

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

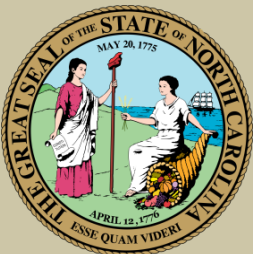
BETH A. WOOD, CPA



KINETIC MINDS

GOLDSBORO, NORTH CAROLINA

INVESTIGATIVE REPORT
NOVEMBER 2019



NCOSA
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

PURPOSE

The Office of the State Auditor received allegations through its Hotline regarding the misuse of 21st Century Community Learning Centers (21st CCLC) grant funds at Kinetic Minds. During the investigation of the initial allegations, investigators identified concerns about other violations of North Carolina Department of Public Instruction (DPI) policies.

BACKGROUND

Kinetic Minds is a nonprofit organization established in 2012 and based in Goldsboro, North Carolina. The organization receives grant funding to provide after school enrichment opportunities for students in Wayne County.

KEY FINDINGS

- DPI reimbursed Kinetic Minds for at least \$29,998 to purchase a vehicle in violation of program guidelines.
- DPI failed to adequately monitor a subrecipient.

KEY RECOMMENDATIONS

- DPI should seek reimbursement of grant funds for the vehicle purchase made in violation of the 21st CCLC Fiscal and Program Guidance.
- DPI should enhance their fiscal monitoring activities to ensure grant award recipients are adequately monitored to ensure compliance with federal regulations.

Key recommendations are not inclusive of all recommendations in the report.

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Mark Johnson, State Superintendent of Public Instruction
Eskabonna Henderson, Program Director, Kinetic Minds

Ladies and Gentlemen:

Pursuant to *North Carolina General Statute §147-64.6(c)(16)*, we have completed an investigation of allegations concerning Kinetic Minds. The results of our investigation, along with recommendations for corrective action, are contained in this report.

Copies of this report have been provided to the Governor, the Attorney General and other appropriate officials in accordance with *G.S. §147-64.6(c)(12)*. We appreciate the cooperation received from the management and employees of Kinetic Minds during our investigation.

Respectfully submitted,

A handwritten signature in cursive script that reads "Beth A. Wood".

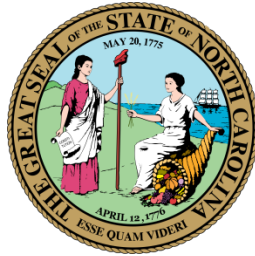
Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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BACKGROUND

The Office of the State Auditor initiated an investigation in response to Hotline allegations regarding the misuse of 21st Century Community Learning Centers (21st CCLC) grant funds at Kinetic Minds. During the investigation of the initial allegations, investigators identified concerns about other violations of North Carolina Department of Public Instruction (DPI) policies.

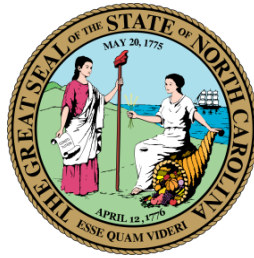
Our investigation of this allegation included the following procedures:

- Review of applicable state and federal regulations and DPI policies and procedures.
- Examination and analysis of available documents and records.
- Interviews with personnel from Kinetic Minds and DPI.

This report presents the results of the investigation. The investigation was conducted pursuant to *North Carolina General Statute § 147-64.6 (c) (16)*.

Kinetic Minds is a nonprofit organization established in 2012 and based in Goldsboro, North Carolina. The organization receives grant funding to provide after school enrichment opportunities for students in Wayne County.

The 21st CCLC grant is a competitive, reimbursement-based grant administered by DPI. The purpose of the 21st CCLC grant is to provide before and after-school, weekend, and summer school academic enrichment opportunities for children attending low-performing schools to help them meet local and state academic standards in subjects such as reading, mathematics, and science.



FINDINGS AND RECOMMENDATIONS

1. DPI REIMBURSED KINETIC MINDS FOR AT LEAST \$29,998 TO PURCHASE A VEHICLE IN VIOLATION OF PROGRAM GUIDELINES

The Department of Public Instruction (DPI) reimbursed Kinetic Minds for an unallowable vehicle purchase. The purchase resulted in a misuse of grant funds that was caused by a failure to follow program guidance and the *Code of Federal Regulations*.

Unallowable Vehicle Purchase

Kinetic Minds was reimbursed at least \$29,998 in expenditures to purchase a vehicle in violation of federal regulations and program fiscal guidelines resulting in unallowable expenditures.

A review of Kinetic Minds' bank statements revealed monthly payments to Ford Credit for \$697. An inquiry to Ford Credit revealed Kinetic Minds financed the purchase of a 2013 Ford Econoline 15-passenger van in January 2014. Kinetic Minds used 21st Century Community Learning Centers (21st CCLC) expense reimbursements to make the payments for at least 43 of the 48 monthly payments on the van from January 2014 to January 2018.

The Executive Director of Kinetic Minds told investigators they attempted to contract with the local school system, the City of Goldsboro, and companies in the community to provide transportation, but they were unable to find a provider.

Resulted in Misuse of Grant funds

21st CCLC grant funds could have been utilized for allowable expenditures in the 21st CCLC program. Specifically, the funds could have been distributed to other grant recipients to improve or expand their after-school and summer school academic enrichment opportunities for children attending low-performing schools.

Caused by Failure to Adhere to Program Guidance

Kinetic Minds failed to adhere to federal regulations and 21st CCLC *Fiscal and Program Guidance*.

The Executive Director said they were never told they could not purchase the van for transportation and they were unaware of the disallowance contained in the 21st CCLC *Fiscal and Program Guidance*.

A DPI fiscal monitor explained that 21st CCLC *Fiscal and Program Guidance* disallows the use of grant funds for purchase of vehicles and is provided to subrecipients at the time of grant award. However, DPI was unable to provide documentation to support its position that Kinetic Minds was informed of the federal regulations.

Code of Federal Regulations

Recipients of 21st CCLC grant funds must follow the procurement rules and regulations codified in the *Code of Federal Regulations* 2 CFR 200.439(b)(1) stipulates, "Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except with the prior written approval of the Federal awarding agency or pass-through entity."

The 21st CCLC *Fiscal and Program Guidance* stipulates that funds may not be used for the purchase of vehicles.

RECOMMENDATIONS

DPI should seek reimbursement of grant funds for the vehicle purchase made in violation of federal regulations and program fiscal guidance.

DPI should communicate all state and federal regulations and guidelines of the grant to subrecipients and require the subrecipient to certify it will follow those regulations and guidelines.

Kinetic Minds should attend additional training on federal regulations and *21st CCLC Fiscal and Program Guidance*.

2. DPI FAILED TO ADEQUATELY MONITOR A SUBRECIPIENT

The Department of Public Instruction (DPI) failed to adequately monitor subrecipient expenditures for the 21st Century Community Learning Centers (21st CCLC) program, which permitted unallowable costs to continue undetected for four years.

Lack of Monitoring

Kinetic Minds started receiving 21st CCLC program funding in January 2014. However, DPI failed to perform any fiscal monitoring of Kinetic Minds until June 2018. DPI failed to discover that Kinetic Minds made monthly payments for the purchase of a 15-passenger van in violation of program fiscal guidance from January 2014 to January 2018.

This is **not the first time** DPI has failed to adequately monitor subrecipients. The Office of the State Auditor has cited DPI's inadequate monitoring of 21st CCLC subrecipients in the following reports:

- In February 2019, OSA issued an investigative report titled "Area Day Reporting Program for Youth, Inc."
- In June 2015, OSA issued a performance audit report titled "Department of Public Instruction-21st Century Community Learning Center."
- In December 2012, OSA issued an investigative report titled "Real G.I.R.L.S., Inc."

Resulted in Unallowable Costs

DPI's inadequate monitoring permitted unallowable costs to the 21st CCLC program to continue, undetected, for four years.

Caused by Inadequate Monitoring

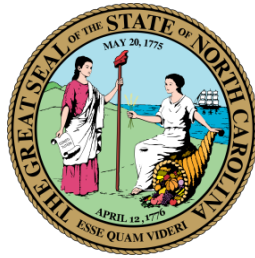
DPI's risk-based approach for selecting subrecipients for fiscal monitoring failed to select Kinetic Minds for review for the first four years of receiving 21st CCLC program funds.

Code of Federal Regulations

The *Code of Federal Regulations* 2 CFR 200.331(d) specifies that all pass-through entities must “Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.”

RECOMMENDATIONS

DPI should enhance their fiscal monitoring activities to ensure grant award recipients are adequately monitored to ensure compliance with federal regulations.



RESPONSE FROM KINETIC MINDS



126 S. James St.
Suite 101
Goldsboro, NC 27530
(919) 947-0471

November 1st, 2019

Beth A. Wood, CPA, State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600

Dear Ms. Wood,

We received the Office's investigative report on October 17th, 2019 regarding the finding with Kinetic Minds.

Corrective action to be taken:

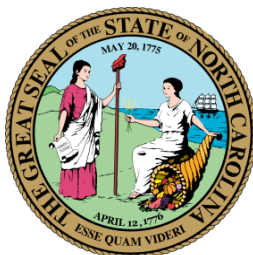
- 1) Kinetic Minds will be in contact with the North Carolina Department of Public Instruction to resolve the finding with the van.
- 2) Kinetic Minds will attend additional training on federal regulations and 21st CCLC Fiscal and Program Guidance.

Sincerely,

A handwritten signature in blue ink that reads "Eskabonna Henderson".

Eskabonna Henderson

126 South James Street, Suite 101, Goldsboro, NC 27530
(919) 947-0471



RESPONSE FROM THE DEPARTMENT OF PUBLIC INSTRUCTION



PUBLIC SCHOOLS OF NORTH CAROLINA

DEPARTMENT OF PUBLIC INSTRUCTION | Mark Johnson, *Superintendent of Public Instruction*

WWW.NCPUBLICSCHOOLS.ORG

October 25, 2019

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

The North Carolina Department of Public Instruction (DPI) is pleased to submit our response to your findings in connection with the Kinetic Minds investigative report. We agree with the findings and recommendations contained in the report and appreciate the assistance provided by the Office of the State Auditor (OSA) to identify areas for improvement. DPI's Division of Federal Program Monitoring and Support (FPMS) oversees the 21st Century Community Learning Centers (21st CCLC) grant and will be leading the effort to resolve the issues noted in the report.

As stated in the audit report, the 21st CCLC is a competitive grant program which is open to many organizations, including religious organizations and nonprofits. Monitoring of 21st CCLC has been an evolution of improvement over many years. FPMS previously contracted with an external vendor for fiscal monitoring reviews of 21st CCLC grantees. In Fiscal Year 2018, FPMS increased staffing to add a full-time Fiscal Monitor position, which allocated 1.5 FTEs to the monitoring of 21st CCLC. In Fiscal Year 2019, FPMS was able to conduct the fiscal monitoring reviews internally, enabling reviews to occur and feedback to be given earlier in the grant cycle. During this time, FPMS also increased the level of scrutiny applied to transactional reviews of non-governmental units and certain expense items (such as transportation costs).

In April 2019, FPMS staff revised the program and fiscal guidance for the 21st CCLC program. This guidance was distributed to grantees, and all changes were communicated during the 21st CCLC Summer Institute in August 2019. The revision included increased requirements for transportation costs and a requirement that grantee contracts and leases be reviewed by DPI prior to approval for a continuation of funding. The updated program and fiscal guidance also included implementation of Fiscal Desk Reviews as a mechanism for monitoring fiscal management in the 2019-2020 funding cycle. The Fiscal Desk Review

OFFICE OF THE NORTH CAROLINA SUPERINTENDENT

Mark Johnson, *Superintendent of Public Instruction* | mark.johnson@dpi.nc.gov

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AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

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will be conducted at DPI and will include an assessment of the approved project, a review of budgets and amendments, and an analysis of the documentation provided to FPMS.

In May of 2019, a fiscal and programmatic risk assessment was developed to determine which programs would be monitored again in year 3 of the organization's grant cycle and the type of monitoring to be conducted (see bullet points below for the types of monitoring). The risk assessment contained factors for consideration such as findings from previous monitoring events, timely submissions of data, timely submissions of expenditure documentation, repayments or ERaCA (financial system) disablements, and length of time since the last monitoring event.

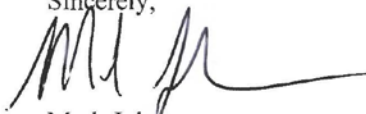
The fiscal monitoring schedule was revised to begin reviews as early in the grant year as possible (i.e., October / November) rather than in spring of the fiscal year. The Fiscal Year 2020 monitoring cycle for 21st CCLC programs has been updated for the current funding cycle as follows:

- o Year 1 – Comprehensive Program Review and Fiscal Monitoring Review
- o Year 2 – Program Quality Review and Fiscal Desk Review
- o Year 3 – Based on a risk assessment, one or more of the following - Comprehensive Program Review, Fiscal Monitoring Review, Program Quality Review, and/or Fiscal Desk Review

The enhancements to our monitoring process should enable FPMS to prevent or detect issues similar to those found at Kinetic Minds. FPMS will seek reimbursement of \$29,998 from Kinetic Minds for the unallowable purchase of a vehicle as recommended in finding 1. FPMS will freeze all funds available to Kinetic Minds until this repayment has been received.

We believe implementation of these corrective actions will address the deficiencies noted. Please feel free to contact Jeani Rousseau or me if you have any questions about our response. As always, we appreciate the effort and professionalism of your staff in conducting audits of the Department of Public Instruction.

Sincerely,



Mark Johnson

c: Eric Davis, State Board of Education Chairman
Alan Duncan, SBE Audit Committee Chair
David Stegall, Deputy Superintendent of Innovation
Jeani Rousseau, Director of Internal Audit

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

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For additional information contact:
Brad Young
Director of External Affairs
919-807-7513



This investigation required 319.5 hours at an approximate cost of \$32,909