

**Audit of the  
Children's Health Fund  
Award Number 94ADNNY005**

**Report Number 98-04  
February 20, 1997**


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This report is issued to the management of the Corporation for National and Community Service. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than June 29, 1998, and complete its corrective action by December 30, 1998. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented or the amount of disallowed costs.

The Inspector General must approve any request for public release of the report.

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Office of the Inspector General  
Audit of the  
Children's Health Fund  
Award Number 94ADNNY005

CORPORATION  
FOR NATIONAL  
 SERVICE

Tichenor & Associates, under contract to the Office of the Inspector General, performed an audit of the funds awarded by the Corporation for National Service to the Children's Health Fund under Grant No. 94ADNNY005. The audit covered the costs (\$284,871) claimed during the grant period from July 1, 1994 through December 31, 1995.

The audit included an examination to determine whether financial reports prepared by the auditee presented fairly the financial condition of the award and the award costs reported to the Corporation were documented and allowable in accordance with the terms and conditions of the award. We have reviewed the report and work papers supporting its conclusions and agree with the findings and recommendations presented.

The firm found that

- Personnel activity reports (time sheets) were not prepared by staff to identify charges allocable to the grant for salaries and benefits as required.
- Costs for grant expenditures were recorded as a percent of the approved budget amount and not based on actual expenses.
- Subgrantee accounting records did not segregate Federal funds from funds of other sources.
- Subgrantee matching costs claimed were not verifiable from accounting records.
- No written procedures were developed to identify any unallowable or unallocable costs prior to claim for reimbursement.
- Records of Member service hours completed at one site were not maintained.
- Costs were claimed by one site for transactions occurring after the end of the funding period.

Based on the audit, we are questioning \$117,545 (41 percent) of the costs claimed under the award. These and other matters are discussed in greater detail in the report.

Children's Health Fund's response to a draft of this report is included in its entirety as Appendix A. In its response, Children's Health Fund agreed that their staff did not prepare personnel activity reports. Children's Health Fund also cited difficulty in understanding the grant's financial management and reporting requirements. The Corporation did not provide a response.

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Inspector General  
Corporation for National Service

We have performed an audit of the funds awarded under the National and Community Service Act of 1990, as amended, by the Corporation for National Service (Corporation) to the Children's Health Fund (CHF). The funds were awarded under grant award number 94ADNNY005 in the amount of \$374,000<sup>1</sup> for the period July 1, 1994 through December 31, 1995.

## RESULTS IN BRIEF

Our audit was performed on the amounts claimed and disclosures contained in the final Financial Status Report (FSR) submitted by CHF to the Corporation dated October 18, 1996, as follows:

<u>Award Number</u>	<u>Award Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>
94ADNNY005	<u>\$321,500</u> <sup>2</sup>	<u>\$284,871</u>	<u>\$117,545</u>

We are questioning federal costs claimed against the award totaling \$117,545 and an additional \$69,911 in matching costs for a total questioned costs of \$187,456 as summarized in the following table:

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<sup>1</sup> The award amount of \$374,000 does not include educational awards of \$70,875 for 15 full-time AmeriCorps Members because education awards are paid directly by the Corporation from the National Service Trust.

<sup>2</sup> The difference of \$52,500 between the award amount of \$374,000 and the award budget of \$321,500 represents costs of \$52,500 for dependents of Americorps Members that are paid directly to the child care providers through the National Association of Child Care Resource and Referral Agencies (NACCRRRA).

### Summary of Questioned Costs

<b>Description</b>	<b>Questioned Costs</b>
Participant support costs were not adequately supported by source documentation.	\$ 946
Parent organization staff salaries and benefits were not supported by a distribution among activities.	95,000
Operational costs were claimed based on the budget and not on actual expenses.	1,761
Costs for Member living allowances and fringe benefits were not supported by adequate source documentation.	8,782
Total costs claimed were not supported by subgrantee's accounting records.	2,308
Administrative costs claimed were in excess of five percent of assistance provided.	<u>8,748</u>
 <b>Questioned Federal Costs</b>	 <b>\$117,545</b>
<b>Questioned Matching Costs</b>	<b>\$ <u>69,911</u></b>
<b>Total Questioned Costs</b>	<b><u>\$187,456</u></b>

### COMPLIANCE FINDINGS

Our audit disclosed material instances of non-compliance. The instances of non-compliance which we consider to be material are as follows:

- Personnel activity reports (time sheets) were not prepared by staff to identify charges allocable to the grant for salaries and benefits as required.
- Costs for grant expenditures were recorded as a percent of the approved budget amount and not based on actual expenses.
- Subgrantee accounting records did not segregate Federal funds from funds of other sources.
- Subgrantee matching costs claimed were not verifiable from accounting records.

- No written procedures were developed to identify unallowable or unallocable costs prior to claim for reimbursement.

In addition to the material instances of noncompliance summarized above, we noted the following immaterial instance of noncompliance:

- The final FSR was submitted seven months after the report was due.

#### INTERNAL CONTROL FINDINGS

Our audit disclosed reportable conditions in CHF's internal control structure, which are also material weaknesses. These weaknesses are as follows:

- Records of Member service hours completed at Henry Clinic were not maintained.
- Costs were claimed by Valley Health Systems for transactions occurring after the end of the funding period.

#### PURPOSE AND SCOPE OF AUDIT

Our audit covered the costs claimed during the period July 1, 1994 through December 31, 1995 for the Corporation grant number 94ADNNY005.

The objectives of our audit were to determine whether:

- financial reports prepared by the grantee presented fairly the financial condition of the award;
- the internal control structure was adequate to safeguard Federal funds;
- the grantee had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations and award conditions; and
- the award costs reported to the Corporation were documented and allowable in accordance with award terms and conditions.

We used a combination of judgmental sampling and analytical procedures to test the allowability of the costs claimed by CHF. Because CHF's accounting system did not summarize costs by approved budget categories, we reclassified costs into the approved budget categories as shown in Exhibit A, Schedule of Award Costs (Schedule), based on evidentiary matter provided by CHF.

We performed our audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed against the grant award as presented in the Schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by the grantee and evaluating the overall Schedule presentation. We believe our audit provides a reasonable basis for our opinion.

In their response, CHF officials agreed that their staff did not prepare personnel activity reports. CHF asked that questioned costs related to the lack of Federally required personnel activity reports not be disallowed stating that it may be able to determine appropriate staff costs based on information in its records. We were not provided the information that CHF would use to determine its actual staff costs. Therefore, we can provide no assurance that the results would comply with Federal cost requirements. CHF also cited difficulty in understanding the grant's financial management and reporting requirements. CHF's response is included as Appendix I.

## BACKGROUND

The Children's Health Fund (CHF) is a charitable non-profit organization headquartered in New York, New York, whose purpose is to make primary health care available to children who face significant barriers to adequate health care because they are homeless or disadvantaged. This care is delivered through mobile medical units, staffed with medical doctors and supporting technicians, which go into the children's neighborhoods.

CHF supports the Division of Community Pediatrics, a department of the Montefiore Medical Center, New York, New York, which is also the Albert Einstein College of Medicine. CHF's strategy in placing children's health projects is to support the mobile units with staff from teaching hospitals. In 1994, CHF was involved with nine sites using 11 mobile vans.

CHF's AmeriCorps program placed a total of 15 Members at service in four CHF sites, as follows:

- The South Florida Children's Health Project, managed by the University of Miami School of Medicine, Miami, Florida.
- The West Virginia Children's Health Project, managed by Valley Health Systems, Incorporated, Huntington, West Virginia, which is a federally funded community health center with satellite clinics, in conjunction with the Marshall University School of Medicine.
- The Children's Health Project of Los Angeles, managed by the Watts Health Foundation, Incorporated, in conjunction with the Charles R. Drew University of Medicine and Science.

- The Mississippi Children’s Health Project, managed by the Aaron E. Henry Community Health Services Center, (Henry Clinic) Clarksdale, Mississippi, in conjunction with the Le Bonheur Children’s Medical Center of the University of Tennessee, Memphis, Tennessee.

The purpose of CHF’s AmeriCorps grant was to place Members in each of the four sites to assist the existing projects in strengthening the connection between families and primary care providers and to link families to available sources of health care and social services depending on their needs.

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Inspector General  
Corporation for National Service

## INDEPENDENT AUDITOR'S REPORT

We have performed an audit of the funds awarded under the National and Community Service Act of 1990, as amended, by the Corporation for National Service (the Corporation) to the Children's Health Fund (CHF). The funds were awarded under grant award number 94ADNNY005 in the amount of \$374,000 for the period July 1, 1994 through December 31, 1995.

Our audit was performed on the amounts claimed and disclosures contained in the final Financial Status Report (FSR) submitted by CHF to the Corporation dated October 18, 1996. The FSR, as presented in Exhibit A, Schedule of Award Costs (Schedule), is the responsibility of CHF's management. Our responsibility is to express an opinion on the Schedule based on our audit.

We performed our audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed against the grant award, as presented in the Schedule, are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by the grantee and evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying Schedule was prepared to comply with the requirements of the award agreement, as described in Note 1 to the Schedule, Summary of Significant Accounting Policies, and is not intended to be a complete presentation of financial position in conformity with generally accepted accounting principles.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the costs claimed in the Financial Status Report for the period July 1, 1994 to December 31, 1995, in conformity with the grant provisions.



This report is intended solely for the information and use of the Office of the Inspector General, Corporation management, and CHF. However, this report is a matter of public record and its distribution is not limited.

*Tichenor & Associates*

TICHENOR & ASSOCIATES

Woodbridge, Virginia

February 20, 1997

FINANCIAL SCHEDULES

The Children's Health Fund

Corporation for National Service Award Number 94ADNNY005

For the period July 1, 1994 to December 31, 1995

**Schedule of Award Costs**

The Children's Health Fund  
 Corporation for National Service Award Number 94ADNNY005  
 For the period July 1, 1994 to December 31, 1995

<b><u>Cost Category</u></b>	<b><u>Approved Budget</u></b>	<b><u>Claimed Costs<sup>3</sup></u></b>	<b><u>Questioned Costs</u></b>	<b><u>Exhibit B</u></b>
<b>Participant Support</b>				
Training and Education	\$ 16,000	\$ 1,570	\$ 746	1
Uniforms	750	350	200	1
<b>Staff Salaries and Benefits</b>				
Salaries	77,000	77,000	77,000	2
Benefits	18,000	18,000	18,000	2
Training	9,600			
<b>Operational</b>				
Travel	16,080	16,372		
Transportation	19,680	14,638		
Supplies	3,750	3,235	325	3
Equipment	11,200	8,256	1,436	3
Other		916		
<b>Internal Evaluation</b>	10,000	10,486		
<b>Administration</b>	17,552	17,552		
<b>Other Participant Support</b>				
Living Allowances	97,410	93,930	2,089	4
Benefits	9,178	8,841	2,613	4
Health Care	15,300	13,726	4,080	4
Excess Cost claimed			<u>2,308</u>	5
Subtotal	\$321,500	\$284,871	\$108,797	
Administrative Limitation			<u>8,748</u>	6
<b>Total Award Costs<sup>4</sup></b>	<b>\$321,500</b>	<b>\$284,871</b>	<b>\$117,545</b>	
<b>Matching Contribution</b>	<b><u>168,722</u></b>	<b><u>153,352</u></b>	<b><u>69,911</u></b>	7
<b>Total Project Costs</b>	<b><u>\$490,222</u></b>	<b><u>\$438,223</u></b>	<b><u>\$187,456</u></b>	

The accompanying notes and references of Exhibit B are an integral part of this schedule.

<sup>3</sup> The total representing Claimed Costs agrees with the expenditures reported on the Financial Status Report as of the expiration date of the grant, December 31, 1995. Claimed Costs reported above are taken directly from CHF's books of account through December 31, 1995.

<sup>4</sup> Total Award Costs does not include Child Care awards of \$52,500 for dependents of AmeriCorps Members that are paid directly to the child care providers through the National Association of Child Care Resource and Referral Agencies (NACCRRRA).

**Notes to the Schedule of Award Costs**

The Children's Health Fund.  
Corporation for National Service Award Number 94ADNNY005  
For the period July 1, 1994 to December 31, 1995

***Note 1 - Summary of Significant Accounting Policies.***Accounting Basis

The Schedule has been prepared from the reports submitted to the Corporation. The basis of accounting utilized in preparation of these reports differs from generally accepted accounting principles. The following information summarizes these differences:

## A. Equity.

Under the terms of the award, all funds not expended according to the award provisions and budget at the end of the award period are to be returned to the Corporation. Therefore, the grantee does not maintain any equity in the award and any excess of cash received over final expenditures is due back to the Corporation. CHF had spent all funds withdrawn from the Corporation grant at the conclusion of grant performance.

## B. Equipment.

Equipment is charged as an expense in the period during which it is purchased instead of being recognized as an asset and depreciated over its useful life. As a result, the expenses reflected in the Schedule include the cost of equipment purchased during the period rather than a provision for depreciation.

## C. Inventory

Minor amounts of materials and supplies are fully charged to expense in the period they are purchased. As a result, costs for these items are not amortized or charged to the subsequent periods when remaining inventories of these items may be used.

***Note 2 - Income Taxes.***

The Children's Health Fund is a non-profit corporation and is exempt from Federal income taxes.

**Schedule of Award Costs - Parent Organization**

The Children's Health Fund  
 Corporation for National Service Award Number 94ADNNY005  
 For the period July 1, 1994 to December 31, 1995

<b><u>Cost Category</u></b>	<b><u>Approved Budget</u></b>	<b><u>Claimed Costs</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Exhibit B</u></b>
<b>Participant Support</b>				
Training and Education	\$13,350			
Uniforms				
<b>Staff Salaries and Benefits</b>				
Salaries	77,000	\$77,000	\$77,000	2
Benefits	18,000	18,000	18,000	2
Training	9,600			
<b>Operational</b>				
Travel	16,080	16,372		
Transportation				
Supplies		122		
Equipment		624		
Other		916		
<b>Internal Evaluation</b>	10,000	10,486		
<b>Administration</b>	17,552	17,552		
<b>Other Participant Support</b>				
Living Allowances				
Benefits				
Health Care	_____	_____	_____	
Subtotal	\$161,582	\$141,072	\$95,000	
Administrative Limit			<u>8,748</u>	6
<b>Total Award Costs</b>	<b>\$161,582</b>	<b>\$141,072</b>	<b>\$103,748</b>	
<b>Matching Contribution</b>	<u>0</u>	<u>0</u>	<u>0</u>	
<b>Total Project Costs</b>	<b><u>\$161,582</u></b>	<b><u>\$141,072</u></b>	<b><u>\$103,748</u></b>	

The references in Exhibit B are an integral part of this schedule.

**Schedule of Subaward Costs**

Aaron E. Henry Community Health Services, Inc.  
Corporation for National Service Award Number 94ADNNY005  
For the period July 1, 1994 to December 31, 1995

<b><u>Cost Category</u></b>	<b><u>Approved Budget</u></b>	<b><u>Claimed Costs</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Exhibit B</u></b>
<b>Participant Support</b>				
Training and Education	\$ 1,200	\$ 824	\$ 565	1
Uniforms	200	200	200	1
<b>Staff Salaries and Benefits</b>				
Salaries				
Benefits				
Training				
<b>Operational</b>				
Travel				
Transportation	6,600	2,318		
Supplies	1,000	930	325	3
Equipment	3,200	3,381	1,436	3
Other				
<b>Internal Evaluation</b>				
<b>Administration</b>				
<b>Other Participant Support</b>				
Living Allowances	25,976	27,599		
Benefits	2,498	2,656	403	4
Health Care	<u>4,080</u>	<u>4,297</u>	<u>          </u>	
<b>Total Award Costs</b>	<b>\$44,754</b>	<b>\$42,204</b>	<b>\$ 2,929</b>	
<b>Matching Contribution</b>	<b><u>27,719</u></b>	<b><u>30,409</u></b>	<b><u>24,299</u></b>	7
<b>Total Project Costs</b>	<b><u>\$72,473</u></b>	<b><u>\$72,613</u></b>	<b><u>\$27,228</u></b>	

The references in Exhibit B are an integral part of this schedule.

**Schedule of Subaward Costs**

Valley Health Systems, Inc.  
 Corporation for National Service Award Number 94ADNNY005  
 For the period July 1, 1994 to December 31, 1995

<b><u>Cost Category</u></b>	<b><u>Approved Budget</u></b>	<b><u>Claimed Costs</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Exhibit B</u></b>
<b>Participant Support</b>				
Training and Education	\$ 400	\$ 196	\$ 181	1
Uniforms	200			
<b>Staff Salaries and Benefits</b>				
Salaries				
Benefits				
Training				
<b>Operational</b>				
Travel				
Transportation	10,080	10,080		
Supplies	1,000	782		
Equipment	3,200	450		
Other				
<b>Internal Evaluation</b>				
<b>Administration</b>				
<b>Other Participant Support</b>				
Living Allowances	25,976	24,823		
Benefits	2,687	2,687		
Health Care	4,080	3,139		
<b>Excess Cost Claimed</b>	_____	_____	<u>2,308</u>	5
<b>Total Award Costs</b>	<b>\$47,623</b>	<b>\$42,157</b>	<b>\$ 2,489</b>	
<b>Matching Contribution</b>	<b><u>35,088</u></b>	<b><u>38,951</u></b>	<b><u>33,356</u></b>	7
<b>Total Project Costs</b>	<b><u>\$82,711</u></b>	<b><u>\$81,108</u></b>	<b><u>\$35,845</u></b>	

The references in Exhibit B are an integral part of this schedule.

**Schedule of Subaward Costs**

University of Miami  
Corporation for National Service Award Number 94ADNNY005  
For the period July 1, 1994 to December 31, 1995

<b><u>Cost Category</u></b>	<b><u>Approved Budget</u></b>	<b><u>Claimed Costs</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Exhibit B</u></b>
<b>Participant Support</b>				
Training and Education	\$ 600	\$ 405		
Uniforms	200			
<b>Staff Salaries and Benefits</b>				
Salaries				
Benefits				
Training				
<b>Operational</b>				
Travel				
Transportation	1,440	1,440		
Supplies	1,000	652		
Equipment	3,200	3,200		
Other				
<b>Internal Evaluation</b>				
<b>Administration</b>				
<b>Other Participant Support</b>				
Living Allowances	25,976	25,976	\$ 2,089	4
Benefits	2,210	2,210	2,210	4
Health Care	<u>4,080</u>	<u>4,080</u>	<u>4,080</u>	4
<b>Total Award Costs</b>	<b>\$38,706</b>	<b>\$37,963</b>	<b>\$ 8,379</b>	
<b>Matching Contribution</b>	<b><u>41,759</u></b>	<b><u>48,321</u></b>	<b><u>12,256</u></b>	7
<b>Total Project Costs</b>	<b><u>\$80,465</u></b>	<b><u>\$86,284</u></b>	<b><u>\$20,635</u></b>	

The references in Exhibit B are an integral part of this schedule.



**Schedule of Subaward Costs**

Watts Health Foundation, Inc.  
 Corporation for National Service Award Number 94ADNNY005  
 For the period July 1, 1994 to December 31, 1995

<b><u>Cost Category</u></b>	<b><u>Approved Budget</u></b>	<b><u>Claimed Costs</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Exhibit B</u></b>
<b>Participant Support</b>				
Training and Education	\$ 450	\$ 145		
Uniforms	150	150		
<b>Staff Salaries and Benefits</b>				
Salaries				
Benefits				
Training				
<b>Operational</b>				
Travel				
Transportation	1,560	800		
Supplies	750	750		
Equipment	1,600	600		
Other				
<b>Internal Evaluation</b>				
<b>Administration</b>				
<b>Other Participant Support</b>				
Living Allowances	19,482	15,532		
Benefits	1,783	1,288		
Health Care	<u>3,060</u>	<u>2,210</u>		
<b>Total Award Costs</b>	<b>\$28,835</b>	<b>\$21,475</b>	<b>\$ 0</b>	
<b>Matching Contribution</b>	<b><u>36,606</u></b>	<b><u>35,671</u></b>	<b><u>0</u></b>	
<b>Total Project Costs</b>	<b><u>\$65,411</u></b>	<b><u>\$57,146</u></b>	<b><u>\$ 0</u></b>	

The references in Exhibit B are an integral part of this schedule.

**Schedule of Questioned Costs by Parent and Subgrantee**  
**The Children's Health Fund**  
 Corporation for National and Community Service Award Number 94ADNNY005  
 For the period July 1, 1994 to December 31, 1995

<u>Cost Category</u>	<u>Parent</u>	<u>Henry Clinic</u>	<u>Valley Health Systems</u>	<u>Univ. of Miami</u>	<u>Watts Health Foundation</u>	<u>Total Questioned Costs</u>
<b>Participant Support</b>						
Training and Education		\$ 565	\$ 181			\$ 746
Uniforms		200				200
<b>Staff Salaries and Benefits</b>						
Salaries	\$ 77,000					77,000
Benefits	18,000					18,000
Training						
<b>Operational</b>						
Travel						
Transportation						
Supplies		325				325
Equipment		1,436				1,436
Other						
<b>Internal Evaluation</b>						
<b>Administration</b>						
<b>Other Participant Support</b>						
Living Allowances				\$ 2,089		2,089
Benefits		403		2,210		2,613
Health Care				4,080		4,080
Excess Cost Claimed			2,308			2,308
Subtotal	\$ 95,000	\$ 2,929	\$ 2,489	\$ 8,379	\$ 0	\$108,797
Administrative Limit	8,748	0	0	0	0	8,748
<b>Total Award Costs</b>	<b>\$ 103,748</b>	<b>\$ 2,929</b>	<b>\$ 2,489</b>	<b>\$ 8,379</b>	<b>\$ 0</b>	<b>\$117,545</b>
<b>Matching Contribution</b>	<b>0</b>	<b>24,299</b>	<b>33,356</b>	<b>12,256</b>	<b>0</b>	<b>69,911</b>
<b>Total Project Costs</b>	<b>\$ 103,748</b>	<b>\$27,228</b>	<b>\$35,845</b>	<b>\$20,635</b>	<b>\$ 0</b>	<b>\$187,456</b>

## Explanation of Questioned Costs

The Children's Health Fund  
Corporation for National and Community Service Award Number 94ADNNY005  
For the period July 1, 1994 to December 31, 1995

### 1. Participant Support.

CHF claimed \$1,920 of costs of which \$1,570 were for training and education. We are questioning \$746 as follows:

- The Henry Clinic claimed \$565 for which no invoice or other supporting documentation was provided to show the expenditure was actually made. Corporation regulations (45 CFR 2541.200 (b) (6)) require claimed costs be supported by adequate source documentation.
- Valley Health Services, claimed \$181 which were the costs for a dinner provided to Members and staff in conjunction with a training retreat. Federal regulations (OMB Circular A-122, Attachment B, paragraph 12) generally prohibits Federal funds from being charged for entertainment costs such as meals.

CHF also claimed \$350 for uniform costs. We are questioning \$200 for uniforms claimed by the Henry Clinic. We found that Henry Clinic could not provide invoices or other evidence that the costs were expended for the benefit of the grant. Corporation regulations (45 CFR 2541.200 (b) (6)) require claimed costs be supported by adequate source documentation.

### 2. Staff Salaries and Benefits.

CHF claimed costs of \$77,000 for parent organization staff. This was the amount approved in the grant agreement for the positions of Program Director, Program Assistant, Medical Director, Epidemiologist and the MIS Director. We are questioning \$77,000 as unsupported by adequate source documentation. Federal regulations (OMB Circular A-122, Attachment B, paragraph 6, 1. (2)(a)) require that CHF base its claim for salaries and benefits costs on after the fact determinations of actual activity and not on estimates determined before the services are performed. We found that CHF did not maintain time sheets for these staff members. Instead, the allocation percentages proposed in the budget narrative were used as the basis to claim these costs.

CHF also claimed benefits of \$18,000, which we are questioning. These are the associated costs for fringe benefits for the staff salaries questioned above.

### **3. Operational Costs.**

CHF claimed \$43,417 for Operational costs for the AmeriCorps project. Included in that amount are costs of \$4,311 claimed by the Henry Clinic for supplies and equipment. We are questioning a total of \$1,761, which is the amount of \$325 claimed for supplies based on an allocated share of the approved budget instead of actual expenses and the amount of \$1,436 claimed for equipment unsupported by adequate source documentation.

### **4. Other Participant Support.**

CHF claimed \$116,497 for Members living allowances, benefits and health care costs. We are questioning \$8,782 of these costs as follows:

The Henry Clinic claimed \$403 of costs for Member fringe benefits. We found that the Members had already ended their terms of service and had subsequently been employed by Henry Clinic. The accounting for their fringe benefits had not been adjusted for the change in status and were charged to the grant. We are questioning \$403 as unallocable to the grant. OMB Circular A-122, Attachment A, paragraph 4.a, restricts costs claimed under Federal grants to those that are either incurred specifically for the award or otherwise benefit the award in a reasonably determinable manner. The Henry Clinic incurred these costs for its own staff and not for the benefit of the AmeriCorps project.

The University of Miami claimed costs for Members' living allowances, benefits and health care, which were not supported by adequate source documentation. Corporation regulations (45 CFR 2543.21 (b)(7)) require costs claimed be supported by adequate source documentation. We are questioning \$8,379 of these costs as follows:

- We found that the AmeriCorps grant funds were not segregated from other CHF funds provided for the project. However, University of Miami officials identified the account which was used to record Member payments. Our analysis showed that only \$23,887 of \$25,976 claimed by CHF was recorded in the ledger. As a result we are questioning the difference of \$2,089 of living allowances as unsupported by source documentation.
- We also found that costs for Members' benefits and health care costs were not recorded in the University of Miami's ledger. However, CHF's records supporting the amounts claimed in the FSR allocated \$2,210 for benefits and \$4,080 for health care. We are questioning these amounts totaling \$6,290 as unsupported by source documentation.

### **5. Excess Costs Claimed.**

For Valley Health Systems, Inc., we found that the grant ledger total amount was less than the amount claimed on the final Financial Status Report. We are questioning excess costs claimed of \$2,308, which is the amount of the difference, as follows:

- We found that Valley Health Systems, Inc.'s records indicate \$46,494 was incurred for the AmeriCorps project. However, CHF claimed \$47,570 in the final FSR for this subgrantee. Corporation regulations (45 CFR 2543.21 (b)(7)) require costs claimed to be supported by adequate source documentation. We are questioning \$1,075 as costs unsupported in the grant ledger.
- Valley Health Systems, Inc., claimed costs expended after the end of the funding period, December 31, 1995. Corporation regulations (45 CFR 2543.28) require that costs be claimed only for costs incurred during the funding period. We found that Valley Health Systems, Inc., recorded costs incurred of \$45,261 as of December 31, 1995. However, \$1,233 of additional costs were incurred in January and February, 1996, for one member to complete the term of service. These costs were reimbursed by CHF and also were included in the final Financial Status Report. We are questioning \$1,233 as costs incurred outside of the grant period.

#### 6. Administrative Limitation.

We determined that of the \$284,871 of total expenditures reported at December 31, 1995, CHF claimed \$17,552 or 6.2 percent as administrative costs. CNS regulations (45 CFR 2540.110) limit reimbursement of administrative costs to no more than five percent of the Federal share of incurred costs in any one year. As a result of reducing the Federal share for questioned costs, we found that CHF actually claimed 10 percent of allowable incurred cost as administrative cost. We are questioning \$8,748 of excess administrative costs as follows:

<b>Administrative Cost Limitation December 31, 1995</b>	
Total Assistance Provided	\$284,871
Less: Questioned Costs	<u>108,797</u>
Adjusted Base	<u>\$176,074</u>
Maximum Allowable Administrative Costs (5 percent of base)	\$ 8,804
Recorded Administrative Costs	<u>17,552</u>
Questioned Costs (Excess of Claimed Costs Over Allowable Administrative Costs)	<u>\$ 8,748</u>

## 7. Matching Costs.

CHF claimed matching costs of \$153,352. Of this amount, \$20,861 consisted of cash contributions specifically identified for Members' living allowances. The remaining \$132,491 consisted mainly of in-kind contributions in the form of staff salaries and benefits of the subgrantees. Corporation regulations (45 CFR 2343.23 (a)(1)) require that matching costs be verifiable from accounting records. We are questioning \$69,911 of these matching costs as follows:

- The Henry Clinic claimed matching costs of \$24,299 and Valley Health Systems, Inc. claimed matching costs of \$33,356, both consisting of in-kind contributions of costs for staff salaries and benefits. However, neither subgrantee had time sheets or other distribution of activity showing that the costs were expended for the benefit of the grant. Further, the Henry Clinic's grant ledger recorded only the reimbursable Federal share of costs. Additionally, Valley Health Systems, Inc., allocated to the grant a fixed amount of two percent of the administrative staff's salaries each month which had no logical basis. As a result, the claimed matching costs were not adequately supported by the subgrantee's accounting records. We are questioning \$57,655 of matching costs for these subgrantees as unsupported by accounting records.
- We found that the University of Miami had not segregated the AmeriCorps grant funds from the funds provided by the Children's Health Fund. As a result, the University of Miami was not able to support the amounts allocated to the categories of the FSR, which included \$48,321 of matching costs. Our analysis of the University of Miami's grant ledger showed that the account identified by subgrantee officials as the costs of Member living allowances was less than the amount claimed as the Corporation's share. As a result, no recorded costs were identified that would be the matching contribution for Members' costs. We are questioning \$12,256 of matching costs as unsupported by the subgrantee's accounting records.

# TICHENOR & ASSOCIATES

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Inspector General  
Corporation for National Service

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

We have performed an audit of the funds awarded under the National and Community Service Act of 1990, as amended, by the Corporation for National Service (the Corporation) to the Children's Health Fund (CHF). The funds were awarded under grant award number 94ADNNY005 in the amount of \$374,000 for the period July 1, 1994 through December 31, 1995.

Our audit was performed on the amounts claimed and disclosures contained in the final Financial Status Report (FSR) submitted by CHF to the Corporation dated October 18, 1996. The FSR, as presented in Exhibit A, Schedule of Award Costs (Schedule), is the responsibility of CHF's management. Our responsibility is to express an opinion on the Schedule based on our audit.

We performed our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement.

Compliance with laws, regulations, and the provisions of the award is the responsibility of CHF's management. As a part of obtaining reasonable assurance about whether the Schedule is free of material misstatement, we performed tests of CHF's compliance with certain provisions of laws, regulations and the terms and conditions of the award. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of non-compliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, and the provisions of the award that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Schedule. The results of our tests of compliance disclosed the following *material instances* of non-compliance:

1. Personnel activity reports (time sheets) were not prepared by staff to identify charges allocable to the grant for salaries and benefits. Federal regulations (OMB Circular A-122, Attachment B, paragraph 6. 1. (2)(a)) require that salaries and wages be supported by after-

the-fact determinations of actual activity. We found that CHF did not require the staff working on the grant to prepare allocations of labor hours among the different activities of the organization. We also found that the subgrantees did not require allocations of labor hours of their staff. As a result, we were unable to determine if costs for CHF staff salaries and benefits claimed were allocable to the grant in the proportion reported. Also, the subgrantee's in-kind matching costs consisted of staff salaries that were not adequately documented.

2. Costs for grant expenditures were recorded as a percent of approved budget amounts and not based on actual expenses. Federal regulations (OMB Circular A-122, Attachment A, paragraph 4.a) require costs claimed for grant expenditures be either incurred specifically for the award, or benefit the award in a reasonably determinable manner. We found that CHF's record of grant expenditures for staff salaries and benefits were based on allocations of the approved budget and not on the amounts expended for the grant. Further, the subgrantees claimed costs for reimbursement from CHF based on allocations of the approved budget. These requests for reimbursement formed the basis of CHF's reported amounts in the Financial Status Reports.
3. Subgrantee accounting records did not segregate Federal funds from funds of other sources. Corporation regulations (45 CFR 2543.21 (b)(2)) require recipients to identify adequately the source and application of Corporation funds. We found that the University of Miami official responsible for grant accounting was unaware that Corporation funds were involved in the CHF grant. As a result, the AmeriCorps project was recorded totally as a CHF project without differentiating between the Corporation and CHF funds.
4. Subgrantee matching costs claimed were not verifiable from accounting records. Corporation regulations (45 CFR 2543.23 (a)(1)) require that recipients of Federal funds maintain adequate accounting records to verify that matching costs were incurred specifically for the grant. We found that neither of the subgrantees we visited, the Henry Clinic or Valley Health Systems, Inc., maintained adequate accounting records of the matching costs of staff salaries and benefits allocable to the grant. Instead, an estimated amount of total staff salaries and benefits incurred was identified and reported to CHF, who then reported it to the Corporation. As a result, the final Financial Status Report overstated the amount of in-kind contributions that were supported by accounting records.
5. No written procedures were prepared to identify unallowable or unallocable costs prior to claim for reimbursement. The Corporation's regulations (45 CFR 2543.21 (b)(6)) require written procedures to identify unallowable costs and remove them from claims for funds (i.e. FSR's) from the Corporation. We found that neither CHF nor its subgrantees had written procedures for this purpose. As a result, unallowable costs were claimed under the grant.

As a result of our testing of CHF's compliance with statutes, regulations or grant provisions, we noted the following *immaterial instance* of non-compliance:

The final FSR was submitted ten months after the funding period ended and seven months after the report was due. The Corporation's regulations (45 CFR 2543.51 (b)) establish the due date



for the final FSR as ninety calendar days after the end of the funding period. We found that CHF submitted the final FSR on October 18, 1996. The final report was due March 30, 1996.

## RECOMMENDATIONS

We recommend that the Corporation require CHF to:

- Reimburse the questioned costs identified in the financial schedules of our report.
- Establish policies and procedures to prevent instances of non-compliance described above before future awards are made. Specifically, CHF should make provisions to allocate labor hours to grant programs and other activities. Also, CHF should record all costs, including matching costs, to the record of grant expenditures in the amount expended and not the approved budget amount.

This report is intended solely for the information and use of the Office of the Inspector General, Corporation management, and CHF. However, this report is a matter of public record and its distribution is not limited.

*Tichenor & Associates*  
TICHENOR & ASSOCIATES  
Woodbridge, Virginia  
February 20, 1997

# TICHENOR & ASSOCIATES

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Inspector General  
Corporation for National Service

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

We have performed an audit of the funds awarded under the National and Community Service Act of 1990, as amended, by the Corporation for National Service (Corporation) to the Children's Health Fund (CHF). The funds were awarded under grant award number 94ADNNY005 in the amount of \$374,000 for the period July 1, 1994 through December 31, 1995.

Our audit was performed on the amounts claimed and disclosures contained in the final Financial Status Report (FSR) submitted by CHF to the Corporation dated October 18, 1996. The FSR, as presented in Exhibit A, Schedule of Award Costs (Schedule), is the responsibility of CHF's management. Our responsibility is to express an opinion on the Schedule based on our audit.

We performed our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement.

In planning and performing our audit of the Schedule, we considered CHF's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule and not to provide assurance on the internal control structure.

The management of CHF is responsible for establishing and maintaining an internal control structure. In fulfilling their responsibility, estimates and judgments by management are required to assess the expected benefits and related costs on internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors and irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the

risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of the policies and procedures may deteriorate.

For our report, we classified the significant internal control structure policies and procedures in the following categories:

- General Ledger
- Cash Disbursements
- Cash Receipts
- Payroll/ time keeping
- Billings

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we have assessed control risk.

*Reportable conditions* involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management.

A *material weakness* is a reportable condition in which the design or operation of the specific internal control structure elements do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted the following matters involving the internal control structure and its operations that we consider to be reportable conditions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not disclose all reportable conditions that were also considered to be material weaknesses as defined above. We believe the reportable conditions described below are material weaknesses.

- Records of Member service hours completed were not retained. The Corporation's regulations (45 CFR 2543.53 (b)) require that subgrantees for AmeriCorps programs retain supporting documentation for financial and statistical reports for three years. The Member supervisor at the Henry Clinic did not retain the record of Member service hours completed. As a result, CHF can not produce documentation to support that Members who served at the Henry Clinic were entitled to educational benefits.
- Costs were claimed that had been incurred after the end of the funding period. The Corporation's regulations (45 CFR 2543.28) require that subgrantees claim only those grant costs that were incurred during the funding period. We found that Valley Health Systems, Inc., claimed costs incurred for Other Participant Support and Operational costs in January and February 1996. The end of the funding period was December 31, 1995. CHF included these costs in the claim without considering that they were unallocable by Federal regulation.

RECOMMENDATIONS

We recommend that the Corporation require CHF improve internal controls prior to the award of any future grant as follows:

- Develop and implement a procedure for the recording and summarization of Member's service hours that creates an audit trail to support amounts reported in quarterly progress reports.
- Establish internal procedures to determine whether costs claimed for the final expenditure report include expenses incurred after the end of the funding period.

This report is intended solely for the information and use of the Office of the Inspector General, Corporation management, and CHF. However, this report is a matter of public record and its distribution is not limited.

*Tichenor & Associates*

TICHENOR & ASSOCIATES  
Woodbridge, Virginia  
February 20, 1997

## **Appendix I**

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**Response of the Children's Health Fund, Inc.  
December 16, 1997**

**Board of Directors**

Irwin Redlener, MD  
*Co-Founder, President*  
 Paul Simon  
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 Fred Francis  
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 Marvin S. Rosen  
 Ray Schulte

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 U.S. Rep. Sherwood L. Boehlert  
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 Jill Barad  
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 John Parkey  
 Steven Prochett  
 Oscar Quest James  
 Tom Trautman



THE Children's  
 Health FUND  
*Caring for kids since 1987*

December 16, 1997

Jonathan D. Crowder  
 Tichenor & Associates  
 12531 Clipper Drive, Suite 202  
 Woodbridge, Virginia 22192

Re: 11/18/97 Draft Audit Report for Corporation for National Service (CNS)  
 Award Number 94ADNNY005 to The Children's Health Fund

Dear Mr. Crowder:

In response to your compliance findings regarding the parent organization:

- While personal activity reports (time sheets) were not prepared by staff, we would be able to prepare after-the-fact determinations of actual activity using schedule information which we have on file. We do agree that for any future grants, we would develop and implement a procedure to allocate staff time to grant programs and other activities.

- The finding concerning grant costs as a percentage of the approved budget amount rather than on actual expenses is, in our case, related to the personnel time issue in the above paragraph.

Your recommendation that we reimburse the questioned costs totalling \$117,545 is something we do not and cannot agree with. The major portion of these costs are represented by the personnel expense issue. \$13,797 of the total is represented by various findings at three sub-grantees.

We have struggled from the beginning to make sense of some of the extraordinarily difficult to understand financial requirements of this grant. As we have explained repeatedly, and as the auditors well know, the original fiscal requirements were, at best, exceedingly cumbersome and, in some instances, virtually incomprehensible. Not only was this opinion shared by the auditors from Tichenor, I can tell you that it is also shared by our own CHF auditors and many other grant recipients.

We had to obtain assistance from our auditors to properly set up our accounting system to track the various financial aspects of the grant in such a way as to cull the information needed to complete form 269A. After setting up our system, we

Jonathan D. Crowder  
December 16, 1997  
Page Two



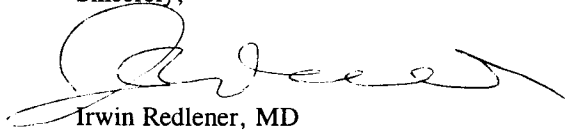
then advised the sub-grantees as to what we would expect from them in terms of information and format. After filing the 1st quarter report, we were sent a revised reporting form to replace the original. This new form made the work we had done almost completely useless. We also had to re-do the first quarter reports in order to re-calculate cumulative numbers.

That alone was enough to confuse the administrative staff at our sites, whose strength is program delivery. These sites are small-budget, highly intensive primary care programs for medically disadvantaged children. The burdens associated with the grant, followed by this audit, were great. I consider asking them for reimbursement of the questioned costs unacceptable, considering what they have already been through.

The Children's Health Fund has spent more man hours and dollars on attempts to comply with highly confusing requirements than what would be considered acceptable by any reasonable person. We had already undergone and filed an A-133 audit for this grant. We were originally contacted in September, 1996, with respect to this audit. Over the course of these many months, my organization, with one fiscal officer, has been cooperating with every inquiry for information, feedback and explanation demanded of us.

We successfully completed the programmatic goals of this grant. For this reason, along with the above comments, we respectfully request that no funds should be returned.

Sincerely,



Irwin Redlener, MD  
President

IR: kms