STATE OF NORTH CAROLINA
**Office of the State Auditor**

**Beth A. Wood, CPA**
State Auditor

June 18, 2015

The Honorable Pat McCrory, Governor
The Honorable Tim Moore, Speaker of the House
The Honorable Phil Berger, President Pro Tempore
The Honorable Tommy Tucker, NC Senate
Mr. William Cobey, Chairman, State Board of Education
Dr. June St. Clair Atkinson, State Superintendent of Public Instruction

This letter and attached findings present the results of a performance audit of the 21st Century Community Learning Center program administered by the North Carolina Department of Public Instruction (DPI).

Superintendent Dr. June Atkinson and State Board of Education Chairman Bill Cobey reviewed a draft copy of this report. Their written comments are included starting on page 7.

The objective of the audit was to answer questions, as listed in this report, asked by a legislator regarding DPI's grant award process and oversight of grant recipients. The audit scope spanned the period July 1, 2013, through June 30, 2014. To accomplish the audit objective, auditors performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and operations.

As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. As discussed in the standards, internal control consists of five interrelated components: (1) control environment; (2) risk assessment; (3) control activities; (4) information and communication; and (5) monitoring.

We conducted this audit in accordance with generally accepted government auditing standards applicable to performance audits. Those standards require that auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

We wish to express our appreciation to the staff of the Department of Public Instruction for the courtesy, cooperation, and assistance provided us during the audit.

If you have any questions, please do not hesitate to contact my office.

Sincerely,

Beth A. Wood

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State Auditor

## BACKGROUND

The 21st Century Community Learning Center (21st Century) program is a federally funded, state administered grant program authorized under the Elementary and Secondary Education Act.[1] The program establishes or expands after-school programs intended to deliver academic enrichment services to at-risk students. Each state's funding is based on the number of students in high-poverty and low-performing schools.

North Carolina's Department of Instruction (DPI) receives approximately $30 million each year in federal funds for the 21st Century grant program. DPI disburses those funds to local programs through a competitive grant application process.

[1] United States Code Title 20 – EDUCATION CHAPTER 70 - STRENGTHENING AND IMPROVEMENT OF ELEMENTARY AND SECONDARY SCHOOLS SUBCHAPTER IV - 21ST CENTURY SCHOOLS Part B - 21st Century Community Learning Centers

**1. Does DPI's selection process meet federal and state requirements for the program?**

Yes, the Department of Public Instruction's (DPI) 21st Century Community Learning Center (Program) grant selection process meets federal and state requirements for the Program.

Because the Program is federally funded, the majority of the selection process requirements derive from federal regulations. As required by federal law, DPI implemented a peer-reviewed competitive grant process that evaluates grant applications on federally defined content to select eligible entities[2] serving the target population.[3] The audit confirmed that DPI implemented the process in compliance with federal regulations by reviewing grant applications and analyzing the application rating tool.

As required by federal law, DPI evaluates grant applications to ensure proposed programs and services are federally authorized activities. DPI also verifies that applications include other federally required information, such as descriptions of how the activity is expected to improve student academic achievement, as well as assurances that the proposed program was developed and carried out in active collaboration with the schools the students attend. Review of grant applications and the ratings for each grant application confirmed DPI met these requirements.

Also, DPI's grant award durations and amounts fall within the federally prescribed parameters.[4] As verified by reviewing the DPI grant monitoring schedules, DPI distributed grants among geographic areas of the state, including urban and rural communities.

The State does not specify selection requirements that extend beyond the federal requirements for this program.

**2. Are grant recipients selected based on consistent criteria?**

Yes, DPI uses consistent criteria to select grant recipients. DPI ensures the use of consistent criteria by embedding the Program's purpose in DPI's request for proposal documents, DPI policy and procedure manuals, and application evaluation tools.

To ensure consistency, DPI uses a three-level review process to evaluate applications.

1. DPI contracted with the University of North Carolina at Greensboro (UNCG) to perform the initial review. UNCG hired grant reviewers to review each grant application. Each application was reviewed by three individuals using an approved rating tool. For each applicant, UNCG averaged the scores from the three reviewers to calculate an overall score. Auditor analysis[5] of the rating scores determined that the reviewers consistently applied the rating tool criteria. DPI Program administrators adjust the overall scores by giving bonus points to novice applicants; applicants not awarded funding in prior competitions; and applicants proposing to serve low-income, low-achieving schools as suggested by federal guidance.
2. DPI makes funding recommendations to the State Board of Education's (State Board) 21st Century Systems Committee. That committee reviews the funding recommendations and presents the recommended applications to the State Board for final approval.

[2] Local education agencies (LEAs), community-based organizations, or other public or private entities.
[3] The target population is students who attend low-performing schools or schools that serve students or attendance areas with a high percentage (40% or more) of low-income students.
[4] Awards must be between three and five years and must be for $50,000 or more.
[5] Auditors selected a sample of 40 of the 144 applications submitted in Spring 2014 for the 2015 grant cycle.

Auditors confirmed DPI follows the process described above through review of grant applications, analysis of rating forms and the associated computer database, discussion with DPI management and State Board officials, and observation of the State Board meeting at which the 2015 grant cycle applications were approved.

**3. Does DPI have appropriate justification to support significant differences in cost-per-student rates across grant recipients' programs?**

No, DPI does not analyze cost-per-student data at year end or program end and does not review costs to determine causes for any differences[6] on a grant by grant basis. DPI officials said cost-per-student variability is expected due to differences in services provided, grade levels served, hours of operations, and geographic location of the programs. DPI officials also noted that federal program regulations do not require cost-per-student analysis.

However, DPI implemented a cost-per-student budgetary cap[7] during the application award process. Starting with the fiscal year 2014 grant competition, the State Board capped grant awards at $2,500 per student. The cap limits the amount of funding that may be requested during the application process. DPI used the cost-per-student cap during the budget approval process with funding provided based on estimated enrollment.

Analysis of actual expenditures indicated that grant recipients spent about $1,100 per student[8] during the first year of implementation. The actual cost-per-student[9] ranged from $272 to $4,926, with two grant recipients exceeding the $2,500 cap. The reason the two grant recipients exceeded the cap is because they did not achieve their projected student attendance numbers, which increased the cost-per-student.[10]

**4. Does DPI ensure grant recipients receive funding only for appropriate expenditures?**

No, because (1) DPI did not require grant recipients to pay back unallowable or inadequately documented expenses identified by a regional accounting firm, and (2) DPI does not always follow its designed procedures to detect inappropriate expenditures as detailed in Finding 5.

First**,** DPI contracted with a regional accounting firm to review grant expenditures during the 2014 fiscal year.

However, DPI did not require grant recipients to pay back any unallowable or inadequately documented expenses identified from the contracted accounting firm's review. DPI required grant recipients to take corrective action within 10 business days of notification by implementing procedures or by providing documentation to support the expenses identified.

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[6] DPI officials stated that they consider cost-per-student as one of many factors, but not the defining factor, during the grant award process. DPI officials stated that they use the "Wallace calculator" (http://www.wallacefoundation.org/cost-of-quality/Pages/default.aspx) to evaluate the reasonableness of cost-per-student when evaluating grant applications.

[7] The "cap" was used as a method to determine the reasonableness of requested funding. According to DPI officials, the cap was not intended to limit expenditures per student as variances are anticipated due to program diversity. Consequently, no administrative action is taken if budgetary expectations are not met.

[8] Analysis was performed for 38 grant recipients awarded funds during the 2014 fiscal year. Those grant recipients spent $6.9 million in program funds serving 6,251 students.

[9] Federal regulations permit grant recipients to provide services to parents of students. However, auditors' calculations of cost-per-student did not include parents as program participants.

[10] DPI did not take any action regarding these two programs exceeding the $2,500 per student cap. Program regulations do not require that DPI recoup the funds; however, regulations do not prohibit DPI from recouping the funds.

The contracted accounting firm reviewed program expenditures, associated documentation, and fiscal policies and procedures at all grant recipients in operation. The contracted accounting firm's review identified errors and weaknesses such as:

- Grant recipients with inadequate documentation of payroll. (36% of grant recipients) [11]
- Grant recipients with insufficient fiscal policies and procedures to correctly account for grant funds. (54% of grant recipients)

The accounting firm's report recommended additional training for grant recipients and improvements to the expenditure review and approval process. DPI provided that training in September 2014 at a statewide grant recipients meeting and in regional technical assistance meetings in October and November 2014. DPI also required all grant recipients to include written fiscal procedures in the grants management database.

Second, DPI implemented various procedures to ensure that grant recipients only receive funding for appropriate expenditures. These procedures include limits on the amount of funds that may be accessed at a given time, training provided to grant recipients, required submission of documentation to support expenditures, desk reviews of submitted expenditure reports performed by a contractor, fiscal and program monitoring site visits performed by DPI staff, and review of grant expenditures by a contracted accounting firm.

However, DPI does not always follow the procedures it designed to detect inappropriate expenditures. As detailed in Finding 5, auditors found that many grant recipients were not monitored in accordance with DPI procedures, funding continued to grantees even though grantees were non-compliant with reporting requirements, and there was no documentation of contractor review of grantee expenditure reports.

**5. Did DPI fulfill its plan for monitoring grant recipients' compliance with federal and state regulations?**

No, DPI did not accomplish its plan for monitoring grant recipients' compliance with federal and state regulations despite implementing various monitoring procedures.

DPI planned that grant monitors would review grant recipients' program and fiscal activities using various methods such as desk reviews and on-site visits. If compliance issues are not resolved, DPI should terminate funding.

However, DPI did not consistently apply its monitoring procedures. Our review revealed the following:

- Grant monitors did not perform full on-site monitoring visits during the first year of program implementation at 14 out of 48 (29%) grant recipients[12] as intended according to program goals. While six of those 14 grant recipients received full on-site monitoring visits during July 2014, those visits occurred after the stated goal of June 30, 2014.
- Eighteen of 33 (55%) non-LEA grant recipients[13] did not comply with monthly expenditure reporting requirements but continued to receive grant funds.

[11] Summary reports indicate at least one instance of inadequate documentation at the grant recipient. The magnitude, significance, and error rate varied widely among the grant recipients.
[12] These 48 grant recipients were awarded funding for the 2014 fiscal year grant competition.
[13] All non-LEA grant recipients are required to submit monthly expenditure reports, including supporting documentation for program related expenditures. These 33 grant recipients were identified as non-LEA grant recipients who received funding for the 2014 fiscal year.

State rules provide that agencies "Not disburse funds to grantees that are not in compliance with the reporting requirements … "[14]

- DPI's contracted fiscal monitor could not provide a detailed account of the monthly reviews of expenditure reports he was required to perform.

**Other Matters for Consideration**

DPI contracted in November 2013 with SERVE, Inc., an affiliate of the University of North Carolina at Greensboro, to evaluate the outcomes of students participating in the 21st Century program. The purpose of the exploratory study was to:

- Provide a description of the grantees, centers, students served, and attendance levels.
- Evaluate the extent of year-to-year change on reading and math end of grade (EOG) tests taken by students enrolled in the 21st Century program.
- Examine the variation in centers' average year-to-year change in reading and math EOG tests.

The exploratory study compiled and analyzed student data from the 2013 grant year[15] for grant recipients awarded during the 2011 fiscal year funding cycle using DPI's statewide databases rather than grant recipients' self-reported data for outcomes.

The study's findings provided to DPI during 2014 suggest that the greatest improvements in test scores may be seen with the students performing at the lowest levels. However, the study does not claim to determine a direct correlation between program activities and outcomes because increases or decreases in grades cannot be attributed exclusively to participation in the 21st Century program.

DPI plans to use this study to increase understanding of variability across centers and year-to-year changes in student outcomes. The information will be used to provide feedback to grant recipients and to encourage improvements in programming.

[14] 09 NCAC 03M .401(A) (8) Agency Responsibilities

[15] Study used data for the 2013 grant year because DPI started using actual performance data rather than self-reported data during that grant year.

**PUBLIC SCHOOLS OF NORTH CAROLINA**
**DEPARTMENT OF PUBLIC INSTRUCTION** | June St. Clair Atkinson, Ed.D., *State Superintendent*
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June 9, 2015

The Honorable Beth A. Wood, State Auditor
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The Department of Public Instruction would like to thank the Office of State Auditor for the audit work performed related to the 21st Century Community Learning Center (21st CCLC) program. It is our understanding that the objective of the audit was to answer questions proposed by a legislator. This letter serves as our response to information contained in the audit report.

**Program Funding**

The 21st CCLC program is intended to support the creation of community learning centers that provide academic enrichment opportunities outside of normal school hours for children, specifically those who attend high-poverty and low-performing schools. Program funding is awarded from the Department of Public Instruction (DPI) through a competitive application process. The program is not intended to be funded or measured on a cost-per-student basis.

In preparation for the 2013-14 competition, DPI determined it would be appropriate to assess a measure of reasonableness for financial projections submitted by each applicant. In November 2013, DPI conducted an analysis of programs operating from 2010 through 2013, which demonstrated that the average program cost per student was $1,152.33. DPI staff also performed analysis of program cost variances using the Wallace Foundation Cost Calculator for a sample of programs in various regions of the state using data from programs in operation at that time. The calculator identifies program costs through a statistical model to determine how full costs correlate with specific program characteristics such as location, staff/student ratios, and hours of operation. For example, a community-based organization (CBO) that proposes to serve 100 students in the Asheville area of the state will have

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estimated annual costs of $2,941.00 per slot if serving elementary students; however, if the CBO proposes to serve high school students in a program otherwise similar in scope and location, the estimated annual costs would be $3,502.00 per slot. The sample analyzed was for a school year program and did not include slots for summer programming.

Using the analysis of actual program costs as well as the Wallace Foundation Cost Calculator, DPI assessed $2,500.00 per student as a reasonable measure for application cost projections. This "cap" was intended to provide organizations a reasonable standard for estimating overall program costs in establishing preliminary budgets, and to be utilized by DPI in determining reasonableness for the requested funding of applications. It was not intended to limit expenditures per student since research and the DPI analysis demonstrates that variances are expected to occur based on the characteristics and design of each program.

DPI's justification to support significant differences in cost-per-student rates relies on research and specifically the research-based report issued in 2009 by the Wallace Foundation, *The Cost of Quality Out-of-School-Time Programs.* Research demonstrates that cost-per-student variances are largely attributed to diversity in organizational models and programmatic approaches. Additional factors contributing to cost-per-student variances include staff to student ratios, proximity to metropolitan areas, grade levels of students served, days and hours of operation, and matching and in-kind contributions that may have contributed to the overall 21st CCLC program costs.

The research noted above offers additional insight regarding the complexities of cost variances among after-school programs. For example, expanding program size to include more children can produce economies of scale, but only up to a point. After reaching certain thresholds in enrollment numbers, programs must hire additional staff, which in turn, increases the overall cost-per-student amounts.

**Monitoring**

DPI sets very high goals for monitoring to ensure that subrecipients meet federal and state requirements. Although no federal or state law requires a specific frequency or method of monitoring, DPI works diligently to conduct adequate monitoring of subrecipients. Due to staffing and timing constraints, we are not always able to meet the high goals set, but we continue to strive toward the goal and refuse to lower the high standards that have been set.

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DPI also makes every effort to implement preventative and detective controls throughout the grant disbursement process to help ensure program integrity.

Grant funds awarded to local education agencies (LEAs) are monitored through the Uniform Education Reporting System (UERS). Other non-LEA award recipients of the 21st CCLC program are required to submit supporting documentation for expenses at the time that the organization draws down funds. This requirement was set as a preventative control to deter any organization from drawing down funds for undocumented expenses. On a monthly basis, DPI staff members select a sample of submissions for reconciliation to the draw down requests. In order to obtain greater review coverage, DPI is working to hire an additional staff member to assist in review and reconciliation of fiscal information. These reviews are now conducted and stored in a standard format.

As a detective measure, DPI conducts on-site monitoring of subrecipients. DPI's goal is to conduct an on-site visit for new 21st CCLC programs during the first year of implementing a new program. On-site reviews utilize an On-Site Monitoring Instrument or a Program Quality Review instrument. Both types of monitoring involve on-site observations of services with students, review of evidentiary documentation, and interviews with staff, parents/guardians, students, and community partners. Both On-site Monitoring and Program Quality Reviews are conducted at the center location as well as the sites where programs are provided for students.

Beginning in 2013-14, organizations were required to implement summer programming in addition to regular school year programming. To support implementation for the summer component, the 2013-14 funds (i.e., first year of funds) were available beginning July 1, 2013, through September 30, 2014. The summer programming was considered to be a critical component of the first year of implementing a new 21st CCLC program.

The audit report states that monitors did not perform full on-site monitoring visits to 14 out of 48 award recipients before June 30, 2014, however, seven of those 14 did receive full on-site monitoring visits during the month of July 2014 (which was considered part of the program year due to the summer program requirement). Six award recipients received on-site Program Quality Reviews, and one received an on-site fiscal review. DPI agrees that we did not meet our goal of 100% full on-site monitoring visits, but feels that there was adequate monitoring coverage during the year.

DPI's On-site Monitoring Instrument for the 21st CCLC grants includes 47 specific performance indicators covering five compliance categories. The monitor determines if the organization has met or not met each indicator. Monitors are required to have sufficient supporting documentation and recommendations to support any performance indicators that do not meet the standard. It was determined that there was some inconsistency in documentation for indicators that did meet the standard. In order to increase consistency, policies and procedures related to monitoring 21st CCLC subrecipients have been revised to be consistent with those for Title I, including a revised report format, which will eliminate the potential for confusion caused by blank data fields for indicators met.

As stated in the report, DPI contracted with an external party to assist in monitoring efforts. DPI reviewed the documentation provided by the firm. There were several instances in which the firm pointed out unallowable expenses and recommended that the subrecipient net out the unallowable expense in their next draw request. DPI has been working to reconcile expense-supporting documentation to draw requests for these subrecipients. The monitoring process and reconciliation process have been conducted with a focus on the newest subrecipients as well as those with the highest risk. As we work through reconciling each subrecipient account, management will determine appropriate action to be taken on a case-by-case basis. In order to avoid any delay in taking appropriate action for issues identified in the future, DPI requested that the firm provide documentation periodically during the current year rather than at the end of all visits as done in the previous year.

We feel that sufficient action has been taken to mitigate issues noted. We appreciate the assistance provided in pointing out areas for improvement within the 21st CCLC program.

Sincerely,

June St. Clair Atkinson

June St. Clair Atkinson

c: William Cobey, State Board of Education Chairman
Rebecca Garland, Deputy State Superintendent
Donna Brown, Director of Federal Program Monitoring and Support
Jeani Allen, Director of Internal Audit

# ORDERING INFORMATION

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This audit was conducted in 2,225.5 hours at a cost of $160,236.