

ROLE MODELS AMERICA, INC.

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**AUDIT REPORT ON
U.S. DEPARTMENT OF LABOR GRANT
NUMBER AZ-10612-00-60**

Costs Claimed for Reimbursement for
the Period June 5, 2000 Through March 31, 2001

FINAL REPORT

Report Number: 21-01-200-03-390

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ACRONYMS

| | | |
|------|---|--|
| CCMS | - | College Corps Management Services |
| CEO | - | Chief Executive Officer |
| CFR | - | Code of Federal Regulations |
| DOL | - | U.S. Department of Labor |
| ETA | - | Employment and Training Administration, U.S. Department of Labor |
| FSR | - | Financial Status Report |
| OMB | - | Office of Management and Budget |
| OIG | - | Office of Inspector General, U.S. Department of Labor |
| RMA | - | Role Models America, Inc. |
| WIA | - | Workforce Investment Act |

GLOSSARY

| | | |
|------------------|---|---|
| Direct Costs | - | Costs that can be identified specifically with a particular cost objective. |
| Indirect Costs | - | Costs which cannot be identified with a single, final cost objective but are identified with two or more final cost objectives. Such costs are combined into groupings for distribution to final cost objectives. |
| Questioned Costs | - | Costs that are questioned because: <ul style="list-style-type: none">(a) the expenditure is an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document; or(b) not supported by adequate documentation; or(c) expenditures were unnecessary or unreasonable. |

EXECUTIVE SUMMARY

The U.S. Department of Labor (DOL), Office of Inspector General (OIG), performed a financial and compliance audit of the direct costs claimed for reimbursement by Role Models America, Inc. (RMA), under DOL Grant Number AZ-10612-00-60. We also reviewed the indirect costs charged to the grant; however, we determined that indirect costs for this grant were not appropriate as RMA had only one grant (Workforce Investment Act) and one source of funds (DOL). The program was audited for the period June 5, 2000 through March 31, 2001.

Under the authority of the Workforce Investment Act of 1998 (WIA), the Department of Labor's Employment and Training Administration (ETA) awarded RMA a grant to provide education, training and other services, in a Job Corps setting, to out-of-school youth facing serious barriers to employment throughout the United States and its territories. This grant is for 2 years, ending May 31, 2002, and \$10 million.

RESULTS OF THE FINANCIAL AND COMPLIANCE AUDIT

For the audit period, RMA reported costs of \$6.65 million, however, its general ledger only supported costs of \$4.6 million, which we audited. Of the audited costs, we question \$262,258 as follows:

Finding No. 1: Indirect Costs Were Improperly Charged to the DOL Grant

RMA charged the DOL grant \$333,197 in indirect costs as administrative fees. We are questioning \$183,959 of the costs charged, because they were either personal expenses of RMA's President and CEO, payments for services that did not benefit the DOL grant, or payments that lacked supporting documentation. The questioned costs consist of: (1) \$30,651 in repayment of loans, \$7,000 in consulting fees, \$50,336 in mortgage payments, \$22,903 in rental payments, \$2,512 in contract fees, \$7,089 in utility payments, \$44,257 in salary expenses, \$17,925 in furniture costs, and \$1,286 in other expenses.

In response to the draft report, RMA stated that the indirect costs were used to compensate the CEO and President of RMA, and that they had a definitive right to compensation. RMA also stated that the issue of indirect costs should be dealt with as an observation, not as a finding.

We did not question the salaries and appropriate fringe benefits paid to the CEO and President. What we did question were the personal costs of the CEO and President that were charged to the

DOL grant, as well as certain other costs. Since RMA did not respond to these costs, our recommendation remains unchanged. As to the indirect costs, because RMA operates only one program it is not authorized to collect indirect costs.

Finding No. 2: Internal Control Problems Exist in RMA's Accounting System

Our review of RMA's accounting system disclosed that RMA had not recorded in its general ledger drawdowns, non-cash disbursements, nor any entries from its payroll and fund-raising bank accounts. In addition, RMA had posted a significant number of transactions to wrong accounts and could not provide supporting documentation for the more than \$2 million in accruals that it had reported to DOL for the quarter ending March 31, 2001. Further, RMA maintained excessive cash balances over the entire period of the audit and had not reconciled its bank statements during this period. RMA needs to hire an accountant with the proper skills and experience to operate and maintain an accrual based cost accounting system.

In response to the draft report, RMA stated that there was only one main instance of excessive cash during a 1 or 2-month period. In addition, RMA stated that the fund-raising account was not its responsibility, and that the majority of the improper recordings were entries to an account titled contingencies. RMA acknowledged that its FSR was inaccurate, but stated that its accrual accounting system is now operational and it can now provide correct financial data. RMA also stated that it was never instructed to maintain supporting documentation for the accruals reported on the FSR.

During our audit we calculated RMA's daily cash balances for 4 consecutive months and found that it started out in the first month (July 2000) at \$583,000 and increased each month. As stated in our finding, RMA's 3-day average expenditures were less than \$90,000 for the 9-month audit period. RMA's bank statements show it as the owner of the fund-raising account. As to recording expenditures to wrong accounts, RMA addressed the contingency account, but failed to address the other numerous accounts with improper postings. To resolve this issue, RMA must institute procedures that ensure all future costs are recorded correctly and adjust all incorrect postings. RMA indicated that its accrual accounting system is operational; therefore, it should be submitting corrected FSRs.

Finding No. 3: Unsupported Direct Costs

We question \$77,912 charged as direct costs to the DOL grant, because RMA was unable to provide us with documentation to properly support these costs. The documentation that was lacking consisted of time sheets, invoices, receipts, consulting agreements, and descriptions of services provided for the following expenditures billed to the DOL grant: (1) \$9,189 in consulting fees, (2) \$1,223 in staff travel, (3) \$52,439 in legal services, and (4) \$15,061 in hotel expenses.

In response to the draft report, RMA stated that it has provided documentation to support \$29,539 in legal costs, over \$16,000 in hotel expenses, and \$10,000 for the high school curriculum. In addition, RMA said it is looking for the documentation to support the consulting costs and that it cannot locate the documentation for the travel costs.

Our review of the documentation submitted by RMA disclosed that: (1) the documentation submitted for the legal fees showed these costs were incurred prior to RMA obtaining the DOL grant and prior to entering into an agreement to rent property on Fort Richie. Therefore, these costs and the two retainer fees paid to two law firms, for which RMA did not provide documentation, remain questioned, (2) the documentation for the hotel expenses was not in sufficient detail to resolve the costs; therefore, these costs remain questioned, and (3) the documentation submitted for the high school curriculum supported the costs; therefore, these costs are allowed. The consulting fees and the travel costs remain questioned as RMA has not provided supporting documentation.

Finding No. 4: Travel Costs Were Incurred Prior to the Grant Period

RMA charged the DOL grant travel expenses (\$387) incurred prior to the signing of the grant. We question these costs because they were not authorized by the grant officer.

In response to the draft report, RMA acknowledged that the travel expenses were incurred prior to the grant and stated it will seek approval from the grant officer.

Our recommendation remains unchanged.

INTRODUCTION AND BACKGROUND

Role Models America, Inc.

Role Models America, Inc. (RMA), was established on July 26, 1991, in Maryland, as a nonprofit corporation. Its founder envisioned an alternative college prep nontraditional high school to assist high school dropouts obtain their high school diplomas and continue into higher education. RMA received its first Federal grant (DOL) on June 9, 1999, in the amount of \$10 million.

In January 1999, RMA submitted a proposal to the Employment and Training Administration (ETA) to operate a Role Model Academy in the amount of \$10 million. RMA based its proposal on Section 169g of WIA and claimed that Congress intended that they be awarded the grant. RMA stated that the legislation was written for them, and used as support the Conference Committee's language in which it approved DOL's appropriations for FY 2000. The Committee encouraged DOL to *make available funds and technical assistance to the Role Models Academy.*

RMA is currently located on the grounds of Fort Richie, a closed military base in Cascade, Maryland. The students it serves consist of a diverse group of young men and women from all over the United States. These students are to be referred by their Congressional Representatives. As part of its training, RMA utilizes a military-style model emphasizing leadership skills and discipline.

To attend RMA an individual must: (1) be between the ages of 14 and 21 at the date of admission, (2) be a United States' citizen or legal resident, (3) have dropped out of school during the 9th through 12th grades, (4) obtain recommendations from his/her previous high school administrator/counselor, (5) not have a criminal record, (6) be alcohol and drug free, and (7) demonstrate a strong commitment to obtaining a high school diploma and an interest in attending college.

RMA's curriculum includes vocational training and secondary school course work leading to a high school diploma (or the equivalent) to prepare those youths with the requisite aptitude and interest for college. Mentors, academic tutors and counselors serve as role models for the students.

College Corps Management Services

College Corps Management Services (CCMS) was established in June 2000, as a for-profit corporation, and is located in Waynesboro, Pennsylvania. It currently provides administrative services to RMA. The CEO for RMA is the Director of CCMS.

CCMS' purpose is to function as the facilitator and/or coordinator of all for-profit programs, activities and services associated with RMA. CCMS was established to promote, foster, encourage and sponsor activities to build the youths character and to advance the educational, vocational, recreational, civic betterment and social welfare of America's youth through education, mentoring and annual motivational programs and activities.

RMA entered into an agreement with CCMS in June 2000, to carry out its administrative functions at a cost of \$32,051 a month. RMA then charged these costs to the DOL grant as indirect costs.

OBJECTIVES AND SCOPE OF AUDIT

The primary objectives of our audit were to determine whether the costs claimed for reimbursement by RMA for the period June 5, 2000 through March 31, 2001, under the DOL grant: (a) were reasonable, allowable, and allocable under the cost principles set forth in OMB Circulars A-110 and A-122, and (b) met the terms and conditions of the grant.

Our audit was performed in accordance with generally accepted auditing standards and the *Government Auditing Standards* issued by the Comptroller General of the United States. Our audit included such tests of the accounting records and other accounting procedures as we considered necessary in the circumstances. Statistical sampling was not used because the audit universe (number of transactions and/or records) related to individual accounts or cost elements rendered its use impractical.

As required by the *Government Auditing Standards* and the American Institute of Certified Public Accountants' Statements on Auditing Standards Nos. 54, *Illegal Acts by Clients* and 82, *The Auditor's Responsibility to Detect and Report Errors and Irregularities*, we designed the audit to provide reasonable assurance of detecting instances of abuse, potential fraud or inefficient practices that could result in increased costs to the Federal Government.

Our audit was performed using the criteria we considered relevant. These criteria included those established by the Federal Government in OMB Circulars A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Non-Profit Organizations*, and A-122, *Cost Principles for Non-Profit Organizations*. To meet the aforementioned objectives, we reviewed selected transactions, records and internal controls to determine RMA's compliance with applicable laws and regulations, as well as the incidence, if any, of program abuse that might warrant further review or action by the OIG.

ENTRANCE AND EXIT CONFERENCES

We held an entrance conference with RMA officials on April 24, 2001, to discuss the purpose of our audit. Our fieldwork was performed at RMA's office in Cascade, Maryland, during the period April 24 through July 13, 2001. We held an exit conference with these same officials on July 27, 2001, to discuss our findings and to obtain their comments.

On September 27, 2001, RMA provided written comments on a draft of this report, which have been considered in finalizing this report. RMA's comments, without the supporting documentation, have been included as an Appendix to this report.

Ms. Emily S. DeRocco
Assistant Secretary
for Employment and Training
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, DC 20210

ASSISTANT INSPECTOR GENERAL'S REPORT

We audited the costs claimed for reimbursement, as presented in the Financial Status Report (FSR) submitted to the U.S. Department of Labor, by Role Models America, Inc. (RMA), for the period June 5, 2000 through March 31, 2001 (Grant No. AZ-10612-00-60). The costs claimed are the responsibility of RMA. Our responsibility is to express an opinion on the accuracy of the schedule of costs claimed based on our audit.

RMA has not maintained certain accounting and supporting documents relating to accrued grant transactions. Accordingly, we were unable to extend our auditing procedures sufficiently to determine the extent to which the financial statements may have been affected by these conditions.

Since RMA does not maintain certain accounting records and supporting documents, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Financial Status Report referred to in the first paragraph.

Compliance

As part of obtaining reasonable assurance about whether RMA's schedule of costs claimed is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the amounts claimed. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under the *Government Auditing Standards*, and are described in the Findings and Recommendations section of this report.

Internal Control

In planning and performing our audit, we considered RMA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the schedule of costs claimed and not to provide assurance 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 reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the grantee's ability to record, process, summarize and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does 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.

As discussed in the Findings and Recommendations section of this report, we identified a material weakness, the improper accounting of accrued expenditures (as described in Finding 2), and other conditions involving the internal control and its operation that we consider to be reportable conditions.

This report is intended solely for the information and use of the U.S. Department of Labor and RMA, and is not intended to be used by anyone else. This restriction, however, is not intended to limit the distribution of this report which, when issued, becomes a matter of public record.

We held an entrance conference with RMA officials on April 24, 2001. On the last day of our fieldwork July 27, 2001, we held an exit conference with these same officials. This report is dated July 27, 2001, which was the last day of our audit fieldwork. On September 27, 2001, RMA provided written comments on a draft of this report, which have been considered in finalizing this report. RMA's comments, without the supporting documentation, have been included as an Appendix to this report.

JOHN J. GETEK

Assistant Inspector General

for Audit

July 27, 2001

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Indirect Costs Were Improperly Charged to the DOL Grant

During our review of RMA's grant, we noted that RMA had proposed a 4 percent indirect cost rate as part of its budget. At the entrance conference, we asked RMA about the number of programs and funding sources they were administering. RMA informed us that there was only one program (WIA) and one funding source (DOL). Since indirect costs are costs not readily identifiable with a particular cost objective, we informed RMA that operating a single program did not entitle it to charge indirect costs, that it should meet with the grant officer to revise its budget, and that we would treat all costs as direct costs. RMA contracted with CCMS for administrative services at a cost of \$32,051 a month. It was these costs that RMA reported as indirect costs.

We requested documentation to support the monthly administrative costs charged by CCMS. Our review of the documentation provided (CCMS' general ledger, bank statements and certain supporting documentation) disclosed that numerous costs were personal costs of RMA's President and CEO, and costs of CCMS employees that should not have been charged to the DOL grant. In addition, there were certain costs that were not adequately supported. These costs are described below.

Federal Regulation Regarding Support for Claimed Costs

The Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment B, Selected Items of Cost, Paragraph 18, Goods or Services for Personal Use, and Paragraph 19, Housing and Personal Living Expenses, provides the following:

Paragraph 18 - Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.

Paragraph 19 - Cost of housing (e.g., depreciation, maintenance, utilities, furnishings, rent, etc.) Housing allowances and personal living expenses for/of the organization's officers are unallowable as fringe benefit or indirect costs regardless of whether the cost is reported as taxable income to the employees.

Loans

CCMS made partial loan repayments to various individuals and a credit union totaling \$30,651. We asked CCMS for the contract or loan agreements, the bank statements showing where and when the receipt of the funds had been recorded, documentation to show how the funds were spent, and documentation to show how those expenditures benefited the DOL program. CCMS has not provided us with any of this information, therefore, we question \$30,651.

Consultant Fees

CCMS made payments totaling \$7,000 to two individuals for consulting work. We asked for copies of the contracts, documentation supporting the work performed, and documentation supporting how these services benefited the DOL program. CCMS has not provided the requested information and we question the \$7,000.

Mortgage Payments

CCMS made payments totaling \$50,336 to a mortgage company. When we asked about the payments, the CCMS Director stated that this was a house the RMA President and CEO owned in Mitchellville, Maryland. She further stated that the house had been mortgaged to obtain funding for the program. We asked for the bank statements showing where and when the receipt of the funds had been recorded, documentation to show how the funds were spent, and documentation to show how those expenditures benefited the DOL program. CCMS has not provided us with the requested information, and we question the \$50,336.

Rent Payments

CCMS made payments totaling \$12,903 for rent in Pennsylvania. When we asked about the payments, the CCMS Director stated that these were payments for a house the RMA President and CEO were renting in Waynesboro, Pennsylvania. We also found a payment for rent and security deposit of \$10,000 paid to the Director of CCMS. Since these are personal costs of the President and CEO of RMA, we are questioning the \$22,903.

Contractor Services

CCMS paid \$2,512 to a company for a water conditioning system. When we asked the CCMS Director about these costs, she stated the costs were for a water conditioning system for the Waynesboro residence. Since these are personal costs of the President and CEO of RMA, we are questioning the \$2,512.

Utility Payments

CCMS made utility payments totaling \$7,089 during the audit period. These payments were for telephone usage with a number of telephone companies, electricity, and to reimburse two employees for out-of-pocket payments for utilities. The documentation supplied by CCMS showed that \$6,089 of these costs represented telephone costs and electricity used at the Mitchellville and Waynesboro residences. We question the \$6,089 because these were personal costs of the RMA President and CEO.

The remaining \$1,000 was for reimbursing two employees for their out-of-pocket costs. There was no documentation in the files to indicate why these employees were reimbursed for their utility costs, and CCMS has not provided us with documentation showing why these costs should have been charged to the DOL grant. Therefore, we question the \$1,000.

Salaries and Fringe Benefits

CCMS paid \$49,488 in salaries and fringe benefits to two CCMS staff. During the majority of our audit period, these two individuals were full-time students at an out-of-state University. They were paid 80 hours every 2 weeks while attending school. Although the CCMS Director stated that these two individuals had the capability of working full-time and attending school full-time, we were never provided with any evidence of the full-time work they had performed for the DOL program. According to the university's calendar, there were 20 days that the students were off during the school year. Therefore, we calculated the staff's salary for the 20 days and allowed that amount. We question the difference (\$44,257).

Furniture

CCMS paid \$17,925 to purchase furniture. When we asked to see the furniture the CCMS Director stated it was used to furnish the Waynesboro residence. Since these were personal costs of the President and CEO of RMA, we question the \$17,925.

Other Costs

CCMS paid \$850 for filing fees to obtain a trademark and \$436 to repair a vehicle owned by one of its employees. Since these are personal costs of RMA and the employee, we question the \$1,286.

Recommendation:

We recommend that the Assistant Secretary for ETA recover the \$183,959 questioned in this finding and any similar costs incurred subsequent to our audit period.

Auditee's Response

In response to the draft report, RMA stated that the indirect costs were used to compensate the CEO and President of RMA. These persons had a definitive right to compensation, because they did not receive salaries from RMA, but rather indirect funds were used to compensate them through the College Corp Management Services, Inc., a parent corporation to RMA. RMA stated that this situation should be dealt with as an observation of an issue requiring administrative resolution, and not as a finding, especially since RMA notified the OIG of this situation.

Auditors' Comments

We agree with RMA that the compensation (salaries and appropriate fringe benefits) paid to the CEO and President for their time was appropriate. We did not question these costs in our draft report. The costs we questioned were the personal costs of the CEO and President that were charged to the grant, as well as other costs that were either not supported or should not have been charged. RMA did not address these costs; therefore, our recommendation remains unchanged.

Indirect costs are costs incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Although DOL approved an indirect cost rate, any costs allocated to an indirect cost pool had to have met the above definition. As stated in our report, RMA operated a single program and was not entitled to indirect costs. Until additional funding is obtained, all allowable costs chargeable to the DOL grant must consist of direct costs that can be specifically identifiable with the DOL grant.

Finding No. 2: Internal Control Problems Exist in RMA's Accounting System

RMA's accounting system, as of March 31, 2001, had significant deficiencies. Our review disclosed that RMA had: (1) not recorded drawdowns, non-check disbursements (wire transfers, bank fees, etc.), nor any entries from its payroll and fund raising bank accounts, into the general ledger, (2) posted a significant number of transactions to wrong accounts, and (3) failed to document the accrued expenditures it reported to DOL on the March 31 Financial Status Report.

Excessive Cash Balances

Since RMA had not recorded its revenues, non-check disbursements, and entries from its payroll and fund raising bank accounts, we relied on the bank statements to determine whether RMA was maintaining reasonable cash balances. Our review disclosed that excessive cash balances had been maintained since early in the program. The monthly ending balances ranged from a low of \$412,452 in June 2000 to a high of \$1,816,521 in January 2001. We then calculated the average

daily cash balance for the month of March 2001 and found RMA had maintained a daily cash balance of \$1,527,685. RMA's 3-day average expenditures ranged from \$23,366 to \$84,778 over the 9-month period. This is the amount of cash RMA should have had on hand at any one time.

In addition, RMA did not begin reconciling its bank statements until June 2001. Therefore, RMA did not have internal controls in place to properly manage its funds, as described above.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C - Post-Award Requirements, Section .22 (b) provides

Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization.

Unreliable Accounting Records

We identified a number of improper postings in RMA's accounting records and provided RMA with a list of only those transactions tested. RMA contracted with a CPA firm to make the adjusting entries; however, we found that the adjustments made were only those that we had identified. RMA now records drawdowns, non-check disbursements and its payroll; however, it still does not record its fund raising income and expenses. Until RMA ensures that it has corrected its records, these records cannot be relied upon to report its line item expenditures and to determine conformance with budget limitations.

Reported Accruals are not Supported

RMA's FSR for the quarter ending March 31, 2001, reported accrued costs of \$6.65 million. We asked for documentation supporting this amount and were told that the working documents for developing this report had not been saved and that RMA was not aware that it was required to save the documents. RMA's general ledger for this reporting period reflected expenditures of \$4.6 million. Therefore, RMA reported over \$2 million of accrued costs that are not documented. RMA now has the capability for recording accruals built in its accounting system. To resolve this internal control weakness, RMA needs to hire an accountant with the knowledge and skills to operate and maintain an accrual based cost accounting system. In addition, RMA will need to resubmit its March 31 FSR that accurately reflects its accrued expenditures.

The Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, General Principles, Paragraph A.2, Factors Affecting Allowability of Costs, and Paragraph A-G, provides the following:

A. Be reasonable for the performance of the award and be allocable thereto under these principles. B. Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items. C. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization. D. Be accorded consistent treatment. E. Be determined in accordance with generally accepted accounting principles (GAAP). F. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. G. Be adequately documented.

Recommendation:

We recommend that the Assistant Secretary for ETA take corrective action to ensure RMA: (1) reduces its cash balance to immediate needs, (2) adjusts all entries that were improperly posted, (3) hires a qualified accountant to maintain RMA's records, and (4) submits a corrected FSR for the period ending March 31, 2001.

Auditee's Response

In response to the draft report, RMA stated there was only one main instance of excessive cash during a 1 to 2-month period in which RMA paid several large bills, including a double payment for rent. RMA also stated that: (1) this was an unusual situation; (2) it did not have extensive operating experience, and (3) it had not reached a point of normal daily operations, where three days of cash could be closely estimated. RMA also stated that once brought to their attention, RMA followed the OIG auditors advice to reduce its cash position by paying bills without drawing down Federal funds.

In response to the fund-raising account, RMA stated that this account was not an RMA account, it belonged to College Corps., and this was not RMA's responsibility.

In response to improper postings, RMA stated that it maintains an account to track unexpected expenses and calls it contingencies. RMA stated that the majority of the improper postings were entries to this account, and that there were a few duplicate entries. RMA also stated that the OIG is wrong to insinuate that widespread postings to wrong accounts exist throughout the system.

As to the unsupported accruals, RMA acknowledged that the FSR was inaccurate. The overstatements were caused by the improper inclusion of funds committed under contract, but not expended. RMA further stated that it had requested clarification on how to fill out the FSR and had not received a definitive answer. Further, the financial reports provided to DOL were always acknowledged to be "best estimates" using crude methods and incomplete data, and never represented to be strict/exact accounting calculations. RMA stated that the system is now in

place and it provided the OIG auditors with corrected financial data through March 31, 2001. In addition, RMA stated it was never instructed to save working papers for the FSR's.

Auditors' Comments

During the audit we found a number of months where RMA's cash balances were excessive. We had calculated the average daily cash balances for the months July through October 2000 and found the average daily cash balance increased each month from July which had an average daily cash balance of \$583,608 to October which had an average daily cash balance of \$1,174,706. As discussed in the finding, during March 2001 RMA had daily cash balances that exceeded \$1.5 million. In addition, the ending bank balances for each of the 9-months we audited were excessive. As discussed in our finding, RMA did not need more than \$90,000 on hand at any one time, except when its quarterly rent payments were due.

Our review of RMA's bank statements showed that it is the owner of the fund-raising account. Therefore, RMA does have responsibility for this account.

In responding to the issue of posting expenditures to the wrong accounts, RMA refers to the contingency account as having the majority of improper postings; however, there were other accounts, (for example leases, equipment, supplies, and discretionary) in which expenditures were incorrectly recorded. Unless RMA institutes procedures that ensure all future costs are charged to the appropriate account and adjusts all entries that were incorrectly posted, it will not be able to rely on the line item expenditures to determine conformance with its budget limitations, or know when to request budget modifications.

RMA indicated that its accrual accounting system is operational. Therefore, RMA should file an amended FSR for March 31, 2001 to reflect an accurate reporting of accrued expenditures.

Our recommendations remain unchanged.

Finding No. 3: Unsupported Direct Costs

Our review of the direct costs claimed for reimbursement by RMA under its DOL grant resulted in questioning \$77,912, because RMA was unable to provide us with adequate supporting documentation for these costs. These expenditures were for consulting services, travel and contracted services, and are discussed in more detail below.

Federal Regulation Regarding Support for Claimed Costs

Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, General Principles, Paragraph A.2, Factors Affecting Allowability of Costs, and Paragraph G provides the following:

G. Be adequately documented.

Office of Management and Budget Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C - Post-Award Requirements, Section .21, **Standards for financial management systems** (b)(7) provides the following:

Accounting records including cost accounting records that are supported by source documentation.

Consulting Services

Our review of RMA's general ledger disclosed that RMA paid two individuals \$7,000 and \$2,189, respectively, for consulting services. We asked for the contracts, time sheets, progress reports and any other information available that could support the payments. RMA has been unable to locate any of this information. Therefore, we question the \$9,189.

Travel

We audited the travel costs charged to the DOL grant and found payments made to a hotel totaling \$15,061. These payments were made over a 3-month period to cover lodging costs for a number of persons, some who were employees of RMA, and others who we could not identify. We asked for documentation supporting: (1) why the lodging costs were incurred, (2) why it was necessary for some of these individuals to incur these costs over the entire 3-month period, (3) how the individuals who could not be identified as having any relationship with RMA could have their lodging costs charged to the DOL grant, and (4) a breakout of the costs by each individual. There was no documentation on file to show that any of these costs were directly attributable to the functions of RMA, and RMA has yet to provide us with any of the documentation requested. Therefore, we question the \$15,061.

Our audit also disclosed \$1,223 in travel costs for which there was no supporting documentation. The only information available were the cancelled checks indicating the amounts paid to five individuals. Therefore, until the proper supporting documentation is provided, we question the \$1,223.

Contracted Services

Our audit of the contracted services charged to the DOL grant disclosed a number of payments made for legal services. Two of these payments totaling \$52,439 did not have adequate documentation. Although there were invoices from the law firm requesting payment, the invoices did not contain an explanation of the services provided, nor how the services benefited the DOL program. The invoices on file contained both current charges and an unpaid balance, which was considerably more than the current charge. In addition, the initial agreement was for legal services that were to be provided before RMA obtained the DOL grant. Until adequate documentation is provided we question the \$52,439.

We also found a payment (\$10,000) made to a high school for the purchase of the school's curriculum. The check was issued on August 21, 2000. However, a letter from the high school indicating receipt of the check was dated June 21, 2000. We have asked RMA for clarification on this issue. Until we receive an appropriate explanation, we question the \$10,000.

Recommendation:

We recommend that the Assistant Secretary for ETA:

1. seek documentation from RMA to support the \$77,912 questioned, and recover any costs that RMA is unable to support, and
2. institute a policy that requires providing extensive technical assistance and monitoring of first time grantees or contractors in their first year of operation.

Auditee's Response

In response to the draft report, RMA stated that it has provided documentation to support: (1) over \$56,000 in legal fees, (2) over \$16,000 in hotel expenses, and (3) the \$10,000 questioned pertaining to the high school curriculum. In addition, RMA stated it will continue to seek documentation for the \$9,189 in consulting fees that were questioned, and acknowledged that it will not be able to locate documentation for \$1,223 of staff travel, as these individuals are no longer RMA employees.

Auditors' Comments

RMA provided documentation to support \$29,539 in legal fees. The documentation shows that these costs were incurred prior to the grant award. They represent costs of attempting to secure space at a closed Naval facility, not Fort Richie where the grant is currently being administered. Therefore, these costs remain questioned. Also, we have not received documentation to support

the remaining legal costs, which consisted of retainer fees for two law firms. Therefore, the legal fees remain questioned. RMA provided documentation in support of the hotel expenses. However, the documentation was not in sufficient detail to allow us to determine who stayed in each room, why additional rooms were needed, or what business activity was performed. Therefore, these cost remain questioned.

RMA provided documentation to support the high school curriculum. The documentation supported these costs; therefore, the \$10,000 is allowed. Because RMA has not been able to locate documentation to support the consultant fees, or the travel costs, these costs remain questioned.

We have reduced the amount questioned in this finding from \$87,912 to \$77,912, for the accepted high school curriculum. The remainder of the recommendation remains unchanged.

Finding No. 4: Travel Costs Were Incurred Prior to the Grant Period

RMA paid travel expenses of an individual before the grant was signed and expenditures were authorized. The travel expense (\$387) was incurred for the period May 25 - 28, 2000, while performance under the grant did not begin until June 5, 2000. Therefore, these costs are questioned, because RMA did not receive approval from the awarding agency.

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment B, Selected Items of Cost, Paragraph 38, Pre-Award Costs, provides the following:

Paragraph 38 - Pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.

Recommendation:

We recommend that the Assistant Secretary for ETA recover \$387 from RMA.

Auditee's Response

In response to the draft report RMA acknowledged that \$387 of travel costs were spent before the grant started, and will seek approval from the grant officer

Auditors' Comments

Our recommendation remains unchanged.

EXHIBIT A

ROLE MODELS AMERICA, INC.
Grant No. AZ-10612-00-60
June 5, 2000 - March 31, 2001

| | Cost Claimed <u>on SF269</u> | Cost Per General <u>Ledger</u> ¹ | Unsubstantiated <u>Accrual</u> ² |
|-------------|------------------------------------|---|--|
| Net Outlays | \$ 6,650,000.00 | \$ 4,602,803.05 | \$ 2,047,196.95 |

¹ See Schedule A for details.

² Role Models America, Inc., did not supply documentation to support these costs.

ROLE MODELS AMERICA, INC.
Proposed and Audit Recommended Costs
Grant No. AZ-10612-00-60
June 5, 2000 - March 31, 2001

| <u>Cost Category</u> | Costs Claimed by <u>RMA</u> | Costs Accepted by <u>Auditors</u> | Costs Questioned by <u>Auditors</u> |
|-------------------------|-----------------------------------|---|---|
| Salaries | \$1,138,292 | \$954,333 | \$183,959 |
| Fringe Benefits - Other | 94,356 | 94,356 | 0 |
| Fringe Benefits | 7,263 | 7,263 | 0 |
| Advances | 150 | 150 | 0 |
| Relocation | 11,367 | 11,367 | 0 |
| Travel | 91,975 | 75,304 | 16,671 |
| Per Diem | 18,383 | 18,383 | 0 |
| Bonding/Supplies | 69,969 | 69,969 | 0 |
| Advertising | 1,009 | 1,009 | 0 |
| Discretionary/Postage | 79,890 | 79,890 | 0 |
| Building Maintenance | 44,633 | 44,633 | 0 |
| Quartermaster Supplies | 50,283 | 50,283 | 0 |
| Uniforms | 48,000 | 48,000 | 0 |
| Equip Purchases | 412,988 | 412,988 | 0 |
| Rent/Leases | 1,066,839 | 1,066,839 | 0 |
| Main Vehicle Purchase | 5,661 | 5,661 | 0 |
| Vehicle Maintenance | 9,679 | 9,679 | 0 |
| Main Equipment Purchase | 7,085 | 7,085 | 0 |
| Athletic | 719 | 719 | 0 |
| Student Life | 23,490 | 23,490 | 0 |
| Academic Text | 51,218 | 51,218 | 0 |
| Accounting Contract | 10,000 | 10,000 | 0 |
| Library Books | 57,957 | 57,957 | 0 |
| Utilities | 166,950 | 166,950 | 0 |
| Contracted Services | 328,642 | 328,642 | 0 |
| Legal Services | 104,156 | 51,717 | 52,439 |
| Consultants | 545,408 | 536,219 | 9,189 |
| Other | 156,442 | 156,442 | 0 |
| Total | <u><u>\$4,602,804</u></u> | <u><u>\$4,340,546</u></u> | <u><u>\$262,258</u></u> |

ROLE MODELS AMERICA, INC.
Questioned Indirect Costs Charged to the DOL Grant
Grant No. AZ-10612-00-60
June 5, 2000 - March 31, 2001

| <u>Type of Payment</u> | <u>Amount</u> |
|------------------------|-------------------|
| Repayment of Loans | \$ 30,651 |
| Consultants | 7,000 |
| Mortgage | 50,336 |
| Rent | 22,903 |
| Furniture | 17,925 |
| Contractor | 2,512 |
| Utilities | 7,089 |
| Salary Expenses | 44,257 |
| Other Costs | 1,286 |
| Total | <u>\$ 183,959</u> |

APPENDIX

Role Models America, Inc

Response to Draft Report



Role Models America, Inc.

National Role Models Academy

September 27, 2001

Mr. Joseph Ganci
Director, Washington Audit Office
U.S. Department of Labor
Office of the Inspector General
200 Constitution Avenue, N.W.
Suites S-5022/N-4635
Washington, D.C. 20210

Dear Mr. Ganci:

This letter and the attached enclosure represent the RMA response to the first annual DOL/OIG draft audit report. While RMA feels that the report could have been more balanced, we thank you for your help in identifying areas where RMA can improve.

Sincerely,

Dr. Robert L. Alexander, Ph.D.
President/Founder

Enos V. Wilson
Business Manager, RMA

Cc: Janessa Alexander, CEO
Larry Klein, CPA, (Kaufman -Davis)

ROLE MODELS AMERICA
P.O. Box 900
CASCADE, MD 21719

RMA Executive Summary and Statements of Material Facts:

SPECIFIC FINANCIAL MANAGEMENT OVERVIEW AND STATUS OF PROGRAM

Role Models America, Inc. (RMA) questions whether RMA is being given fair credit for the organization's accomplishments, or evaluated and treated fairly and consistently when compared to other Department of Labor grantees; especially grantees at the same or comparable stage(s) of start-up and development as RMA. Rather than confirming the status of development and controls that RMA had informed the OIG of, and encouraging RMA to continue and proceed with its continuing improvements, the OIG's report as presented insinuates that RMA was/is not exercising reasonable financial controls, does not have the capacity or know how to do basic accounting or implement basic accounting and financial controls, etc. This is not true!!

The "CPA firms/qualified accountants" that the OIG suggests are necessary to accomplish the basic level of accounting and financial controls have themselves acknowledged the functionality/legitimacy of the RMA system, even while making helpful hints for improving the system. RMA has used and will use CPA's as needed for support, and RMA is in the process of recruiting and hiring a bookkeeper. RMA also has significant internal capabilities. RMA has business management staff that have developed detailed line item budgets (including a 25 page line item budget for RMA which caused delays in the accounting systems and financial controls being put into place), installed and implemented working accounting systems (including RMA's), and have excelled in a variety of technical and mathematical and business academic and professional challenges (that included the use of complex linear and matrix algebra, trigonometry, calculus, statistics, accounting and other financial management mathematical tools). They have started up multiple businesses, programs and manufacturing plants. The fact that the OIG showed up early, while the accounting systems and procedures were being developed and data entry was in progress (therefore the system and records were incomplete) does not in any way reflect on the ability of RMA's staff to implement excellent internal controls. It simply means that the OIG arrived before the system and data entry were complete!!

Any reasonable evaluation or report of the "return" that RMA is providing U.S. citizens on their invested tax dollars must consider the following:

- RMA was faced with the choice of securing a lease and starting operations within a few months of receiving word of the approved grant or losing the grant funding. Grant funding was awarded in June 2000. A lease and start of "operations" was required by June 30, 2000 or RMA could have lost the grant funding.
- RMA recruited staff; upgraded all facilities needed by RMA to be usable/inhabitable (including installation of fire safety equipment in the dormitory); put all of the necessary contracts in place (including food service, barber, medical director, pest control, dry-

cleaning, refuse/waste removal, etc.); furnished all buildings (including the dorm, a student union, classrooms and all offices); recruited 50-75 cadets and arranged for their arrival; purchased all uniforms, school supplies, etc.; obtained a State of Maryland certification for the Academy; cleaned and fixed up the mess hall and kitchen, passed the Maryland Health Department inspection and obtained a state of Maryland food service license; obtained all of the textbooks and school supplies needed; cleaned, set-up and filled a library with about 3,000 to 4,000 books; and much, much more ... and **opened the National Role Models Academy as scheduled on October 14, 2000!!**

- **RMA has poured about \$5,000,000.00 back into the local economy in one year!! Much more than the Local Redevelopment Authority (LRA) of the past three to four years has put back into the economy in their entire three to four year reign!!** This LRA is RMA's contentious landlord, PenMar Development Corporation (PMDC).
- A set of skill evaluation standards, a job description and recruiting ads have been developed for retaining the best bookkeeper possible. Skill evaluation standards have also been developed/are being developed for other staff candidates.
- **RMA staff developed a detailed line item budget (25 pages) and budget system during August/September 2000, using spreadsheets to help in planning and operations!!**
- **RMA staff implemented the accrual accounting system, recovered (6) months of accounting data entry backlog, and completely organized the business office in about (3-4) months; even though RMA started off 4-6 months behind in the business management area of the organization,** because recruitment and orientation of the person to fill that slot did not come to fruition until the August-September 2000 timeframe (while pressing toward starting up on time), and despite the time and effort that was lost to the program in order to conduct the OIG audit! RMA recognizes and has always acknowledged that the organization started without the benefit of having some of the things in place that RMA wanted to have in place before start-up; including: a functional accounting system, the business manager and a bookkeeper.
- **The accrual accounting system had been put into place by the RMA Staff and was functional; an audit trail was in place; checks and bank statements were organized and filed numerically by account number and by statement date respectively; a vendor files system had been developed and was in place;** several excellent contracts for services had been written, negotiated and signed (food service, health director, barber, etc.); a heavy duty safe was in use; a draft standard consulting/contractor contract had been developed and issued (to be refined and used as the template for all RMA contracts); **procedures and forms were being developed; and many other improvements were ongoing or planned ... before the DOL audit ever occurred!!!** If RMA is "guilty" of anything as it relates to these things, it is that accounting system data entry and fine-tuning, development of procedures, and filing were not already completed (although they were in progress). **Good business practices were used, while RMA put better**

business practices into place!! What did DOL expect under the circumstances and after only (6) months of operation?! What has DOL found at other grantee sites, which are at levels of organizational development comparable to RMA's?!

- **All financial reports provided by RMA to DOL were always acknowledged to be “best estimates” using crude methods and incomplete data, and never represented to be “strict/exact” accounting calculations, while RMA put the accrual accounting system in place!! This is documented in writing in various reports/responses to DOL!!! RMA is now ready to begin issuing financial reports generated using the computerized financial accounting system (QuickBooks Pro 2001)!!**
- **RMA is currently ready to start writing and recording checks directly into the accounting system, and printing the checks using the computerized accounting system!!**
- **Every discussion, report and decision needs to be put into context and perspective by the facts that the Department of Labor, Office of the Inspector General audited RMA between (3) and (6) months, or more, before the normal first year audit period; at the (9-10) months program point (about 6-7) months actual operations point of a crash start-up (that was certainly not a normal start-up); and with **virtually ZERO technical assistance/program support to that point from DOL/ETA!!!** The insinuation is that DOL would now exaggerate the severity of and “penalize” RMA for “problems” that resulted in part from the failure of the Department to provide constructive and engaging technical or programmatic support; which the Department was obligated to provide by Congressional mandate!!!**
- **The required context and perspective must by necessity also include consideration of the fact that the main “issue” raised by the audit, the use of “indirect/overhead costs” had been approved and authorized in writing by DOL, with no written clarifying instructions or limitations (see attachments 7A & 7B)!! RMA never tried to hide the use of the approved “indirect costs”!! Furthermore, while a normal audit might lead to a review of 5-10% of an organization’s financial records, the DOL/OIG reviewed approximately 40-50% of RMA’s financial records!! If debatable housing allowance, legal costs, and approved (but recalled indirect expenses) are set aside, the OIG really has questions/issues with about \$15,000 or less!! Which is equivalent to about one-quarter of one percent (0.25% or 0.0025) of expenditures!!**
- **To a large extent, the “findings” outlined in the DOL/OIG audit are simply confirmations or specific details of information provided by RMA as part of (15) pages of responses to an (8) page questionnaire sent by and returned to the OIG before the audit, and subsequent conversations with the OIG auditors!!**
- **There was one main instance of excessive cash on hand, during a one to two month period during which RMA paid several large bills of which and a double payment of rent to the landlord. The timing of cancellation and/or payment for some of these bills could not be exactly fixed (i.e. disputed rent, payroll taxes, etc.). This situation**

was an unusual situation faced by RMA; and RMA after all, did not have a lot of operating experience at that point (about 6 months operating experience). Neither had RMA ever really reached a point of “normal daily operations”, where three days of cash could be closely estimated. Once the excessive cash position issue was brought up by the OIG auditors, RMA followed the advice and instruction of the auditors and DOL to reduce the cash position by paying bills without additional drawdowns.

- **Those who did not already know better would hardly have a clue that RMA has made the progress or has the accomplishments that are outlined in this letter. This is a smear against RMA by insinuation and omission!!!**
- RMA prefers to cooperate with DOL to demonstrate the most excellent results possible, rather than to feel that RMA is always being forced into a defensive posture.

RMA Requests:

RMA believes that it has the right to request and does request the following:

- A copy of the report sent to the Congressperson that requested the audit (Congressional Report). RMA asserts its Freedom of Information Act rights.
- That the OIG provide a written statement as a part of the final audit report, which acknowledges that no instances of fraud or abuse were identified.
- That the OIG provide a written statement as a part of the final audit report that acknowledges the high levels of RMA financial records reviewed (40-50%).
- A written statement acknowledging the early timing of the RMA audit (6-8 months) as compared to normal program audit timing (1 year).
- A written statement as a part of the final audit report, which acknowledges the positive aspects of the RMA program progress, in terms of moving towards the grant objectives, improving the local economy and organizational development and financial controls, etc..
- A written statement as a part of the final audit report, acknowledging that the Indirect Costs referred to in the report, and which were stated as not being allowed.....were in fact approved as a part of the grant signed by DOL and the Grant Officer (although approval may have been unintentional).
- A written statement as a part of the final audit report, which acknowledges that RMA's financial controls meet or exceed those of the normal/average DOL grantee at comparable stages of development, etc..
- A written statement as a part of the final audit report, which acknowledges that account reconciliations have been performed up to and including the audit period, and that these reconciliations were/are available to the auditors.

Table XX: RMA Itemized Response/Comments by Section to the DOL/OIG Audit

| DOL Audit Rpt. Section, Pg. & Par. | Finding/Statement/Recommendation | RMA Response/Comments |
|---|--|--|
| <p>Executive Summary pg. ii, par. 1, 2</p> | <p>..The program was audited for the period June 05, 2000 through March 31, 2001...This grant is for (2) years, ending May 31, 2002...</p> | <p>RMA was audited and the audit report is presented as if RMA has been operating for a number of years, and/or was being audited at the normal time frame of (1) year; when in fact RMA’s total life span was only 6-9 months at the time of the audit and the audit was 3-6 months before the end of RMA’s first year!! The OIG report never describes the real context and perspective of the audit conducted!! The OIG’s failure to clarify the context of the audit slants the entire audit towards a series of unfair/false “findings”, “conclusions” and “recommendations” !!</p> |
| <p>Executive Summary (Results of the Financial and Compliance Audit), pg. ii, par. 2</p> <p>Findings and Recommendations, pg. 6, 7, 8</p> | <p>Finding #1: Indirect costs were improperly charged to the DOL grant.....</p> | <p>The use of “indirect/overhead costs” had been approved and authorized in writing by DOL!! No clarifying instructions or limitations were provided, despite more than one request from RMA (see attachments 7A & 7B)!! RMA never tried to hide the use of the <u>approved</u> “indirect costs”!! The OIG report never mentions or deals with the fact of the DOL approval of the use of indirect costs, nor the failure of DOL to provide clarification of the rules for the use of indirect costs before the audit. The OIG is wrong to insinuate that RMA was somehow negligent, fraudulent or otherwise abusive of grant funds, by omitting these facts.</p> |

Table XX: RMA Itemized Response/Comments by Section to the DOL/OIG Audit

| DOL Audit Rpt. Section, Pg. & Par. | Finding/Statement/Recommendation | RMA Response/Comments |
|---|---|---|
| <p>Executive Summary (Results of the Financial and Compliance Audit), pg. ii, par. 2 (cont.)</p> <p>Findings and Recommendations, pg. 6, 7, 8 (cont.)</p> | <p>Finding #1: Indirect costs were improperly charged to the DOL grant.....</p> | <p>RMA believes that the only fair way to present the use of indirect costs would be as an “observation” of an issue that requires administrative clarification and resolution, not as a “finding” (suggesting that RMA has purposely done something that RMA should not have done). Furthermore, the funds were used to compensate the CEO and President of RMA. These persons have a definitive right to compensation!! They did not receive salaries from RMA, but rather “indirect” funds were used to compensate them through the College Corp Management Services, Inc., a parent corporation to RMA, which received the “indirect” funds as fees for oversight services rendered. The question was whether that compensation should have been as RMA salaries (direct costs) or College Corp. fees (indirect costs). They did not receive any more compensation as indirect than they could have received as direct salaries and used any way they pleased!! Therefore, RMA contends that this situation should be dealt with as an “observation” of an issue requiring administrative resolution, and not as a “finding”, especially since RMA notified the OIG of this situation. It was not found. It was reported (Q-9/Q-60 of the OIG Questionnaire Response)!!</p> |

Table XX: RMA Itemized Response/Comments by Section to the DOL/OIG Audit

| DOL Audit Rpt. Section, Pg. & Par. | Finding/Statement/Recommendation | RMA Response/Comments |
|------------------------------------|----------------------------------|-----------------------|
|------------------------------------|----------------------------------|-----------------------|

| | | |
|--|--|--|
| <p>Executive Summary (Results of the Financial and Compliance Audit), pg. ii, par. 3</p> <p>Findings & Recommendations, pg. 9, par. 1, 6</p> | <p>Finding #2: Internal control problems exist in RMA's accounting system</p> <p>a. Entries not recorded</p> | <p>RMA verbally reported to the OIG auditors, before their arrival, that RMA had a significant backlog of accounting system data entries (due to staffing shortages); but would catch up on data entry during the audit timeframe!! RMA did catch up on data entry and bank reconciliations, near the end of the audit, as RMA had committed to do!! The OIG report insinuates that RMA presented a system with data entry backlogs as complete, and as such insinuates that the RMA staff does not have the understanding of accounting to understand that data entry was not complete when the audit started or to perform the data entries needed. This is not true!! RMA did not represent the system as having all data entry completed. RMA reported to the OIG auditors the capabilities of the accounting system that RMA was setting up as part of the OIG Questionnaire, but never meant that data entry was complete; and specifically stated during conversations with the auditors that data entry was not complete!! The OIG auditors did not "find" this! It was reported before the audit started!!</p> <p>The fundraising account is not an RMA account, it is a College Corp. account; which RMA has no responsibility for!!</p> |
|--|--|--|

Table XX: RMA Itemized Response/Comments by Section to the DOL/OIG Audit

| DOL Audit Rpt. Section, Pg. & Par. | Finding/Statement/Recommendation | RMA Response/Comments |
|--|--|--|
| <p>Executive Summary (Results of the Financial and Compliance Audit), pg. ii, par. 3</p> <p>Findings and Recommendations, pg. 9, par. 1, 6</p> | <p>Finding #2: Internal control problems exist in RMA’s accounting system</p> <p>b. Entries recorded to wrong accounts</p> | <p>RMA maintains an account to track unexpected expenses. Since the goal of RMA is to replicate the demonstration model, this data represents crucial information for planning future start-ups and operations. “Contingencies” or unexpected expenses can be estimated. RMA chose to call this account “Contingencies”. The OIG auditors did not agree with the name “Contingencies”. RMA is willing to choose a different name for this account, so as not to interfere with the technical accounting definition of “Contingencies”. RMA reserves the right to keep the account with an appropriate name change. The vast majority of the “posted ... to wrong accounts” were entries to this account. There were also a few duplicate entries, due to a glitch in the accounting software and a few transactions which required interpretation as to which account to post to. The duplicates were acknowledged by RMA and corrected. Interpretations are within the realm of RMA’s right to run its organization. The OIG is wrong to insinuate that widespread postings to wrong accounts exists throughout the system!! It does not!! A more fair report would note the “Contingencies” account specifically and acknowledge that the OIG recommends changing the name, that RMA is willing to do so; and to note the duplicate entries, which were acknowledged and corrected.</p> |

Table XX: RMA Itemized Response/Comments by Section to the DOL/OIG Audit

| DOL Audit Rpt. Section, Pg. & Par. | Finding/Statement/Recommendation | RMA Response/Comments |
|--|--|--|
| <p>Executive Summary (Results of the Financial and Compliance Audit), pg. ii, par. 3, pg. iii, par 1</p> <p>Findings and Recommendations, pg. 9, par. 1 and pg. 10</p> | <p>Finding #2: Internal control problems exist in RMA’s accounting system</p> <p>3. RMA did not provide documentation for \$2 million in accruals, for the quarter ending 03-31-01</p> | <p>RMA acknowledges that the FSR was not as accurate as it should have been. The overstatements were caused by the improper inclusion of funds “committed” under contract, but not expended by tendering of checks. However, RMA had requested clarification on how the DOL FSR form should be filled out and had not received a definitive answer at the time of that report. All financial reports provided by RMA to DOL were always acknowledged to be “best estimates” using crude methods and incomplete data, and never represented to be “strict/exact” accounting calculations, while RMA put the accrual accounting system in place!! This is documented in writing in various reports/responses to DOL!! This system is now in place and RMA provided the OIG auditors with corrected financial data through 03-31-01 at the end of the audit. RMA is now ready to begin issuing financial reports generated using the computerized financial accounting system (QuickBooks Pro 2001)!! RMA was never instructed to save “working papers” for the FSR’s. RMA did catch up on data entry and bank reconciliations, near the end of the audit, as RMA had committed to do, and bank reconciliations were provided to the OIG auditors!! The documents provided should be acknowledged and the overstatement clarified and put into context!!</p> |

Table XX: RMA Itemized Response/Comments by Section to the DOL/OIG Audit

| DOL Audit Rpt. Section, Pg. & Par. | Finding/Statement/Recommendation | RMA Response/Comments |
|---|---|---|
| <p>Executive Summary (Results of the Financial and Compliance Audit), pg. iii, par. 1</p> <p>Findings and Recommendations, pg. 9, par. 1, 2, 3, 4</p> | <p>Finding #2: Internal control problems exist in RMA’s accounting system</p> <p>d. Excessive cash balance</p> | <p>There was one main instance of excessive cash on hand, during a one to two month period during which RMA paid several large bills of which and a double payment of rent to the landlord. The timing of cancellation and payment for some of these bills could not be exactly fixed (i.e. disputed rent, payroll taxes, etc.). This was an unusual situation faced by RMA; and RMA after all, did not have a lot of operating experience at that point (about 6 months operating experience). Neither had RMA ever really reached a point of “normal daily operations”, where three days of cash could be closely estimated. Once the excessive cash position issue was brought up by the OIG auditors, RMA followed the advice and instruction of the auditors and DOL to reduce the cash position by paying bills without additional draw-downs.</p> <p><u>Please refer to the Excessive Cash Balances Summary for a more complete discussion.</u></p> |
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Table XX: RMA Itemized Response/Comments by Section to the DOL/OIG Audit

| DOL Audit Rpt. Section, Pg. & Par. | Finding/Statement/Recommendation | RMA Response/Comments |
|---|--|---|
| <p>Executive Summary (Results of the Financial and Compliance Audit), pg. iii, par. 2</p> <p>Findings and Recommendations, pg. 11, 12</p> | <p>Finding #3: Review of direct costs... resulted in DOL questioning \$87,910.00 ... unable to provide adequate supporting documentation....</p> | <ol style="list-style-type: none"> 1. Documentation provided since draft report for \$56,000.00+ in legal fees 2. Documentation provided since draft report for \$16,000.00+ in hotel expenses 3. Documentation provided since draft report for \$10,000.00 for the high school curriculum 4. RMA will seek to provide final documentation for \$9,189.00 in consulting fees with the RMA response to the DOL audit 5. RMA acknowledges that documentation for \$1,223.00 for staff travel cannot be provided. The persons that traveled are no longer RMA employees. |
| <p>Executive Summary (Results of the Financial and Compliance Audit), pg. iii, par. 3</p> <p>Findings and Recommendations, pg. 13</p> | <p>Finding #4: Travel costs were incurred prior to the grant period ...</p> | <p>RMA acknowledges that a minimal travel expense of \$387.00 was actually spent just before the grant period started, and that RMA must seek approval from the grant agency!!</p> |
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Excessive Cash Balances Summary

It is required by 29 CFR, that the draw down of funds be “limited to the minimum amounts needed and must be timed to be in accordance with the actual, immediate cash requirements of the organization.”

RMA has experienced a great challenge with its Landlord and the terms of it’s Lease, much the same as many Job Corps programs have faced with their Landlords. Specifically, we have reported to the Department of Labor and the Department of the Army, (**see attachment #1**), that the Landlord (Pen Mar Development Corp.) has overcharged RMA for twice as many square feet than we have occupied and refuses to provide us with a long term lease agreement or purchase options as Pen Mar has provided to another tenant, International Masonry Institute. Further, Pen Mar has refused to cut the grass and provide certain basic required repairs and maintenance functions covered under the lease.

Despite Congressional Mandate in RMA’s legislation calling for the Department of Labor to provide “Technical Assistance”, RMA has received little or no assistance from the Department in getting the Army, which to date, still owns the property, to work out an amicable solution to the landlord/tenant dispute. Therefore, sometime on 22 February 2001, Pen Mar filed a lawsuit against RMA to force RMA to remove 2 flagpoles in front of our school headquarters (**see attachment #2**). Despite Maryland and U.S. laws requiring both State and U.S. flags to be flown in front of schools, Pen Mar filed the lawsuit and stated that it would certainly not perform any of the requirements under the lease agreement until the flags were removed. This set off a “stand off” case pending.

Later that day, the Court set the bond, put for a whopping **\$643,000.00 (see attachment #5 for a copy of bond and 5B for a copy of cashier check)**. In anticipation of the “good ‘ole boy” Court climate in Washington County, RMA had enough funds to cover 2 to 3 times of the quarterly rent in case the court increased the bond from one quarter rent payment. Fortunately RMA had approximately \$900,000.00 on hand and the \$643,000.00 was covered. Please refer to the copy of the cashier check dated the same afternoon of the Court hearing on 29 June 2001.

Subsequently, RMA received some temporary good news. On July 26, 2001 the Court ordered Pen Mar enjoined (stopped) from further suing RMA until the full matter is heard in Circuit Court (**see attachment #6**). However, RMA was once again served notice of an appeal for by Pen Mar’s Attorney’s to the Court to overturn it’s previous decision to stop Pen Mar from further suing RMA. On September 7, 2001, Friday, the motion was heard. The Court decided to terminate its order to stop Pen Mar and remand the matter or decision back to the District Court Judge. RMA’s position has been that the \$643,000.00 was for the April quarter (3 months advance) and the July quarter (3 months advance). Therefore, we had in effect paid up through October 12, 2001, under the bond. The case is pending a follow-up hearing.

The gist of the matter is that RMA was cited for one (1) time in which it had a larger sum of money on hand which was on the basis of **EMERGENCY CONTINGENCY**. No one could predict the amount of the bond the Judge would order set. In fact, the reason the matter was remanded back to the District Court was for that same Judge to explain why he set the amount he did. RMA’s position is that it was for 2 quarterly rental payments in advance (April thru October). Pen Mar somehow claims that it was some escrow to cover future damages, which is

ridiculous. It is for this reason and the aforestated reason, only, RMA was found not to be in compliance under 29 CFR, ss 95.22 G20(b). Had RMA not had sufficient funds on hand at the time, RMA could have been evicted and the entire grant jeopardized.

Finally, RMA has filed another action in Federal Court to block Pen Mar aggressive actions. I recently asked for a State facility to relocate our Academy. The cost would be minimal to zero. A final determination is expected in the very near future

SUMMARY

Role Models America, Inc. pledges to work closely with the Contract Office and the Grants Officer to improve all areas of financial controls requiring improvement, and to avoid excessive cash balances in the future, but must state that, despite provisions for technical assistance, it sometimes takes a while to get a reply or return call from DOL/ETA. We did not have the luxury of time with respect to the bond issue and amount. In addition, a list of procedures and polices to be written has been issued, and they are being written even as RMA provides this response to the DOL audit.

While the College Corps may one day be compared to the Peace Corps, in which we opened October 14, on the 40th anniversary of the Peace Corps, compared eventually to the Ameri-Corps and of course to the Job Corps, which has been in existence over 35 years (1965), we are still within our **first year of operation**. Only once did we not comply with 29 CFR, ss 95.22(b), and the reason as stated was for **“emergency contingency.”**

Thank you for your fairness and reconsideration of certain report items, and we look forward to working closely with DOL in making the College Corps/National Role Model Academy (NRMA) a great success!

Sincerely,

Dr. Robert L. Alexander
President

Dr. RLA

Enclosures: 1. Frederick News Post Article (Area usage invoiced) par. #2, 6 &12
2. Copy of Lawsuit
3. Copy of check
4. Exhibit 4A & 4B (PMDC Renovation work)
5. Copy of Bond
5B.Copy of Cashier’s check
6. Enjoinder against PMDC
7 A & B. Copy of approved indirect costs document and request for clarification

ADDENDUM

Note: The costs questioned by the auditors in this audit report and disallowed by the Grant Officer have been resolved through a Settlement Agreement dated November 16, 2006.