³ The total award for the grant and supplement was \$1,873,228. The objective of the grant was to increase the access and retention of at-risk students to higher education by providing direct student service counseling and aiming to improve the systems.

The objective of our audit was to determine whether reimbursements claimed for costs under the grant were allowable, supported, and in accordance with applicable laws, regulations, guidelines, and the terms and conditions of the grant. We also evaluated program performance to determine whether the grant's goals and objectives were met, as well as the grant-funded program's overall accomplishments.

We determined that EAA was in material non-compliance with the grant requirements we tested. Additionally, we found weaknesses in EAA's compliance with essential grant conditions. Specifically, we found that EAA:

¹ The full version of this report contains information that may be protected by the Privacy Act of 1974, 5 U.S.C. §552(a) or may implicate the privacy rights of identified individuals. Therefore, the Office of the Inspector General redacted portions of the full report to create this public version of the report.

² While EAA received, and this audit reviewed, a grant and its supplement from OJP, we will be referring to both the award and its supplement throughout this report collectively as "the grant".

³ A congressionally directed grant is a grant that is specifically referenced in the congressional report but not in the law and without a specific requestor cited. See House Reports No. 108-576 and 109-118.

- charged unallowable costs to the grant, including an employee's salary, consultant costs, and other grant expenditures, totaling \$419,429;
- could not adequately support grant expenditures totaling \$348,934;
- charged expenditures to the grant that exceeded the 10 percent budget rule totaling \$46,348; and
- awarded sole-source contracts that were not approved by OJP for non-competitive procurement totaling \$790,594.

In addition to the questioned costs, we identified management improvement findings related to internal controls, drawdowns, financial and program reporting, budget management, and contractor monitoring. Specifically, we determined that EAA did not adequately implement internal controls in managing the grant and did not use actual expenditures as the basis for reporting expenditures on its Financial Status Reports (FSRs) and requests for drawdowns. Additionally, EAA did not submit its initial FSRs and progress reports on time. We also found EAA did not stay within its approved budget.⁴

We discussed the results of our audit with EAA officials and have included their comments in the report, as applicable. Additionally, we requested a response to our draft report from EAA and OJP, and their responses are appended to this report as Appendix III and IV, respectively. Our analysis of both responses, as well as a summary of actions necessary to close the recommendations can be found in Appendix V of this report.

⁴ During this audit, we identified certain issues requiring further investigation. We referred those matters to the OIG's Investigations Division, and put our audit on hold pending such investigation. Subsequently, we were able to complete our audit and issue this report.

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INTRODUCTION

The Department of Justice Office of the Inspector General, Audit Division, has completed an audit of the Office of Justice Programs (OJP), Office of Juvenile Justice and Delinquency Prevention, grant 2005-JG-FX-0259, including one supplement, awarded to Educational Advancement Alliance, Inc. (EAA). This congressionally-directed grant was awarded to EAA, but the actual beneficiary of the funds was the Philadelphia College Opportunity Resources for Education (CORE).⁵ The total award for the grant and supplement was \$1,873,228, and was intended to fund CORE's programs to increase the access and retention of at-risk students to higher education. This was to be achieved by providing direct student service counseling and aiming to improve the systems for addressing access and retention of at-risk students.

The purpose of our audit was to determine whether reimbursements claimed for costs under the grant were allowable, supported, and in accordance with applicable laws, regulations, guidelines, and the terms and conditions of the grant. We also evaluated the grant-funded program's overall program performance and accomplishments in meeting grant objectives for the funded program. Our audit covered the period between the start of the initial grant award in July 2005, and the end of fieldwork in May 2008. As shown in the table below, EAA was awarded a total of \$1,873,228 to provide services to students pursuing secondary education.

Office of Justice Programs Grant to Educational Advancement Alliance, Inc.

Grant Award Number	Award Start Date	Award End Date	Award Amount
2005-JG-FX-0259	7/1/2005	6/30/2006	\$ 886,000
Supplement 1	7/1/2005	6/30/2007	987,228
Total			\$ 1,873,228

Source: OJP grant files

Office of Justice Programs

The Office of Justice Programs (OJP), within the U.S. Department of Justice, provides primary management and oversight of the grant we

⁵ A congressionally directed grant is a grant that is specifically referenced in the congressional report but not in the law and without a specific requestor cited. See House Reports No. 108-576 and 109-118.

audited. According to its website, OJP assists federal, state, local, and tribal justice systems by disseminating state-of-the art knowledge and practices across America, and providing grants for the implementation of these crime fighting strategies. OJP does not directly carry out law enforcement and justice activities, but instead works in partnership with the justice community to identify the most pressing crime-related challenges confronting the justice system and to provide information, training, coordination, and innovative strategies and approaches for addressing these challenges.

Office of Juvenile Justice and Delinquency Prevention

According to its website, OJP's Office of Juvenile Justice and Delinquency Prevention provides national leadership, coordination, and resources to prevent and respond to juvenile delinquency and victimization. The Office of Juvenile Justice and Delinquency Prevention works to strengthen the nation's juvenile justice system, and supports prevention and early intervention programs to make a difference for young people and their communities.

Educational Advancement Alliance, Inc.

According to its website, Educational Advancement Alliance, Inc. is an educational non-profit organization founded in 1990. EAA was established to provide programs designed to supplement and enrich the educational environment and experiences of students in the School District of Philadelphia. The organization works with institutions and individuals to establish and meet goals and objectives for higher educational attainment.

At the time of our audit, the Philadelphia College Opportunity Resources for Education (CORE), discussed below, operated as an organization outside of EAA. While EAA received and managed the grant funds we audited for this program, CORE administered the scholarship program being funded. This relationship, EAA being responsible for the grant funds we audited while CORE defined how those funds were to be used, is discussed further in the Overview and Internal Control Environment sections of this report.

Philadelphia College Opportunity Resources for Education

According to its website, CORE is a federal tax-exempt organization designed to provide scholarships and college preparatory assistance to high school students that reside in Philadelphia, and its programs were designed

to unite communities around the goal of ensuring that all children have access to college.

CORE's website states that the CORE Scholarships offered high school seniors – whether from the public, private, charter, or parochial systems – in Philadelphia an opportunity to attend select Pennsylvania colleges and universities. From its inception to March 2011, CORE awarded over 16,000 Philadelphia students a total of more than \$27 million dollars. The awarded scholarship money originated from sources other than the Department of Justice grant funds discussed in this report.

Our Audit Approach

We tested compliance with what we considered to be the most important conditions of the grant. Unless otherwise stated in our report, we applied the OJP Financial Guide as our primary criteria during our audit. The OJP Financial Guide serves as a reference manual assisting award recipients in their fiduciary responsibility to safeguard grant funds and ensure that funds are used appropriately and within the terms and conditions of the awards. We tested EAA's:

- **Internal control environment** to determine whether the financial accounting system and related internal controls were adequate to safeguard grant funds and ensure compliance with the terms and conditions of the grant.
- **Grant expenditures** to determine whether the costs charged to the grant were allowable and supported and properly allocated.
- **Drawdowns (requests for grant funding)** to determine whether EAA's requests for reimbursement or advances were adequately supported, and if EAA managed grant receipts in accordance with federal requirements.
- **Reporting** to determine whether the required Financial Status Reports and progress reports were filed on time and accurately reflected grant activity.
- **Budget management and control** to determine whether EAA adhered to the OJP-approved budget for expenditures of grant funds.
- **Monitoring of contractors** to determine whether EAA had taken appropriate steps to ensure that contractors complied with grant requirements.

- **Program performance and accomplishments** to determine whether EAA achieved grant objectives and to assess performance and grant accomplishments.
- **Compliance with other grant requirements** to determine whether EAA complied with the terms and conditions specified in the individual grant award documents.

When applicable, we also test for compliance in the areas of program income, matching funds, indirect costs, accountable property, and monitoring subrecipients. For the grant, we determined that EAA generated no program income, had no matching funds required, did not charge indirect costs, did not obtain accountable property with grant funds, and had no subrecipients.

FINDINGS AND RECOMMENDATIONS

COMPLIANCE WITH ESSENTIAL GRANT REQUIREMENTS

From our audit, we determined that EAA was in material non-compliance with grant requirements including: (1) weak internal controls; (2) grant expenditures that were unallowable because they were not in the approved budget or were not a permissible use of funds; (3) grant expenditures that were unsupported because of inadequate documentation; (4) grant funds drawn down on an advance basis and not calculated using actual grant expenditures; (5) weaknesses in grant reporting, including late financial status reports that were not calculated using actual grant expenditures and unsupported progress reports; (6) failure to monitor the budget; and (7) contractor payments that were unallowable because they were sole-sourced. As a result of these deficiencies, we questioned over \$1.25 million received by EAA.

Overview

In performing the audit of this congressionally-directed grant awarded to EAA, we found that EAA received the grant funds but that an individual working for CORE was responsible for all of the decisions regarding the grant program except for the hiring of two consultants to perform grant-related activities, which was performed by EAA. We also found that EAA maintained some grant-related documentation, submitted required reports regarding the grant, and performed administrative functions for the grant. However, EAA told us it considered CORE responsible for making the decisions on how to expend the grant funds and expected CORE to ensure that the terms and conditions of the grant were met.

These issues are discussed in greater detail in the body of this report.

Internal Control Environment

We began this audit by reviewing EAA's: accounting and financial management system, relevant grant-related policies and procedures, and Single Audit Report to assess EAA's risk of non-compliance with laws, regulations, guidelines, and the terms and conditions of the grant. We also interviewed management staff from EAA, observed accounting activities, and attempted to perform transaction testing to further assess risk.

In accepting this grant, EAA was required to exercise effective control and accountability for all grant funding. Specifically, the OJP Financial Guide requires grantees to have an accounting system and related internal controls to adequately safeguard grant funding and assure that it is used solely for authorized purposes. According to an EAA official, EAA has an effective system of internal controls; however, we determined EAA did not implement these controls when administering the grant. Instead, EAA held grant funding in its bank account and disbursed funds at the request of the CORE Executive Director. EAA did not receive any grant funds for the administration of the grant.

An EAA official stated that CORE was allowed to circumvent EAA's internal controls because EAA viewed the grant as CORE's responsibility and EAA was asked to accept the grant on behalf of CORE by the Congressional office that provided the earmark. In addition, the EAA Board of Directors made no decisions with regard to the grant, but instead was only aware of administrative issues with the grant.

We determined that EAA's accounting and financial management policies and procedures used to document and account for the expenditure of grant funds were not adequately implemented, as explained in more detail in our transaction testing. Further, grant funding requests in the form of drawdowns were not calculated using actual grant expenditures. As a result, EAA's existing system of internal controls was inadequate to safeguard, document, and properly account for grant funds.

Single Audit

According to the Office of Management and Budget (OMB) Circular A-133, EAA was required to engage independent auditors to perform an annual single audit. The due date for the Single Audit Report was no later than nine months after the end of EAA's fiscal year, and EAA's fiscal year runs from July 1 through June 30, so the Single Audit would be due no later than March 31 of the following year. We reviewed the Single Audit for the year ending June 30, 2006, Single Audit Report that was issued January 28, 2008, or approximately 10 months late. The Single Audit Report contained no findings and, as a result, we did not examine the resolution of any recommendations within the report. No further single audits were performed for EAA that covered the grant period.

Grant Expenditures

Grant funds used to pay for CORE expenditures consisted of payments for personnel, fringe benefits, consultants, events, supplies, food for

training/conferences, travel, and other various costs. We found these charges totaling \$419,429 included unallowable costs under the grant, including one employee's salary, various direct costs, and consultant payments. Additionally, EAA could not adequately support other grant expenditures totaling an additional \$348,934. These findings are detailed below.

Personnel and Fringe Benefits

According to EAA's accounting records, \$297,462 was spent on employee salaries and \$48,862 on fringe benefits. We selected three nonconsecutive pay periods for detailed testing to determine if salaries and fringe benefit charges were adequately supported and allowable. For the three selected pay periods, we found that the salary and fringe benefit charges paid to the grant-funded employees were allowable and adequately supported.

The grant budgets specifically listed approved positions and the salaries associated with those positions. In reviewing the actual salary documentation for the approved positions, we found that the Director of Campus Outreach was paid \$95,000 per year, which was \$55,000 per year over the approved budgeted salary of \$40,000. Because there was no request or approval for the salary increase for the position, we question \$78,269, the total amount paid to the employee over and above the approved budgeted amount, a significant deviation from the approved grant budget. According to an EAA official, the CORE Executive Director hired the employee in question, and EAA provided no oversight over the employee's activities. By not following the approved grant budget, this undermined OJP's ability to safeguard the proper use of grant funds.

Other Direct Costs

EAA spent a total of \$1,566,399, or 84 percent of the grant, in direct costs, excluding personnel and benefits. We tested a judgmental sample of grant expenditures reported in EAA's accounting system to determine if the expenditures were allowable and adequately supported. To determine if the expenditures were allowable, we compared the expenditures to the grant budget and permissible uses of funds outlined in the OJP Financial Guide. To determine if the expenditures were supported, we reviewed accounting system data and supporting documents such as invoices, receipts, and timesheets.

Consultants

EAA spent \$387,841 for five consultants. However, the grant budget approved by OJP only authorized hiring two consultants, and we found that payments to only one of these two authorized consultants (the statistics analyst) were supported. Further, we found that EAA, in its hiring process for three of the five consultants, did not comply with the OJP financial guide, which requires consultants to be hired through a competitive bidding process. Also, in examining the compensation for the five consultants, we were unable to determine whether four of the consultants were paid in excess of the \$450 per day rate established as the maximum per day rate by the award documents. This was because EAA did not require the necessary time and effort reports to support payments for these four consultants. In addition, two of the five consultants received retainers, totaling \$34,500, which were not supported by adequate documentation of work completed.

Consultant Authorization, Competition, and \$450 per day maximum

In order to determine whether or not payments made to the consultants were included in the budget approved by OJP, we reviewed the detailed budgets OJP requested and EAA submitted and found that the budget for the grant included authorization for two consultants, including \$84,800 for a statistics analyst and \$32,500 for an event planner. In reviewing EAA grant records, however, we found that \$87,246 was paid to the statistics analyst and \$38,375 was paid to the event planner.

In addition, we found that EAA paid three other consultants with grant funds. We found that these three unauthorized consultants received payments of \$137,750, \$106,970, and \$17,500 for a total of \$262,220. These three consultants were not included in the budgets approved by OJP. We asked the Chief Executive Officer of EAA whether the budgets were modified to include the additional consultants and whether such a modification was approved by OJP. We were informed that no budget modification was completed. Because they were not included in the approved budget, we consider the \$262,220 paid to these consultants as unallowable costs.

EAA hired three commercial consultants, which included two of the unauthorized consultants, as well as the authorized event planner. These commercial consultants were paid a total of \$162,845. EAA was required to hire commercial consultants through a competitive bidding process as stated

in the OJP financial guide.⁶ We interviewed EAA and CORE personnel in order to determine whether the consultants were hired through a competitive bidding process. We were told that all five consultants were sole-sourced and we found no evidence that they were hired through competitive bidding or that they were approved by OJP for a sole source acquisition. As a result, we consider the three commercial consultants paid a total of \$162,845 to be unallowable costs.

Pursuant to the special conditions of the grant awards, consultant rates that exceeded \$450 per day needed prior approval by OJP. We attempted to determine if consultants were paid in excess of \$450 per day; however, consultants were not paid per day and four of the five consultants' hours were not tracked. As a result, we were unable to do any comparison for four of the consultants and were, therefore, unable to determine whether the consultant rates were allowable in accordance with grant award conditions. However, all four of these consultant costs are already questioned as unallowable because they were either not in the budget submitted to OJP or not competitively bid.

The remaining consultant (the statistics analyst) did provide monthly reports to EAA tracking his hours and worked performed. This consultant was paid \$100 an hour, \$43.75 over the allowable rate without OJP approval. As a result, we are questioning \$36,781 of the consultant payments over the allowable \$56.25 per hour rate.

Therefore, we provided OJP with a recommendation to remedy \$337,376 in unallowable consultant costs, which includes \$262,220 in unauthorized costs for three of the consultants, \$38,375 in compensation for the authorized but sole-sourced event planner, and \$36,781 for compensation over the allowable rate for the authorized statistics analyst.

Support for Consultants

In order to determine if the independent consultant rates complied with the special conditions outlined in the grant award, we reviewed consultant invoices and corresponding reports. With the exception of the statistics analyst, we found that time and effort reports were not maintained. According to the OJP Financial Guide, "personnel and payroll records shall include the time and attendance reports for all individuals reimbursed under

⁶ The March 2005 OJP Financial Guide states "Consultants Employed by Commercial and Not-For-Profit Organizations. These organizations are subject to competitive bidding procedures."

the award, whether they are employed full time or part time. Time and effort reports are also required for consultants." EAA did not require time and effort reports for the consultants. As a result of this deficiency, we consider the \$300,595 paid to the consultants to be unsupported costs.

When expenditures are unsupported and not properly authorized, it greatly increases the risk of inappropriate and erroneous grant charges and also potentially undermines the ability of the grantee to satisfactorily accomplish its stated objectives. As a result of the deficiencies we found with the expenditures made for the consultants, we are questioning consultant expenses totaling \$337,376 as unallowable and \$300,595 as unsupported.

One of the five unauthorized consultants was paid \$9,500 monthly (with the exception of one \$4,750 payment) between October 2005 and December 2006 for a total of \$137,750. At the conclusion of our audit the Executive Director of EAA told us that EAA had borrowed OJP grant funding to pay this unauthorized consultant while it was awaiting funding from a state grant. Although the Executive Director also told us EAA later reimbursed the OJP grant for these consultant costs, none of the accounting records we were provided indicated any reimbursement was made and no direct repayment to OJP was made.

Events

As part of the grant, EAA hosted numerous events including sendoff rallies and homecoming events. According to the progress reports submitted for the project, sendoff rallies included activities to increase the awareness and retention of CORE scholarship students as they prepared to enter college, with several college orientation, retention, financial aid, academic support, and college life seminars and workshops. Homecoming events were held for scholarship recipients and their families and friends to give students an opportunity to be with those who care about the Philadelphia region. The grant-funded events are listed below.

GRANT FUNDED EVENTS

Event	Date	Cost
Send off to college rally - 2005	August 2005	\$ 32,064
Homecoming luncheon	November 2005	30,817
Send off to college rally - 2006	June 2006	37,652
Outreach campaign	October 2006	22,750
Family and friends bowling bash	November 2006	15,560
Stay in school rally	November 2006	14,859
	Total	\$153,702

Source: EAA

In reviewing the costs associated with these events, we found that the expenses included over \$38,000 in contractor payments to coordinate four of the events, \$25,672 for sweatshirts to be provided to attendees, and other costs including food, banners, photographers, and raffle prizes, with one event providing \$6,020 in product giveaways. According to an EAA official, the events provided inspiration, motivation, and networking for CORE scholarship recipients.

According to the detailed budget OJP approved, these events were to create an environment for continued networking among students and CORE, cultivate relationships, and allow students to use CORE resources and prepare for college. The detailed budget approved by OJP included expenses for space, food, branding materials, which included CORE caps, t-shirts, and other giveaways. According to EAA's detailed budget "the branding is necessary to create and foster a relationship with students so that the presence of CORE is very apparent during college recruitment and bolsters and enhances a college-going community."

Because the costs for these events, including the event planners and giveaways, were approved in advance by OJP, we do not include these expenses as questioned costs. EAA followed the budget for these program events that was submitted to and approved by OJP. However, in our view, OJP should be vigilant about approving such budget items in future grant awards and to the extent it does so, it should oversee them vigorously.

Travel, Supplies, and Other Costs

In reviewing the supporting documents provided by EAA, we found unallowable costs totaling \$3,784. These costs included sales taxes, charges that should not have been made to the grant, and a late charge.

Specifically, we found that the grant was charged a total of \$2,790 in sales taxes. However, because EAA is a tax-exempt nonprofit organization, and according to an EAA official, EAA had the necessary documentation available to support their tax-exempt status, these charges should not have been incurred by EAA or, having been incurred, should not have been charged to the grant.

EAA also charged \$936 in expenditures that, during our audit, EAA officials noted should not have been charged to the grant. These expenditures included payments for temporary labor, duplicate payment for lodging, and payments for office supplies, videography, and photography. A \$58 late charge for a credit card also was charged to the grant, and this charge is not an allowable expense.

In reviewing grant expenditures, EAA was unable to provide documentation for \$48,339 in expenditures charged to the grant. These charges included supplies, meals, and other expenditures.

Unsupported Grant Expenditures

Expense	Unsupported Amount
Supplies	\$ 42,661
Labor	3,613
Meals	1,855
Storage – other	210
Total	\$ 48,339

Source: EAA documents

We found that EAA charged temporary labor to the grant, however, the charges could not be supported by a time and effort report for the labor as required by the OJP Financial Guide.

Additionally, EAA charged many meals to the grant. However, EAA could not provide any documentation supporting the costs of the meals or,

for meals associated with meetings, EAA could not provide documentation to show the costs are reasonable and necessary for the successful completion of the project.

Finally, EAA charged the grant for two webcams that according to a CORE official were never purchased.

Drawdowns

EAA requested grant funds through 20 separate drawdowns, or funding requests, totaling \$1,873,228. To calculate the drawdowns, EAA's Chief Executive Officer stated that she estimated grant-related expenditures using expenditure information when possible. We compared the drawdown amounts to the accounting records (EAA expenses) and we were unable to match the accounting records to the drawdown amounts because EAA did not use actual expenditures to calculate the drawdown amounts. However, we found that, by the conclusion of the grant, EAA had expenditures in its accounting records to cover the amount drawn down.

In addition, we determined EAA drew down funds in advance of expenditures made for the grant program. When we spoke to the EAA Chief Executive Officer, she agreed that she drew down funds on an advance basis. According to the OJP Financial Guide, "recipient organizations should request funds based upon immediate disbursement/reimbursement requirements. Recipients should time their drawdown requests to ensure that Federal cash on hand is the minimum needed for disbursements/reimbursements to be made immediately or within 10 days." We sought to determine whether EAA violated cash management rules by holding cash for more than 10 days. We compared the drawdowns to EAA's accounting records, however, we were not able to quantify the full extent of this problem because the records did not allow a complete tracking of the funds as they were disbursed. Although we do not question underlying costs due to EAA's drawdown of funds in advance, we recommend that EAA establish and adhere to procedures that ensure that any advances or grant funding are spent on grant activities within 10 days or returned to OJP.

Reporting

Financial Status Reports

The financial aspects of OJP grants were, at all times relevant to this audit, monitored by OJP through EAA's submission of Financial Status

Reports (FSRs).⁷ As noted below, the OJP Financial Guide required that FSRs be submitted within 45 days of the end of the most recent quarterly reporting period, and the final report was to be submitted no later than 90 days following the end of the grant period. Funds or future awards may be withheld if reports are not submitted or are excessively late.

Between July 2005 and July 2007, EAA submitted all eight of the required FSRs for the grant. We reviewed the submitted reports for accuracy and timeliness. We found that five of the eight FSRs were submitted from 11 to 44 days late. EAA had no explanation for submitting the reports late.

Because EAA submitted the FSRs late, OJP's ability to evaluate the financial aspects of the ongoing grant program on a timely basis was compromised.

According to the OJP Financial Guide, the FSRs were supposed to contain the actual expenditures for the current reporting period and reflect cumulative expenditures for the entire award period. EAA officials stated that they partly estimated grant expenses to calculate the FSR amounts. In addition, the EAA official stated there were system technical difficulties. We compared the FSRs to the accounting records (EAA expenses) and we were unable to match the FSR amounts to the accounting records. We then compared the total amount on all FSRs to the totals on EAA accounting records. The total amount of expenditures recorded in the accounting records exceeded the amount on the FSRs. As a result, we recommend EAA ensures future Federal Financial Reports are accurate.

Progress Reports

OJP requires grantees to complete and submit progress reports as a means to monitor their performance. Progress reports are submitted to describe grant activities and accomplishments toward achieving the objectives contained in the approved award application. According to the OJP Financial Guide, progress reports are to be submitted within 30 days after the end of the reporting periods, which are June 30 and December 31. EAA submitted the four required progress reports to OJP. We requested, but were not provided with supporting documentation to verify the information provided in the progress reports.

⁷ Effective for the quarter beginning October 1, 2009, grant recipients must report expenditures online using the Federal Financial Report (FFR-425). Prior to October 1, 2009, the financial reports were called Financial Status Reports (FSRs) and had to be submitted within 45 days of the end of the most recent quarterly reporting period. For this report all expenditure reports are FSRs because they were submitted prior to October 1, 2009.

Between July 2005 and June 2007, EAA submitted four progress reports. According to OJP's Grant Management System (GMS), all four progress reports were submitted from 70 to 312 days late. An EAA official stated the first progress report was submitted late because EAA was new to the process and had difficulties. After that, all subsequent ones were submitted on time. However, because of a glitch in the GMS, one report was lost and marked as late, and all progress reports after that were automatically marked as late. An OJP official acknowledged the EAA official and she were in contact to remedy the issue. As a result, we recommend that OJP work with EAA to correct the GMS issue and prevent future reports from being marked as late.

Budget Management and Control

OJP approved a detailed budget for the grant. The OJP Financial Guide requires that grant recipients spend grant funding according to defined budget categories, or request approval prior to reprogramming funds if actual spending exceeds certain limits. However, EAA did not track expenditures in accordance with approved budget categories, as required.

Grant recipients are required to abide by the OJP "10 percent rule," which requires written agency approval for movement of grant dollars among approved budget categories if the cumulative change is greater than 10 percent of the total award amount. Although EAA did not track its expenditures in accordance with these budget categories, in order to assess its compliance with this requirement we performed in-depth analysis of the expenditures and summed amounts expended in each category. The following table represents the results of that analysis.

OJP Approved Grant Budgets to EAA

OJP Grant Budget Category	Budget	Actual	Under-budget	Over-budget
Personnel	\$ 375,000	\$ 297,462	\$ (77,538)	\$0
Fringe Benefits	123,008	48,862	(74,146)	0
Travel	16,912	13,723	(3,189)	0
Equipment	0	0	0	0
Supplies	279,116	200,318	(78,798)	0
Contractual	885,120	1,141,337	0	256,217
Other	194,072	211,021	0	16,949
Total	\$1,873,228	\$1,912,723	\$(233,671)	\$273,166
Less allowable 10% transfers of total project costs				187,323
Less direct expenditures exceeding grant ⁸				39,495
Unallowable transfers exceeding 10% of total project costs				\$46,348

Source: OIG Analysis of OJP Grant Award documents and EAA Accounting Records

We compared the budgeted amounts from the approved financial clearance memorandums to actual expenditures from the grant transactions. We determined EAA did not adhere to the approved budget. An EAA official stated EAA did not track budget verses actual amounts to ensure compliance with the approved budget. In addition, EAA did not request the necessary approval from OJP to reprogram funds which exceeded the 10 percent threshold.

When grantees do not adhere to the approved budget, effective grant management is potentially undermined and the ability to adequately safeguard grant funds is compromised. We question \$46,348 in costs that exceeded the 10 percent rule.

Monitoring of Contractors

According to the OJP Financial Guide, as the direct grant recipient, EAA was responsible for monitoring the contractors to ensure they performed in a

⁸ To complete our budget compliance tests and calculate questioned costs, we reduced total actual costs by \$39,495 to account for the funding of expenditures from sources other than the OJP grant. Because EAA could not identify those individual expenditures funded with OJP funding, it was not possible to adjust the actual amounts of any budget cost category.

manner that would ensure compliance with their overall financial management requirements. EAA was responsible for all aspects of the program including proper accounting and financial recordkeeping of all expenditures, including grant funds provided to contractors.

EAA paid two contractors a total of \$790,594. One contractor administered the scholarships to the students and the other tracked students after they received the CORE scholarships. We found EAA did not properly monitor the contractors. According to EAA officials, EAA had no procedures or policies addressing the ongoing monitoring of the contractors. EAA did not evaluate the contractors' financial management system, processes and procedures for administering the contract, adherence to the terms and conditions of the grant, or key internal controls. The CORE Executive Director stated he worked closely with the contractors on a daily or weekly basis, but was unable to provide any documentation of the monitoring. According to a CORE official, final reports from the contractors were the only documentation of monitoring. An EAA official stated the CORE Executive Director insisted he was the go-between and no one else had contact with the contractors. We believe that the potential for fraud, abuse, and wasteful spending of grant funds were significant due to EAA's lack of monitoring and oversight.

According to the OJP Financial Guide, all procurement transactions, whether negotiated or competitively bid and without regard to dollar value, shall be conducted in a manner so as to provide maximum open and free competition. All sole-source procurements in excess of \$100,000 must receive prior approval of the awarding agency. According to EAA officials, the contractors were sole-sourced and EAA did not receive prior approval from OJP. In addition, EAA did not provide us with adequate justification for the sole-source procurement. Because EAA did not receive prior approval from OJP for the sole-source procurement, we question the funds distributed to the contractors totaling \$790,594.

Program Performance and Accomplishments

The primary CORE Scholarship Program goal was to award as many CORE Scholarships to qualified youth as possible. In the final progress report submitted by EAA to OJP, EAA said that it had accomplished this goal. Additionally, EAA represented that it established a formal network of Direct Service Prevention Providers that focus on stay in school, post-secondary preparation and completion programs, high schools, and programs that service pre-college and college age at risk youth. We found no evidence during our audit that contradicted EAA's contention that it fulfilled its grant objectives.

Compliance with Other Grant Requirements

In addition to the general grant requirements, we tested for compliance with terms and conditions specified in the grant award documents. The grant awards contained 16 special conditions. We found that EAA complied with the special conditions we tested except for the findings previously reported.

Conclusions

EAA did not fully comply with the grant requirements we tested. We found material weaknesses in EAA's internal controls, expenditures, drawdowns, FSRs, progress reports, budget, and contractors that raised significant questions about its compliance with the grant requirements.

We found that EAA charged \$78,269 to the grant for a salary that was unallowable. We found that EAA charged direct costs of \$341,160 to the grant for unallowable expenditures, and an additional \$348,934 to the grant that could not be adequately supported.

We found EAA could not support the amounts listed as drawdowns or reported on the Financial Status Reports. We found that EAA did not have procedures in place to ensure the timely submission of Financial Status Reports. EAA did not spend the grant funds according to the OJP approved budget and charged \$46,348 in grant expenditures exceeding the 10 percent budget rule.

Lastly, we questioned \$790,594 due to unapproved sole-source contracting practices.

Recommendations

We recommend that OJP:

1. Ensure EAA strengthens its internal controls over grant funds.
2. Remedy \$78,269 in unallowable employee salary.
3. Remedy \$337,376 in unallowable consultant expenditures, which includes \$262,220 in unauthorized costs and \$38,375 for the authorized but sole-sourced Event Planner. The amount also includes costs totaling \$124,470 (\$106,970 + 17,500) for two consultants who were unauthorized and unallowably hired without

competitive bidding and one consultant paid over \$450 per day (\$36,781).

4. Remedy \$300,595 in unsupported consultant expenditures.
5. Remedy \$3,784 in unallowable expenditures.
6. Remedy \$48,339 in unsupported expenditures.
7. Ensure that EAA requests grant funds based on immediate disbursement/reimbursement of actual grant expenditures.
8. Ensure that EAA implements and adheres to procedures that will result in the timely submission of Federal Financial Reports.
9. Ensure that EAA implements procedures to ensure that expenses reported on future Federal Financial Reports are based on actual expenditures for the reporting period.
10. Ensure that EAA implements and adheres to procedures that will result in submission of supported progress reports in a timely fashion.
11. Ensure that EAA implements and adheres to procedures to track expenditures by budget categories and to monitor budget versus actual spending on a consistent and ongoing basis to ensure EAA spends grant funds according to the defined budget categories.
12. Remedy \$46,348 in costs that exceeded the 10 percent budget rule.
13. Ensure that EAA implements procedures to properly monitor contractors.
14. Remedy the \$790,594 in contractor payments for sole-sourced contracts that were not approved by OJP to be procured non-competitively.

OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose of our audit was to determine whether reimbursements claimed for costs under the grant were allowable, supported, and in accordance with applicable laws, regulations, guidelines, and terms and conditions of the grant. We also assessed grantee program performance in meeting grant objectives and overall accomplishments. The objective of our audit was to review activities in the following areas: (1) internal control environment, (2) grant expenditures, (3) drawdowns, (4) financial status and progress reports, (5) budget management and control, (6) monitoring contractors, (7) program performance and accomplishments, and (8) compliance with other grant requirements. We determined that matching costs, indirect costs, program income, accountable property, and monitoring of subrecipients were not applicable to the grant.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objectives.

In conducting our audit, we used sample testing while testing grant expenditures. In this effort, we employed a judgmental sampling design to obtain broad exposure to numerous facets of the grant reviewed, such as high dollar amounts or expenditure category based on the approved grant budget. We tested \$310,798 in grant expenditures reported in EAA's accounting system. This non-statistical sample design does not allow for the projection of the test results to the universes from which the samples were selected.

We audited the Office of Justice Programs Grant Number 2005-JG-FX-0259, including one supplement. The grantee had a total of \$1,873,228 in requests for grant funding through July 2007. Our audit concentrated on, but was not limited to, the award of the grant in September 2005, through the end of field work in May 2008.⁹

⁹ During this audit, we identified certain issues requiring further investigation. We referred those matters to the OIG's Investigations Division, and put our audit on hold pending such investigation. Subsequently, we were able to complete our audit and issue this report.

Although EAA was awarded and received \$1,873,288 in grant funding EAA's accounting records reflected expenditures of \$1,912,723. According to EAA officials, the amount of expenditures in excess of grant funding, \$39,495, was paid with EAA's own funding, unrelated to the OJP grant. However, because EAA could not identify those individual expenditures funded with OJP funding within the larger amount of expenditures, it was necessary for us to treat all \$1,912,723 in expenditures as OJP grant funded for the purposes of our testing.

We tested compliance with what we consider to be the most important conditions of the grant. Unless otherwise stated in our report, the criteria we audit against are contained in the Office of Justice Programs Financial Guide and grant award documents.

In addition, we reviewed the timeliness and accuracy of Financial Status Reports and progress reports, evaluated actual program performance and accomplishments to grant goals and objectives, and considered internal control issues. However, we did not test the reliability of the grantee's financial management system as a whole.

SCHEDULE OF DOLLAR-RELATED FINDINGS

QUESTIONED COSTS ¹⁰ :	AMOUNT	PAGE
Unallowable Salary	\$ 78,269	7
Unallowable Consultant Costs	337,376	9
Unsupported Consultant Costs	300,595	10
Unallowable Expenditures	3,784	12
Unsupported Expenditures	48,339	12
Expenditures Exceeding 10 Percent Budget Rule	46,348	16
Sole-Source Contractors	790,594	17
<hr/>		
<i>GROSS QUESTIONED COSTS</i>	1,605,305	
<i>LESS DUPLICATION¹¹</i>	346,943	
 NET QUESTIONED COSTS:	 \$1,258,362	

¹⁰ **Questioned Costs** are expenditures that do not comply with legal, regulatory, or contractual requirements, or are not supported by adequate documentation at the time of the audit, or are unnecessary or unreasonable. Questioned costs may be remedied by offset, waiver, recovery of funds, or the provision of supporting documentation.

¹¹ Some costs were questioned as both unallowable and unsupported. Net questioned costs exclude the duplicate amount.

**EDUCATIONAL ADVANCEMENT ALLIANCE, INC.
RESPONSE TO THE DRAFT AUDIT REPORT**



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18 January 2013

Thomas O. Puerzer
Regional Audit Manager
Philadelphia Regional Audit Office
U.S. Department of Justice
Office of the Inspector General
Philadelphia Regional Audit Office
701 Market Street, Suite 201
Philadelphia, Pennsylvania 19106

Dear Mr. Puerzer,

The Educational Advancement Alliance ("EAA") has reviewed the draft report prepared by the U.S. Department of Justice Office of the Inspector General in connection with the audit of the Office of Justice Programs (OJP) Office of Juvenile Justice and Delinquency Prevention grant, number 2005-JG-FX-0259, including one supplement. EAA respectfully submits the enclosed responses to the findings and recommendations. We are pleased that you found that EAA complied with the special conditions tested for, and more importantly, that no evidence existed to contradict the fact that we fulfilled the grant objectives of awarding as many scholarships to qualified youth as possible. We appreciate the value of the audit process and look forward to working with you to continue our marked improvement of financial management of future agency awards.

I. Background

EAA received and administered \$1.87 million in DOJ grant funds on behalf of the College Opportunity Resources for Education (CORE) for funding between June 2005 and July 2007. EAA did not receive any compensation including administrative allowance or indirect cost for performing these services. These funds were audited by the Office of the Inspector General (OIG) from 2008 through 2012. The audit identified a number of alleged impermissible uses of the funds, questionable payments to consultants, and alleged support for "political" events.

The Audit Report alleges that certain sole source contracts were entered into at amounts, and for purposes not authorized by the grant. The following paragraphs and supporting documents are hereby submitted to not only respond to the Audit Report, but also to provide a more nuanced accounting of the circumstances under which each contract was entered.

Response to Recommendations

Recommendation #1: We recommend that OJP ensure EAA strengthens its internal controls over grant funds.

[1]

Management Response: The concern regarding historical differences involving a 2005 contract prior to the engagement of a highly dedicated and qualified management and administrative staff do not imply that a current control deficiency exists. Current system design and operations allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Therefore, this one historical difference does not fit the description of a current control deficiency and should not continue as a barrier to recognition of the improved control environment. The auditors' report did not contain findings suggesting current operational control deficiencies.

Recommendation #2: We recommend that OJP remedy \$78,269 in unallowable employee salary.

Management Response: We disagree with this recommendation. The grant provides for 2 Retention Officers @ \$40,000 per. The decision was made that one individual could oversee the 14 campuses. As the positions were approved for 2 years with a budget of \$160,000, the \$135,192.31 would not exceed the approved budget of \$160,000 for this line item.

Recommendation #3: We recommend that OJP remedy \$337,376 in unallowable consultant expenditures, which includes \$262,220 in unauthorized costs and \$38,375 for the authorized but sole-sourced Event Planner. The amount also includes costs totaling \$124,470 (\$106,970 + \$17,500) for two consultants who were unauthorized and unallowably hired without competitive bidding and one consultant paid over \$450 per day (\$36,781).

Management Response: We agree, in part, and disagree, in part, with this recommendation. In Fall of 2005, I was contacted by Mr. Gregory Naylor, who was the District Director for Congressman Fattah at that time. He began the conversation with a brief overview of what the ultimate goal of CorePhilly was and how it was to be achieved. Mr. Naylor specifically talked about the creation of the endowment and how [REDACTED] was identified as the individual who would oversee that project. He asked me to enter into a contract with him and that his salary was coming from a grant that [REDACTED] had written for the Commonwealth of Pennsylvania. I was told what his compensation was to be however I was not told of the grant amount from the Commonwealth. The grant award is attached. Please note that the grant was backdated to begin July 1, 2006 suggesting that the information about the grant submission that I received was accurate. Additionally the funds from said grant were not received until November 2007 just prior to receiving correspondence from the Department of Justice that they would be auditing the 2 years of grants that were received. I did not see this award since it went to CorePhilly and [REDACTED] until much later. It was then that I learned that there was only \$70,000 allocated for the consultant.

Finally, the questioned overpayment to our statistics analyst is also in dispute. [REDACTED] firm was paid \$100/hr. \$43.75 over the allowable rate; such that auditors question \$36,781 that was paid above the allowable rate. If one attributed the entire payment to one individual, then the payment would be accurately described as an overpayment. However, [REDACTED] both hired and worked with a team of consultants who managed our client needs during the course of the grant, and as such, we believe that the payment was both justified and allowable. Moreover, our Executive Director had the opportunity to meet two individuals that were either employees of [REDACTED] or somehow engaged by him during the term of the grant, which mutes the question of whether his payments were "overpayments" or actually justified.

Recommendation #4: We recommend that OJP remedy \$300,595 in unsupported expenditures.

Management Response: We do not agree with this recommendation. Any instance of time away from a full-time schedule are well documented through our leave request forms, and communicated to our payroll provided as needed in order to ensure that proper vacation and medical leave time away from the office are accounted for. These forms are digitally preserved and archived as well, and in light of the physical size of our office, it would be imprudent of management to incur an offsite storage charge to retain years of

[2]

timesheets, which can be preserved with integrity through digital means. Management believes that its procedures concerning timesheets and deviations from an eight-hour work day conform to the obligations under OMB Circular A-122, "Cost Principles for Non-Profit Organizations," August 31, 2005, which states that charges to awards for salaries and wages will be based on documented payrolls approved by a responsible official of the organization that reflect the distribution of activity of each employee whose compensation is charged to awards. Again, in an effort to avoid unnecessary printing costs, all timesheets were directed to, reviewed and approved by the Executive Director on a weekly basis during each and every week of the two grant periods at issue. As such, these timesheets, while closely scrutinized were not physically signed by Management. We are concerned that the report questions payroll in its entirety as measured by criteria only made aware to Management during the audit team field visit rather than in the Grantee Handbook or at any time during the term of the grant.

Management concurs that internal control should improve over payroll by evidencing employee preparation and supervisory review. In addition, the timesheet can be improved by identifying program versus administration costs. In FY2012, EAA has implemented improvements to the weekly timesheet form which does now adequately document arrival and departure time, incorporates a digital signature to affirm the Executive Director's approval, and also indicates which particular funding source supports the payroll cost associated with each timesheet. However, as Management has already indicated, during the audit period all employees of EAA, full-time salaried employees who worked a 40-hour workweek during the entire term of each grant period, devoted their time administering the scholarship program that was the sole focus of the grant. Funding was charged to grants based on DOJ- approved budgets.

All payroll expenditures are supported by the fact that the Executive Director approves the payroll run with the bookkeeper for each payroll cycle, including a review to ensure that all requests for vacation and medical leave are accurately accrued and reported in accordance with the vacation and sick leave policies and procedures enunciated in EAA's Employee Policy and Procedures Manual. Management engages in this comprehensive timesheet and payroll review prior to the issuance of all payroll checks. While the timesheets submitted and preserved during the grant periods do not reflect any physical signatures to support Management approval, the fact that Management receives, reviews, and physically places each digital timesheet into a digital file associated with each employees human resource records is not an insignificant one. EAA's payroll expenditures are quite adequately supported by its' program accomplishments, and the respective roles and responsibilities of personnel who together administer multimillion dollar scholarship funds to nearly 2000 students on an annual basis. The audit team has scrutinized this work and found no fault with our administration of such awards.

Given that the questioned amount constitutes almost the entirety of the remaining grant dollars attributed to the grants beyond the \$1.8 million scholarship dollar awards, Management is compelled to highlight that the guidance provided by NASA was misleading at best. Had the guidance been clearly communicated, extraordinary measures would have been pursued to successfully obtain and preserve timesheets with the level of detail sought by the auditors.

Recommendation #5: We recommend that OJP remedy \$3,784 in unallowable expenditures.

Management Response: We do not agree with this recommendation. · **\$3,784** in unallowable costs, consisting of (i) \$2,790 in sales taxes, (ii) \$936 for temp labor, lodging, office supplies, videography, photography, and (iii) a \$58 credit card late fee. Despite the fact that sales taxes should not have been charged, in each instance we were informed that the item in question was not subject to waiver for any purchaser, regardless of tax-exempt treatment. From our perspective, each of these costs was a justifiable cost

Recommendation #6: We recommend that OJP remedy \$48,339 in unsupported expenditures.

[3]

Management Response: We do not agree with this recommendation. EAA was unable to provide documentation of \$48,339 in expenditures, consisting of (i) \$42,661 in supplies, (ii) \$3,613 in labor, (iii) \$1,855 in meals, and (iv) \$210 in storage. While the specific receipts were not provided for every questioned expenditure, the majority of these questioned costs occurred in 2005, and were archived in a storage unit we were forced to store our financial records as we sought to downsize our office size and budget. There is nothing in the pattern of the receipts that were provided, or for those not provided for that matter, which would indicate that we did not incur such expenses outside of the confines of the authorized budget.

Recommendation #7: We recommend that OJP ensure that EAA requests grant funds based on immediate disbursement/reimbursement of actual grant expenditures.

Management Response: We agree with this recommendation.

Recommendation #8: We recommend that OJP ensure that EAA implements and adheres to procedures that will result in the timely submission of Federal Financial Reports.

Management Response: We agree in part, and disagree in part with this recommendation. Although EAA attempted to submit timely reports in all instances, the submission website at the time, did not alert reporting grantees to the fact that a report submission has not been "certified" at the time the grantee posts the data. Since 2007, the technology has been refined and the process of uploading such reports is no longer as burdensome and subject to technical error as it once was. Additionally, as these were the first federal agency awards that EAA had receive subject to an A-133 audit, we were not familiar with the intricacies of compliance with reporting requirements. This assertion is supported by the fact that, contrary to the audit team's findings, upon the close of the 2007 grant period, DOJ's records did not reflect that many of EAA's previously filed FFR Cash Transaction Reports had been accepted, despite the fact that EAA had timely posted the required reports, and accessed all of the grant funds.

EAA will continue its efforts to work with DOJ to ensure that all necessary reports are obtained. Management will continue to improve procedures to determine if any modifications would yield a more timely and effective treatment. EAA has developed a monitoring system for a complete listing of grant awards and associated reporting deadlines, including those drawdown thresholds pertaining to obtaining single audit reports. Management is committed to continuing to bolster the full implementation of these processes to address these concerns in an integrated and consistent manner.

Recommendation #9: We recommend that OJP ensure that EAA implements procedures to ensure that expenses reported on future Federal Financial Reports are based on actual expenditures for the reporting period.

Management Response: We agree with this recommendation.

Recommendation #10: We recommend that OJP ensure that EAA implements and adheres to procedures that will result in submission of supported progress reports in a timely fashion.

Management Response: we agree with this recommendation.

Recommendation #11: We recommend that OJP ensure that EAA implements and adheres to procedures to track expenditures by budget categories and to monitor budget versus actual spending on a consistent and ongoing basis to ensure EAA spends grant funds according to the defined budget categories.

Management Response: We agree with this recommendation. EAA has provided an FY2011 copy of our Internal Controls Manual to OIG staff. Since that time, EAA has implemented additional controls, which include submitting requests for proposals to engage a financial service provider well versed with federal regulations to, among other duties, assist us with ongoing and future federal agency contract compliance matters.

Since FY2009, EAA has also established a performance improvement plan to ensure that appropriate financial and program staffing and other resources are directed at financial management and reporting functions and continues to improve processes and procedures to promote better financial analysis, transaction entries and reconciliations are performed. Specifically, actions have been implemented to improve internal controls over the revenue process to ensure that the transactions are promptly and properly recorded for timely and reliable financial reporting. EAA is committed to improving its controls over revenue, and will continue to improve financial management and the grant monitoring processes subject to the requirements of the Single Audit Act Amendments of 1996 as we grow.

Upon careful consideration of the significant corrective action progress, procedures, and internal controls that have been implemented thus far, EAA continues to believe that the efforts to address the deficiencies in controls related to EAA's administration of federal grant funds are substantially complete and provide reliable information. This position is based on the results of extensive internal control testing which revealed that controls are in place and operating effectively; therefore, there is, and has been, no adverse impact on the current financial internal control environment. We believe that there is a high degree of accuracy in the general ledgers submitted to OIG staff, that the accounting and asset management resource systems are reliable, and all monies are being properly and timely accounted for.

Recommendation #12: We recommend that OJP remedy \$46,348 in costs that exceeded the 10 percent budget rule.

Management Response: We do not agree with this recommendation.

Recommendation #13: We recommend that OJP ensure that EAA implements procedures to properly monitor contractors.

Management Response: We agree with this recommendation.

Recommendation #14: We recommend that OJP remedy the \$790,594 in contractor payments for sole-sourced contracts that were not approved by OJP to be procured non-competitively.

Management Response: We vigorously reject this recommendation due to the fact that the \$790,594 in contractor payments for sole-source contracts was, in fact approved by OJP because they were included in the line-item budget initially submitted with EAA's original application, and subsequently approved without question by OJP. In the initial proposal to support the project, the Philadelphia Education Fund and XAP.com were identified as the vendors with whom the Executive Director had engaged. Prior to the start of the contract, the Executive Director decided to engage Solutions for Progress as the technology resource. At no point did EAA ever received a request to provide justification for awarding sole-source contracts to either vendor included in the original proposal prior to the approval of the award. Hence, it did not occur to the ED to notify the DOJ representative that the vendor to develop the electronic application was changed. As such with the approval of the contractual amounts in each award as requested without any requests for further documentation, EAA representatives did not know that additional information needed to be submitted.

More specifically, EAA paid two contractors \$790,594, one to administer scholarships and one to track students after they received scholarships; but EAA did not monitor their financial management, procedures for administering the contract, adherence to the grant, or key internal controls. Rather, we received

progress reports, annual reports, a copy of the payment arrangements under which they had been contracted, and paid the invoices per the contract terms.

Additionally although one of the sole-source contractor's compensation was paid a total in excess of \$100,000 within the two grant years, she did not exceed the \$100,000 ceiling in either year of the grant. I was also unaware of how many employees she may have engaged on this project, but given that the contractor is a limited liability company in good standing in Pennsylvania, we had no reason to believe that at any time less than two employees actually provided the services under the agreement, sufficient justification for their payment.

During FY 2012, EAA has continued to improve its information technology controls including policies and guidance concerning reporting compliance, and will continue to enhance application and general controls over reporting management going forward. We are constantly striving to implement improvements and strengthen the related administrative aspects of our oversight of programs, whether funded by federal, state or private dollars, and will continue to review all aspects of the reporting process for refinement, as appropriate.

In closing, corrective action plans have been established for each of these findings where warranted by EAA, which will be closely monitored and tracked through completion. EAA is committed to improving these and all other elements of financial management, and we thank you for the opportunity to provide these responses to the audit report.

Respectfully submitted,

Karen E. Nicholas

Karen E. Nicholas, M.Ed.
President & Chief Executive Officer
Educational Advancement Alliance, Inc.

**OFFICE OF JUSTICE PROGRAMS
RESPONSE TO THE DRAFT AUDIT REPORT**



U.S. Department of Justice



Office of Justice Programs

Office of Audit, Assessment, and Management

Washington, D.C. 20531

JAN 28 2013

MEMORANDUM TO: Thomas O. Puerzer
Regional Audit Manager
Philadelphia Regional Audit Office
Office of the Inspector General

FROM:  Maureen A. Henneberg 
Director

SUBJECT: Response to the Draft-Audit Report, *Audit of the Office of Justice Programs Grant Administered by the Educational Advancement Alliance, Inc., Philadelphia, Pennsylvania*

This memorandum is in response to your correspondence, dated November 28, 2012, transmitting the subject draft audit report for Educational Advancement Alliance, Inc. (EAA). We consider the subject report resolved and request written acceptance of this action from your office.

The draft audit report contains **14** recommendations and **\$1,258,362¹** in questioned costs. The following is the Office of Justice Programs' (OJP) analysis of the draft audit report recommendations. For ease of review, the recommendations are restated in bold and are followed by our response.

1. We recommend that OJP ensures that EAA strengthens its internal controls over grant funds.

OJP agrees with the recommendation. We will coordinate with EAA to obtain a copy of policies and procedures implemented to strengthen its internal controls over Federal grant funds.

¹ Total questioned costs figure excludes \$346,943 in duplicate questioned costs that were questioned as both unallowable and unsupported.

2. We recommend that OJP remedy the \$78,269 in unallowable employee salary.

OJP agrees with the recommendation. We will coordinate with EAA to remedy the \$78,269 in questioned employee salary costs. If adequate documentation cannot be provided, we will request that EAA return the funds to the U.S. Department of Justice (DOJ), adjust their accounting records to remove the costs, and submit a revised final Federal Financial Report (FFR) for grant number 2005-JG-FX-0259.

3. We recommend that OJP remedy the \$337,376 in unallowable consultant expenditures, which includes \$262,220 in unauthorized costs, and \$38,375 for the authorized, but sole-sourced, Event Planner. The amount also includes costs totaling \$124,470 (\$106,970 + 17,500) for two consultants who were unauthorized and unallowably hired without competitive bidding, and one consultant paid over \$450 per day (\$36,781).

OJP agrees with the recommendation. We will coordinate with EAA to remedy the \$337,376 in questioned consultant expenses. If adequate documentation cannot be provided, we will request that EAA return the funds to the DOJ, adjust their accounting records to remove the costs, and submit a revised final FFR for grant number 2005-JG-FX-0259.

4. We recommend that OJP remedy the \$300,595 in unsupported consultant expenditures.

OJP agrees with the recommendation. We will coordinate with EAA to remedy the \$300,595 in unsupported consultant expenditures. If adequate documentation cannot be provided, we will request that EAA return the funds to the DOJ, adjust their accounting records to remove the costs, and submit a revised final FFR for grant number 2005-JG-FX-0259.

5. We recommend that OJP remedy the \$3,784 in unallowable expenditures.

OJP agrees with the recommendation. We will coordinate with EAA to remedy the \$3,784 in unallowable expenditures. If adequate documentation cannot be provided, we will request that EAA return the funds to the DOJ, adjust their accounting records to remove the costs, and submit a revised final FFR for grant number 2005-JG-FX-0259.

6. We recommend that OJP remedy the \$48,339 in unsupported expenditures.

OJP agrees with the recommendation. We will coordinate with EAA to remedy the \$48,339 in unsupported expenditures. If adequate documentation cannot be provided, we will request that EAA return the funds to the DOJ, adjust their accounting records to remove the costs, and submit a revised final FFR for grant number 2005-JG-FX-0259.

- 7. We recommend that OJP ensures that EAA requests grant funds based on immediate disbursement/reimbursement of actual grant expenditures.**

OJP agrees with the recommendation. We will coordinate with EAA to obtain a copy of policies and procedures implemented to ensure that requests for Federal grant funds are based on immediate disbursement requirements, for actual grant-related expenditures.

- 8. We recommend that OJP ensures that EAA implements, and adheres to, procedures that will result in the timely submission of FFRs.**

OJP agrees with the recommendation. We will coordinate with EAA to obtain a copy of policies and procedures implemented to ensure the timely submission of FFRs.

- 9. We recommend that OJP ensures that EAA implements procedures to ensure that expenses reported on future FFRs are based on actual expenditures for the reporting period.**

OJP agrees with the recommendation. We will coordinate with EAA to obtain a copy of policies and procedures implemented to ensure that costs reported on future FFRs are based on actual expenditures for the reporting period.

- 10. We recommend that OJP ensures that EAA implements, and adheres to, procedures that will result in the submission of supported progress reports in a timely fashion.**

OJP agrees with the recommendation. We will coordinate with EAA to obtain a copy of policies and procedures implemented to ensure the submission of supported progress reports in a timely fashion.

- 11. We recommend that OJP ensures that EAA implements, and adheres to, procedures to track expenditures by budget categories, and to monitor budget versus actual spending on a consistent and ongoing basis, to ensure EAA spends grant funds according to the defined budget categories.**

OJP agrees with the recommendation. We will coordinate with EAA to obtain a copy of policies and procedures implemented to track expenditures by budget categories, and to monitor budget versus actual spending on a consistent and ongoing basis, to ensure EAA spends grant funds according to the defined budget categories.

12. We recommend that OJP remedy the \$46,348 in costs that exceeded the 10 percent budget rule.

OJP agrees with the recommendation. We will coordinate with EAA to remedy the \$46,348 in questioned costs, related to budget transfers in excess of 10 percent of the total award amount. If adequate documentation cannot be provided, we will request that EAA return the funds to the DOJ, adjust their accounting records to remove the costs, and submit a revised final FFR for grant number 2005-JG-FX-0259.

13. We recommend that OJP ensures that EAA implements procedures to properly monitor contractors.

OJP agrees with the recommendation. We will coordinate with EAA to obtain a copy of policies and procedures implemented to properly monitor contractors.

14. We recommend that OJP remedy the \$790,594 in contractor payments for sole-sourced contracts that were not approved by OJP to be procured non-competitively.

OJP agrees with the recommendation. We will coordinate with EAA to remedy the \$790,594 in questioned contractor payment costs, related to sole-sourced contracts that were not authorized by OJP.

We appreciate the opportunity to review and comment on the draft audit report. If you have any questions or require additional information, please contact Jeffery A. Haley, Deputy Director, Audit and Review Division, on (202) 616-2936.

cc: Jeffery A. Haley
Deputy Director, Audit and Review Division
Office of Audit, Assessment, and Management

Melodee Hanes
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OJP Executive Secretariat
Control Number 20121818

OFFICE OF THE INSPECTOR GENERAL ANALYSIS AND SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT

The OIG provided a draft of this audit report to the Office of Justice Programs (OJP) and Educational Advancement Alliance, Inc. (EAA). EAA's response is incorporated in Appendix III of this final report, and OJP's response is included as Appendix IV. The following provides the OIG analysis of the responses and summary of actions necessary to close the report.

Analysis of EAA's Response

In response to our audit report, EAA stated that it was pleased that we found no evidence existed to contradict that it fulfilled the grant objectives of awarding as many scholarships to qualified youth as possible. However, the objective of the OJP grant we audited was to fund CORE's programs designed to increase the access and retention of at-risk students to higher education rather than for actual scholarship awards. The increases were to be achieved by providing direct student counseling and to improve the systems for addressing access and retention of at-risk students. As a result, we did not audit or comment on the actual awarding of scholarships by CORE since those funds came from other sources.

The EAA response also stated that our report alleges that certain sole-sourced contracts were entered into at amounts, and for purposes not authorized by the grant. EAA also stated in its response that supporting documents were submitted to respond to the audit report and its responses to the recommendations were to provide a more nuanced accounting of the circumstances under which each contract was entered. However, EAA did not attach any additional documentation to its narrative response shown in Appendix III of this report. We address each recommendation below.

Summary of Actions Necessary to Close the Report

1. **Resolved.** OJP agreed with our recommendation to ensure EAA strengthens its controls over grant funds. OJP stated in its response that it will coordinate with EAA to obtain a copy of the policies and procedures implemented to strengthen its internal controls over Federal grant funds.

In its response, EAA said that this concern regarding historical differences does not imply that current control deficiencies exist. Our

audit was conducted to determine the controls that were exercised over the \$1.87 million in federal funds that were administered by EAA on behalf of CORE. The processes and controls that we audited were those that were in place to safeguard the CORE funding, which was the focus of our audit. Further, as we report in our audit, EAA had not implemented the controls that EAA officials stated it had in place to safeguard those funds. We were not provided with any additional procedures that would have prevented the deficiencies we noted in our audit. As a result, we believe it is necessary for EAA to improve its controls to ensure future funds are properly safeguarded.

This recommendation can be closed when we receive evidence that the proper controls are in place to safeguard grant funds whether received directly by EAA for its use or on behalf of another organization, such as CORE.

2. **Resolved.** OJP agreed with our recommendation to remedy the \$78,269 in unallowable employee salary. OJP stated in its response that it will coordinate with EAA to remedy the \$78,269 in questioned employee salary cost. OJP went on to state that if adequate support cannot be provided, it will request that EAA return the funds to DOJ, adjust their accounting records to remove the costs, and submit a revised final FFR for the grant.

In its response, EAA disagreed with our recommendation. Specifically, EAA stated that although the grant provided for two Retention Officers at \$40,000 per year, the decision was made that one individual could perform the work. EAA's position is that the total salary cost expended was within the budgeted amount and allowable. However, as we note in our report, EAA is required to submit a request for significant changes in project scope, including changes in key personnel. EAA did not submit and receive a budget change for the excess salary paid to the retention officer, and therefore that amount is unallowable.

This recommendation can be closed when we receive documentation that OJP has remedied the \$78,269 in unallowable salary.

3. **Resolved.** OJP agreed with our recommendation to remedy \$337,376 in unallowable consultant expenditures, which includes \$262,220 in unauthorized costs and \$38,375 for the authorized but sole-sourced Event Planner. The amount also includes costs totaling \$124,470 (\$106,970 + \$17,500) for two consultants who were unauthorized and unallowably hired without competitive bidding, and one consultant was paid over \$450 per day (\$36,781). OJP stated that it will coordinate

with EAA to remedy the \$337,376 in questioned consultant expenses and if adequate documentation cannot be provided, it will request EAA return the funds to DOJ, adjust its accounting records to remove the costs, and submit a revised final FFR for the grant.

In its response, EAA partially agreed and partially disagreed with this recommendation, however the response does not make clear what aspects of the recommendation are agreed with and where there is disagreement. Instead, the response discussed the hiring of a consultant and the amount to be paid to that consultant. EAA's response further stated the consultant's salary was to come from a grant from the Commonwealth of Pennsylvania, and that these funds were not received until November 2007 and went directly to CORE. The EAA response indicated that the grant award was attached, but we were not provided with the attachment. In addition, nothing in the EAA response disputed the fact that his salary was paid for by the OJP grant without proper authorization.

The EAA response also questioned the overpayment to the statistics analyst consultant because it states that a team of analysts was employed through the consultant's contract. We agree that a statistics analyst was included in the approved budget; however, the amount that the consultant was paid exceeded the amount allowed in the OJP approved budget. Additionally, nowhere in the grant application or approved budget was there any discussion of a statistics analyst team. As a result, these expenditures remain unallowable.

Finally, the EAA response did not address or refute the other unallowable expenditures associated with this recommendation, including the sole-sourced Event Planner and the two consultants who were not authorized in the approved budget and hired non-competitively.

This recommendation can be closed when we receive documentation that OJP has remedied the \$337,376 in unallowable consultant expenditures.

4. **Resolved.** OJP agreed with our recommendation to remedy the \$300,595 in unsupported consultant expenditures. OJP stated that it will coordinate with EAA to remedy the \$300,595 in unsupported consultant expenditures and if adequate documentation cannot be provided, it will have EAA return the funds to DOJ, adjust their accounting records to remove the costs, and submit a revised final FFR for the grant.

EAA disagreed with this recommendation in responding to our report. EAA stated in its response that any instance away from a full-time schedule is documented through its leave system and communicated to payroll. However, the individuals who represented this \$300,595 in unsupported expenditures were consultants not employees of EAA. The issue with these payments is not that time cards were not prepared, but rather that the requisite time and effort reports for these payments were not available or provided. In fact, we stated that the personnel and fringe benefits paid with grant funds were allowable and properly supported, with the exception of the salary mentioned in recommendation 2.

EAA also stated in its response that the audit team has scrutinized the work of the staff to administer scholarship awards and found no fault with this work. Our audit did not review the administration of the scholarship funds as these funds were provided by other sources and not the subject of this audit. Our audit concentrated on the CORE programs that were designed to increase the access and retention of at-risk students to higher education. In addition, the response makes reference to issues with guidance received from another agency which again has no bearing on the subject DOJ funds and their use.

This recommendation can be closed when we receive documentation that OJP has remedied the \$300,595 in unsupported expenditures.

5. **Resolved.** OJP agreed with our recommendation to remedy \$3,784 in unallowable expenditures. OJP stated that it will coordinate with EAA to remedy the \$3,784 in unallowable expenditures. OJP's response also stated that if adequate documentation cannot be provided, it will request that EAA return the funds to DOJ, adjust its accounting records to remove the costs, and submit a revised final FFR for the grant.

EAA stated that it disagreed with this recommendation. EAA stated that the sales taxes should not have been charged to the grant, however it maintained that the expenditures were justifiable because EAA was told that the items in question were not subject to a waiver for any purchaser, regardless of tax-exempt treatment. As our report states, these costs were discussed with EAA officials who agreed that the costs should not have been charged to the grant because the necessary documents needed for tax exempt purchases were available; however, the documents were not utilized. In addition, EAA provided no additional documentation supporting that the expenditures were allowable.

This recommendation can be closed when we receive documentation that OJP has remedied the \$3,784 in unallowable expenditures.

6. **Resolved.** OJP agreed with our recommendation to remedy \$48,339 in unsupported expenditures. OJP stated that it will coordinate with EAA to remedy the \$48,339 in unsupported expenditures. OJP also stated that if adequate documentation cannot be provided, it will request that EAA return the funds to DOJ, adjust its accounting records to remove the costs, and submit a revised final FFR for the grant.

In its response, EAA disagreed with this recommendation. EAA stated that while the specific receipts for every questioned expenditure were not provided, the majority of these questioned costs occurred in 2005 and were archived. The OJP Financial Guide states that records shall be retained by the organization for at least 3 years following the programmatic or fiscal closure of the grant. The guide also states that if any litigation, claim, negotiation, audit, or other action involving the records have started before the expiration of the 3-year period, the records must be retained until completion of the action and resolution of all issues which arise from it or until the end of the regular 3-year period, whichever is later. Neither of these situations had occurred at the time of our audit's fieldwork, and as a result, EAA was responsible for providing support for those transactions we selected for verification. None of the receipts we question as unsupported were provided during our audit, regardless of whether the receipts had been archived or not.

This recommendation can be closed when we receive documentation that OJP has remedied the \$48,339 in unsupported expenditures.

7. **Resolved.** OJP agreed with our recommendation to ensure that EAA requests grant funds based on immediate disbursement/reimbursement of actual grant expenditures. OJP stated that it will coordinate to obtain a copy of policies and procedure implemented to ensure that requests for Federal grant funds are based on immediate disbursement requirements, for actual grant-related expenditures.

In its response, EAA also agreed with the recommendation.

This recommendation can be closed when we receive documentation demonstrating that EAA has procedures in place to ensure that grant funds are requested for the immediate disbursement /reimbursement of actual grant expenditures.

8. **Resolved.** OJP agreed with our recommendation to ensure that EAA implements and adheres to procedures that will result in the timely submission of Federal Financial Reports (FFRs). OJP stated that it will coordinate with EAA to obtain a copy of policies and procedures implemented to ensure the timely submission of FFRs.

In its response, EAA agreed in part and disagreed in part with this recommendation. EAA stated that although it attempted to submit timely reports in all instances, the submission website at the time did not alert reporting grantees that a report submission had not been "certified" at the time the grantee posted the data. In previous discussions with EAA personnel during our audit's fieldwork, EAA could not explain why five of the eight reports were late. Additionally, EAA's response does not offer an explanation as to why three of the reports were submitted on time given the problems noted with the website. Also, the lateness of the reports varied from 11 to 44 days which we believe indicates that the cause was in fact late submission.

In EAA's response, it states it has developed a monitoring system for reporting deadlines. We were not provided with an overview of this system and we did not evaluate EAA's timeliness for reporting for any grant other than the 2005-JG-FX-0259 grant.

This recommendation can be closed when we receive documentation that EAA has procedures in place to ensure the timely submission of FFRs.

9. **Resolved.** OJP agreed with our recommendation to ensure that EAA implements procedures to ensure that expenses reported on future FFRs are based on actual expenditures for the reporting period. OJP stated that it will coordinate with EAA to obtain a copy of the policies and procedures to ensure the costs reported on future FFRs are based on actual expenditures for the reporting period.

EAA agreed with this recommendation in its response.

This recommendation can be closed when we receive documentation demonstrating that EAA has procedures in place to ensure that FFRs are based on actual expenditures for the reporting period.

10. **Resolved.** OJP agreed with our recommendation that EAA implement and adhere to procedures that will result in submission of supported progress reports in a timely fashion. OJP stated that it will coordinate

with EAA to obtain a copy of the policies and procedures implemented to ensure the submission of supported progress reports in a timely fashion.

In its response, EAA agreed with this recommendation.

This recommendation can be closed when we receive documentation that EAA has procedures in place to ensure that supported progress reports are submitted in a timely fashion.

11. **Resolved.** OJP agreed with our recommendation that EAA implements and adheres to procedures to track expenditures by budget categories and to monitor budget versus actual spending on a consistent and ongoing basis to ensure EAA spends grant funds according to the defined budget categories. OJP stated that it will obtain a copy of policies and procedures implemented to track expenditures to budget categories and to monitor budget versus actual spending on a consistent and ongoing basis, to ensure EAA spends grant funds according to the defined budget categories.

EAA agreed with this recommendation yet provided a lengthy discussion of actions taken since FY 2009 to improve their operations. However, it continues to maintain "...that controls are in place and operating effectively; therefore there is, and has been, no adverse impact on the current financial internal control environment. We believe that there is a high degree of accuracy in the general ledgers provided to the OIG staff, that the accounting and asset management resource systems are reliable, and all monies are being properly and timely accounted for." We disagree with this response given the significant internal control issues and monetary findings discussed in this audit report.

This recommendation can be closed when we receive documentation demonstrating that EAA has policies and procedures in place to track expenditures by budget categories and to monitor budget versus actual spending on a consistent and ongoing basis and that these procedures are actually being followed.

12. **Resolved.** OJP agreed with our recommendation to remedy \$46,348 in costs that exceeded the 10 percent budget rule. OJP stated that it will coordinate with EAA to remedy the \$46,348 in questioned costs, related to budget transfers in excess of 10 percent of the total award amount. OJP also stated that if adequate documentation cannot be provided, it will request that EAA return the funds to DOJ, adjust its accounting records to remove the costs, and submit a revised final FFR for the grant.

EAA disagreed with the recommendation in its response but provided no rationale or documentation to support its disagreement.

This recommendation can be closed when we receive documentation that OJP has remedied the \$46,348 in costs that exceeded the 10 percent budget rule.

13. **Resolved.** OJP agreed with our recommendation to ensure that EAA implements procedures to properly monitor contractors. OJP stated that it will coordinate with EAA to obtain a copy of policies and procedures implemented to properly monitor contractors.

In its response, EAA agreed with this recommendation.

This recommendation can be closed when we receive documentation demonstrating that EAA has implemented policies and procedures to properly monitor contractors.

14. **Resolved.** OJP agreed with our recommendation to remedy the \$790,594 in contractor payments for sole-sourced contracts that were not approved by OJP to be procured non-competitively. OJP stated that it will coordinate with EAA to remedy the \$790,594 in questioned contractor payment costs.

In its response, EAA stated that it vigorously rejected this recommendation due to the fact that the \$790,594 in contractor payments for sole-source contracts was, in fact, approved by OJP because it was included in the line item budget initially submitted with EAA's original application, and subsequently approved without question by OJP. However, we found that the only specific contractors identified in the initial application were Philadelphia Education Fund and XAP, but they were not identified as sole source. Additionally, the only contractor identified in the detailed budget that was approved by OJP was the Philadelphia Education Fund. Furthermore, nowhere in the budget or application documentation did EAA indicate that these were non-competitive contracts which very specifically require prior OJP approval per the OJP Financial Guide.

This recommendation can be closed when we receive documentation that OJP remedied the \$790,594 in questioned contractor payment costs.