MEMORANDUM FOR: RAYMOND L. BRAMUCCI
Assistant Secretary for
Employment and Training

FROM: JOHN J. GETEK
Assistant Inspector General
for Audit

SUBJECT: Audit of The Children's Village
Final Report No. 02-00-201-03-340

The attached subject final report is submitted for your resolution action. We request a response to this report within 60 days.

You are responsible for transmitting a copy of this report to The Children's Village officials for resolution. However, we are providing a courtesy copy directly to Ms. Dale, President and CEO, The Children's Village.

If you have any questions concerning this report, please contact Richard H. Brooks, Regional Inspector General for Audit, at (212) 337-2566.

Attachment

AUDIT OF
THE CHILDREN'S VILLAGE

GRANT NO. F-4790-4-00-80-60
OCTOBER 1, 1994 THROUGH DECEMBER 31, 1998

U.S. DEPARTMENT OF LABOR
OFFICE OF INSPECTOR GENERAL

REPORT NO: 02-00-201-03-340
DATE: November 15, 1999

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ACRONYMS

CFR	Code of Federal Regulations
CV	The Children's Village
DOL	U. S. Department of Labor
ETA	Employment and Training Administration
FSR	Financial Status Report
FY	Fiscal Year
JTPA	Job Training Partnership Act
OCD	Office of Cost Determination
OIG	Office of Inspector General
OMB	Office of Management and Budget
PRY	Project Reach Youth, Inc.
PY	Program Year
WAY	Work Appreciation for Youth

EXECUTIVE SUMMARY

The U.S. Department of Labor (DOL), Office of Inspector General (OIG), performed a financial and compliance audit of outlays reported by The Children's Village (CV) under DOL Grant Number F-4790-4-00-80-60 for the period October 1, 1994 to December 31, 1998. The audit objective was to determine whether reported outlays were allowable and within terms and conditions of the grant award and program regulations.

CV is a not-for-profit organization incorporated in 1851 by an act of the New York State Legislature. CV maintains an institution for the treatment and education of emotionally disturbed children and operates small group facilities and foster homes for their care.

The Employment and Training Administration (ETA) awarded CV a grant of $1,407,920 for the period October 1, 1994 to December 31, 1998, under Title IV-D of the Job Training Partnership Act (JTPA). The purpose of the grant was to replicate CV's Work Appreciation for Youth (WAY) Scholarship program at multiple sites. The grant targeted 14-16 year old youths who were economically disadvantaged and who were not enrolled in or attending an educational program. This grant represents a small fraction of CV's total annual funding of approximately $25 million.

In our opinion, except for questioned costs, the Financial Status Reports (FSR) present fairly the results of CV's operations in accordance with applicable laws and regulations for the grant period. For the audit period, CV reported outlays of $1,769,502 of which we question $101,174 or 5.7 percent.

- We question $54,237 in excess reported outlays. While reported outlays on the FSRs for Program Years (PYs) 1994, 1995 and 1996 agreed with recorded costs, the outlays reported on the FSR for PY 1997 exceeded recorded costs by $54,237.

- We question $22,103 of fringe benefits. Reported fringe benefits were based on a budgeted rate of 25 percent of personnel costs. However, actual fringe benefits incurred by CV and Project Reach Youth (PRY), its subgrantee, were lower than what was reported.

- We question $24,834 of unsupported subgrantee costs. PRY could not fully support project coordinator and facilitation fees.

- CV did not obtain an approved indirect cost rate from the Office of Cost Determination (OCD). Although reported indirect costs were proportional to DOL's share of total activity, to close out the grant CV is required to obtain approved indirect cost rates to comply with Office of Management and Budget (OMB) Circular A-122 and grant requirements.

Recommendation

We recommend that the Assistant Secretary for Employment and Training recover $80,938, representing the Federal share of $101,174 in questioned costs, and ensure that CV complies with grant and OMB Circular A-122 requirements by obtaining final indirect cost rates.

CV Response

The Vice President of Administration and Finance of CV responded to our draft report on October 6, 1999. CV agreed with three of the four findings but disagreed with questioned costs of $24,834 related to unsupported subgrantee costs. However, questioned costs remain unchanged since CV did not provide any additional documentation to support subgrantee costs. CV also indicated that it has submitted final indirect cost proposals to the Office of Cost Determination (OCD).

CV's response to the draft report has been incorporated in the report with our comments. It is also included in its entirety as an Appendix.

INTRODUCTION

BACKGROUND

CV was incorporated as a not-for-profit organization in 1851 by an act of the New York State Legislature. CV maintains an institution for the treatment and education of emotionally disturbed children and operates small group facilities and foster homes for their care. CV is primarily supported by governmental agencies through cost reimbursement arrangements, with the major portion of its support provided by the State and City of New York. In Fiscal Year (FY) 1998, CV's total revenues were $26.7 million.

In 1994, ETA awarded CV Grant No. F-4790-4-00-80-60, seeking a pilot model that was more comprehensive and intensive than training services typically provided under JTPA Tile II-C, Youth Training Programs. The grant replicated CV's WAY Scholarship program at multiple sites and was funded under the JTPA, Title IV-D, National Activities, in the amount of $1,407,920, as follows:

	Amount	Period
Initial Year	$ 476,644	October 1, 1994 to September 30, 1995
Option Year 1	$ 445,176	October 1, 1995 to September 30, 1996
Option Year 2	$ 486,100	October 1, 1996 to December 31, 1998[1]
Total	$1,407,920	

The grant targeted 14 through 16 year old youths who were not enrolled in or attending an educational program and had a fourth grade reading level. The key components of the program were counseling, work ethics education gained through work experience, special matched savings, and financial support for tutoring. The grant included an evaluation component which required the grantee to evaluate implementation and outcomes of the program. The grant required a 20 percent matching contribution by CV.

AUDIT OBJECTIVES

The objective of the audit was to determine whether outlays reported by CV under the grant were allowable and within terms and conditions of the grant award and program regulations.

[1] The second option year was extended to August 30, 1998, without additional funding. The grant was further extended to December 31, 1998, to complete the final report.

AUDIT SCOPE AND METHODOLOGY

We audited outlays of $1,769,502 reported under Grant Number F-4790-4-00-80-60 for the period October 1, 1994 to December 31, 1998. We examined FSRs, the general ledger and supporting documentation. We tested transactions on a judgmental basis, and examined supporting documents such as canceled checks, vouchers, and invoices.

We obtained an understanding of the internal controls through inquiries with appropriate personnel and inspection of relevant documentation. The nature and extent of our testing were based on the risk assessment.

The audit was performed using the criteria we considered relevant. The criteria included those established by the Federal Government in OMB Circular A-122, "Cost Principles for Non-Profit Organizations," and 29 CFR Part 95, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations."

Our audit was performed in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted fieldwork from May 3, 1999 to June 2, 1999. We held an exit conference with CV officials on June 2, 1999.

Mr. Raymond L. Bramucci
Assistant Secretary for Employment and Training
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C.

ASSISTANT INSPECTOR GENERAL'S REPORT

We audited the *Financial Status Reports* (SCHEDULE A) for the period October 1, 1994 through December 31, 1998, under DOL grant number F-4790-4-00-80-60. The outlays reported are the responsibility of CV management. Our responsibility is to express an opinion on the reported expenses based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether reported outlays are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the reported outlays. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the reported outlays. We believe our audit provides a reasonable basis for our opinion.

The *Financial Status Reports* were prepared in conformity with accounting practices prescribed by 29 *Code of Federal Regulations* Part 95, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," which is a comprehensive basis of accounting other than generally accepted accounting principles. Allowable costs are established by the OMB Circular A-122.

Opinion on Financial Statements

As discussed in the Findings and Recommendations section, excess reported outlays, excess fringe benefits, and unsupported subgrantee costs resulted in questioned costs of $101,174 (SCHEDULE C). ETA is responsible for resolving the questioned costs. The total effect of ETA's determination cannot be estimated at this time.

In our opinion, except for the matters described in the preceding paragraph, The *Financial Status Reports* present fairly, in all material respects, the results of CV's operations in accordance with applicable laws and regulations for the grant ending December 31, 1998.

Report on Internal Control

In planning and performing our audit of outlays reported by CV for PYs 1994, 1995, 1996 and 1997, we considered CV's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on reported outlays and not to provide assurances on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements 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 no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Report on Compliance with Laws and Regulations

Compliance with laws, regulations, and grant agreement provisions is the responsibility of CV. As part of obtaining reasonable assurance about whether reported outlays are free of material misstatement, we performed tests of CV's compliance with certain provisions of laws, regulations, and the grant agreement. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the Findings and Recommendations section of the report. CV did not obtain an approved indirect cost rate as required by OMB Circular A-122. (See Finding No.4.)

This report is intended for the information of CV and ETA and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which when issued, is a matter of public record.

John J. Getek
Assistant Inspector General
for Audit

June 2, 1999

FINDINGS AND RECOMMENDATIONS

1. PY 1997 FSR EXCEEDED RECORDED OUTLAYS

Outlays reported on the FSR submitted to DOL for PY 1997 exceeded costs recorded in the general ledger. We question $54,237 in excess reported outlays. We could not determine the cause of overreporting since the official responsible for preparing the FSR is no longer with CV. 29 CFR 95.21(b) requires that:

> *"Recipients' financial management systems shall provide for the following: (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in Sec. 95.52 . . . (7) Accounting records including cost accounting records that are supported by source documentation."*

We examined FSRs for PYs 1994 through 1997. As shown below, FSRs for PYs 1994, 1995 and 1996 agreed with recorded expenditures, while the FSR for PY 1997 exceeded recorded expenditures by $54,237.

PY	Outlays Reported On FSRs[2]	Costs Recorded on General Ledger	Difference
94	$369,894	$369,894	0
95	498,401	498,401	0
96	513,359	513,359	0
97	387,848	333,611	$(54,237)
Total	$1,769,502	$1,715,265	$(54,237)

[2] The grant required a 20 percent matching contribution. Amounts shown represent total reported outlays. The Federal share of reported and recorded outlays for all 4 years was $1,415,602 and $1,372,212, respectively.

Recommendation

We recommend that the Assistant Secretary for Employment and Training recover $43,389[3], representing the Federal share of questioned costs of $54,237.

CV Response

> *"I agree with the findings as presented that indicates our billings on the FSR for 94, 95 and 96 were proper and in compliance with the intent of the contract. However, the FSR billed amount for 1997 reflected a budgetary amount as opposed to an actual. Therefore this finding is accurate."*

[3] Questioned costs of $54,237 include the Federal share of $43,389 and the grantee's matching contribution of $10,848. Actual recovery may be less because the total funds drawn were less than reported outlays. CV reported outlays of $1,415,602 while funds drawn were $1,407,920, the amount of the grant award.

2. REPORTED FRINGE BENEFITS EXCEEDED ACTUAL EXPENDITURES

Fringe benefits were based on a budgeted rate of 25 percent of personnel costs. However, actual fringe benefits incurred by CV and PRY, its subgrantee, during the grant period were lower. We question $22,103 of fringe benefits in excess of actual expenditures. OMB Circular A-122, Attachment B, Paragraph 7 states:

> "*Compensation for personal services includes all compensation paid currently or accrued by the organization for services of employees rendered during the period of the award. . . . It includes, but is not limited to, salaries, wages, director's and executive committee member's fees, incentive awards, fringe benefits, pension plan costs, allowances for off-site pay, incentive pay, location allowances, hardship pay, and costs of living differentials*."

CV reported fringe benefits using a budgeted rate of 25 percent of personnel costs. Actual fringe benefits incurred by CV were lower than what was reported. During FYs 1995 to 1999, actual fringe benefit rates ranged from 19.38 percent to 23.96 percent. As a result, reported fringe benefits exceeded actual outlays by $10,996.

Fiscal Year	Actual Personnel Costs Incurred	Actual Fringe Benefit Percent	Actual Fringe Benefits
1995	$55,195	23.96	$13,225
1996	83,032	22.07	18,325
1997	71,702	20.86	14,957
1998	71,965	19.38	13,947
1999	17,360	19.38[4]	3,364
Total	$299,254		$63,818
Reported Fringe Benefits @ 25 percent			$74,814
Excess Reported Fringe Benefits			$10,996

Additionally, CV reimbursed fringe benefits to subgrantees based on the same budgeted rate of 25

[4] The actual fringe benefit rate for FY 1999 was not available. We used the FY 1998 rate to estimate fringe benefits for FY 1999.

percent. At PRY, fringe benefits incurred for FY 1998 were 17.65 percent of salaries. According to an official at PRY, fringe benefit rates for other fiscal years were similar. As a result, reported fringe benefits for PRY exceeded actual fringe benefits by $11,107.

Reported Subgrantee Fringe Benefits	$45,074
Actual Fringe Benefits ($192,445 @ 17.65 percent)	33,967
Excess Reported Fringe Benefits	$ 11,107

CV's financial assistant stated that the rate of 25 percent was used because it had been approved in the grant budget.

Recommendation

We recommend that the Assistant Secretary for Employment and Training recover $17,682[5], representing the Federal share of excess fringe benefits of $22,103.

CV Response

> *"I agree with finding #2 since the fringe benefit amount billed under this grant reflected budgeted fringe percentages as opposed to actual calculated fringe percentages. This treatment would only be acceptable under a fixed price contract."*

[5] Questioned costs of $22,103 include the Federal share of $17,682 and the grantee's matching contribution of $4,421.

3. UNSUPPORTED SUBGRANTEE COSTS

PRY could not support $24,834 out of $48,634 in project coordinator and facilitation fees reimbursed by CV. PRY did not maintain time distribution reports and a method to allocate administrative expenses. We question costs of $24,834. 29 CFR 95.21 (b) (7) requires that:

> *"Recipients' financial management systems shall provide for the following . . . Accounting records including cost accounting records that are supported by source documentation."*

In 1998, CV reimbursed PRY $48,634 for project coordinator and facilitation fees covering the 11-month period from October 1, 1997 to August 31, 1998. According to the facilitator at PRY, invoices were for (1) salary and fringe benefits of the facilitator who also acted as a project coordinator, and (2) administrative expenses. However, PRY could only support $23,800 of the facilitator's wages and fringes, and there was no documentation to support administrative expenses.

Salary and Fringe Benefits of the Facilitator

The facilitator received an annual salary of $44,800 to perform various duties which benefitted the CV subgrant as well as other PRY programs. The facilitator did not prepare time distribution reports but estimated that she spent 30 percent of her time on the CV subgrant between October 1997 and February 1998, and 60 percent of her time between March 1998 and August 1998. Based on the above, we calculated that $23,800 of the facilitator's wages and fringe benefits was allocable to the CV subgrant.

Administrative Expenses

According to the facilitator, invoices included 10 percent of salaries and fringe benefits for the executive director, director of counseling, bookkeeper, and a secretary as administrative expenses. However, there was no documentation to support administrative expenses. The invoices did not indicate that goods or services were for administrative expenses, and there was no documentation to support an arbitrary allocation of 10 percent. Additionally, expenses for the CV subgrant were only 4.1 percent of PRY's total expenses for FY 1998, substantially less than the purported 10 percent. An administrative allocation of 10 percent is relatively high using expenses as a measure of activity.

We calculated allowable salary and fringe benefits of $23,800 for the facilitator, and questioned costs $24,834 as shown below:

Reimbursed Project Coordinator and Facilitation Fees	$48,634
Supported Salary and Fringe Benefits:	
October 1997 to February 1998	$ 5,600[6]
March 1998 to August 1998	13,440[7]
Fringe Benefits @ 25 percent[8]	4,760
Total Supported Fees	23,800
Questioned Costs	$24,834

Recommendation

We recommend that the Assistant Secretary for Employment and Training recover $19,867[9] representing the Federal share of questioned costs of $24,834.

CV Response

> *"I strongly object to the intent, severity and presentation of this finding. Invoices paid to the sub-contractor upon presentation with reasonable assurance that they represented accurate billed dollars should not be questioned, in my opinion. Conversations held with the subcontractor long after the effort had ceased had been taken by the Dept. Of Labor audit team as sufficient reason to question the effort expended. By the same token, in those conversations held with the sub-contractor, the audit team has elected to ignore subcontractor's portrayal of additional administrative costs and expenses that also should have been included in these billings. To this end I object to this finding and object to the request for reimbursement."*

[6] Represents an annual salary of $44,800 for 5 out of 12 months at 30 percent.

[7] Represents an annual salary of $44,800 for 6 out of 12 months at 60 percent.

[8] Actual fringe benefit rate for PRY was 17.65 percent. However, 25 percent used by CV to claim fringe benefits is used in this calculation since the difference between 25 percent and 17.65 percent is already included in Finding 2.

[9] Questioned costs of $24,834 include the Federal share of $19,867 and the grantee's matching contribution of $4,967.

OIG Comment

We do not agree. CV is responsible for ensuring that costs submitted for reimbursement, including those of subgrantees, are adequately supported. Additionally, in the absence of time distribution reports, time estimates of the PRY facilitator were the only available basis in which the facilitator's salary could be allocated to the CV subgrant. Finally, PRY and CV did not provide documentation either during the fieldwork or in its response to the draft report to support an arbitrary rate of 10 percent for administrative expenses.

4. CV DID NOT OBTAIN AN APPROVED INDIRECT COST RATE

CV did not obtain an approved indirect cost rate from OCD. Indirect costs reported were proportional to the DOL grant's share of total activity. However, CV is required to obtain approved indirect cost rates to comply with OMB Circular A-122 and to close out the grant. OMB Circular No. A-122, Attachment A, Section E.2 (b) and (c) requires:

> *"A non-profit organization which has not previously established an indirect cost rate with a Federal agency shall submit its initial indirect cost proposal immediately after the organization is advised that an award will be made and, in no event, later than three months after the effective date of award. Organizations that have previously established indirect cost rates must submit a new indirect cost proposal to the cognizant agency within six months after the close of each fiscal year."*

Indirect cost proposals were not submitted to OCD as of the end of our fieldwork. Because indirect costs were proportional to DOL grant's share of total activity, we did not question any indirect costs. CV, however, needs to submit indirect cost proposals to comply with OMB Circular A-122 and establish final rates to close out the grant. Submitted proposals are subject to review or audit and costs may be questioned at that time.

Recommendation

We recommend that the Assistant Secretary for Employment and Training ensure that CV complies with grant and OMB Circular A-122 requirements by obtaining final indirect cost rates.

CV Response

> *"As indicated previously in this letter, we are in the process of obtaining an approved indirect cost rate. Once this rate is obtained we will be in a position to respond to your finding."*

SCHEDULE A

THE CHILDREN'S VILLAGE
GRANTEE'S FINANCIAL STATUS REPORT
GRANT NUMBER F-4790-4-00-80-60
OCTOBER 1, 1994 THROUGH DECEMBER 31, 1998

Program Year	Net Outlays	Recipient's Share of Net Outlays	Federal Share of Net Outlays
1994	$369,894	$73,979	$295,915
1995	498,401	99,680	398,721
1996	513,359	102,671	410,687
1997	387,848	77,570	310,279
Total	$1,769,502	$353,900	$1,415,602

SCHEDULE B

THE CHILDREN'S VILLAGE
SCHEDULE OF REPORTED OUTLAYS, QUESTIONED AND ACCEPTED
GRANT NUMBER F-4790-4-00-80-60
OCTOBER 1, 1994 THROUGH DECEMBER 31, 1998

Reported Outlays	Questioned Costs	Accepted Costs
$1,769,502	$ 101,174	$1,668,328

SCHEDULE C

THE CHILDREN'S VILLAGE
SCHEDULE OF QUESTIONED COSTS
GRANT NUMBER F-4790-4-00-80-60
OCTOBER 1, 1994 THROUGH DECEMBER 31, 1998

Findings		Questioned Costs	Federal Share of Questioned Costs
1.	PY 1997 FSR Exceeded Recorded Outlays	$54,237	$43,389
2.	Reported Fringe Benefits Exceeded Actual Expenditures	22,103	17,682
3.	Unsupported Subcontractor Costs	24,834	19,867
	Total	$101,174	$80,938