


Report Number 96-01

January 18, 1996

CORPORATION

FOR NATIONAL

 **S E R V I C E**

OFFICE OF THE INSPECTOR GENERAL

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Review of

New Orleans Youth Action Corps

New Orleans, Louisiana

Grant Number 94ASCLA019

This report is issued to CNS Management. According to OMB Circular A-50, *Audit Followup*, the Corporation must make a final management decision no later than September 3, 1996. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented or the amount of disallowed costs.

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

Corporation for National Service
Office of Inspector General
Review of New Orleans Youth Action Corps
Subgrantee of Louisiana Serve Commission
Grant Agreement #94ASCLA019

We performed a limited review, as described in the scope and methodology section of this report, of the New Orleans Youth Action Corps' (NOYAC) financial reporting and accounting systems and management controls to assess their ability to comply with Federal fiscal accounting and Corporation for National Service (CNS) grant requirements.

RESULTS IN BRIEF

We found that NOYAC's financial reporting and accounting systems and management controls were inadequate to ensure compliance with applicable Federal fiscal accounting and reporting requirements and to safeguard related funds. The conditions leading to this conclusion included inadequate:

- documentation of staff time charged to the grant,
- controls over receipts and disbursements, and
- supporting documentation for expenses charged to the grant.

In addition, we found that NOYAC needs to improve its cash management practices. As a result of these weaknesses, we are questioning \$36,419 in salaries paid to NOYAC staff and \$9,065 in unsupported or unallowable charges to the grant. These matters are discussed in more detail in the findings and recommendations section of this report.

BACKGROUND

NOYAC was awarded \$1,059,973 from the Louisiana Serve Commission (LA Serve)¹ to fund an AmeriCorps youth service corps program for the period August 1, 1994, to December 31, 1995. As the grantee organization, LA Serve is responsible for all aspects of the NOYAC AmeriCorps program including management, oversight, operation, and evaluation.

¹Under the National and Community Service Act of 1990, as amended, CNS distributes funds to Commissions on National and Community Service established by state governors. State Commissions apply for funds from CNS (which are available both on a formula allotment and a competitive basis) in order to award grants to service programs within the state.

NOYAC is a full-time environmental and educational youth corps performing service activities focusing on critical, unmet needs of the natural and urban environments as determined by community residents and organizations. NOYAC is a nonprofit organization initially begun as a partnership of the Audubon Institute of New Orleans and the Nature Conservancy of Louisiana.

NOYAC's budget was based on 70 AmeriCorps Members participating in the program. Members work on service projects developed and managed in collaboration with other nonprofit and public community agencies. Members work directly under team leaders who report directly to the project coordinator.

Table I: NOYAC AmeriCorps Program Incurred Costs (9/1/94-8/31/95)

<u>Cost Category</u>	<u>Amount Incurred</u>
Living Allowances	\$267,973
FICA and Worker's Compensation	49,606
Health Care	25,886
Member Training, Education, and Uniforms	<u>58,312</u>
Subtotal	401,777
Staff Salaries, Benefits, and Training	228,474
Travel, Transportation, Supplies, and Equipment	204,850
Internal Evaluation	3,878
Administrative Expenses	<u>28,891</u>
Total -- Operational Costs	<u>\$867,870</u>
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Total Operational Costs	\$867,870
Child Care	<u>3,208</u>
Total Grant Costs	<u>\$871,078</u>

*Under the grant, NOYAC was required to provide an additional \$303,565 in matching funds for its program.

SCOPE AND METHODOLOGY

We performed our review during the period September 26, 1995, through January 18, 1996. Our procedures included site visits to LA Serve's office in Baton Rouge and NOYAC's office in New Orleans, Louisiana. We obtained an understanding of NOYAC's accounting system and management controls and performed limited testing to determine whether they were operating as intended. Our procedures included:

- interviewing key LA Serve personnel;
- interviewing key accounting and program personnel at NOYAC;
- reviewing audit work performed by Charlet and Smith, CPA, the independent public accounting firm auditing NOYAC's financial statements;
- testing a judgmental sample of financial transactions related to the grant;
- reviewing NOYAC's procedures for drawing down funds;
- reviewing NOYAC's controls to monitor AmeriCorps Members and report service hours, and testing, on a judgmental basis, the accuracy of NOYAC's system used to accumulate service hours; and
- inquiring of NOYAC officials about their knowledge of and adherence to CNS regulations and policies regarding lobbying activities.

We performed our review in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. However, our procedures were substantially less in scope than an audit, and accordingly, did not include elements essential to the expression of an opinion on management controls. Accordingly, we do not express such an opinion. Further, if additional audit procedures had been performed, other matters might have come to our attention that would have been reported. Also, projections of any evaluation of the internal control structure over financial reporting to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We provided a draft of this report to CNS, LA Serve and NOYAC officials for their comments. Responses by LA Serve and NOYAC are presented as Exhibit A and B, respectively. CNS did not provide a response to the draft. LA Serve agreed with our findings and stated that it has enacted additional steps to reduce the processing time for issuing checks to NOYAC. NOYAC disagreed with some of our findings. Their response and our assessment are included in the applicable findings.

This report is intended for the information and use of Corporation, LA Serve, and NOYAC management. However, this report is a matter of public record and its distribution is not limited.

FINDINGS AND RECOMMENDATIONS

I. NOYAC's accounting system and internal controls were inadequate.

We found that NOYAC's accounting system and internal controls were not adequate to ensure compliance with applicable Federal fiscal accounting and reporting requirements and to safeguard related funds. Specifically, we found that: (1) staff time charged to the grant was not properly supported; (2) controls over cash receipts and disbursements were inadequate to safeguard funds; (3) supporting documentation for charges to the grant was not always maintained; (4) fund raising costs were charged to the grant; and (5) NOYAC did not follow CNS guidelines for payment of child care subsidies. These conditions resulted from both a lack of policies and procedures and inconsistent application of policies and procedures that NOYAC had established. We did note that NOYAC made improvements in financial management during the program year including hiring a Director of Finance to manage its accounting operations.

Staff time charged to grant not properly supported

During most of its first program year, NOYAC did not have procedures to document staff time charges for administrative activities (which are subject to limitations²) and program activities for those employees performing duties in both of these areas. In addition, NOYAC also did not require allocation of time spent on activities which are unallowable charges to the grant, such as fund raising. Salary cost allocations that were made were based on a predetermined rate and not adjusted for actual time spent on an activity.

For example, we reviewed the payroll records for two staff members, the Executive Director and the Funding and Development Manager, who performed fund raising activities as part of their daily routine. Neither employee allocated the time they spent on fund raising duties and the time spent on other allowable activities. In addition, their time sheets did not distribute their time between administrative and program related duties.

Beginning with the pay period ended September 2, 1995, NOYAC implemented procedures to allocate time between administrative, program, and miscellaneous projects. However, the new procedures did not require employees to designate time spent on fund raising or other activities which can not be charged to the grant.

²Only five percent of CNS grant funds can be used to reimburse administrative costs, including staff costs for administrative activities.

Federal regulations require employees who split their time between two or more functions to maintain an after-the-fact distribution of their activities (OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, Attachment B, section 6). These regulations also prohibit paying for fund raising activities with grant funds (Circular A-122, Attachment B, section 19). We are questioning \$36,419 for the salaries of the Executive Director and the Funding and Development Manager paid with CNS funds due to the lack of supporting documentation on the distribution of their time between allowable and unallowable activities.

NOYAC's "Accounting Policy and Procedures" manual also requires staff time sheets to be approved by the appropriate supervisor as evidenced by the supervisor's signature or initials on the time sheet. As part of our review, we examined a judgmental sample of ten staff time sheets and found that three had not been signed or initialed by the supervisor. We recommend that NOYAC follow its policy regarding supervisor approval and sign off on staff time sheets.

Controls over cash receipts and disbursements inadequate

NOYAC failed to follow its written procedures for cash receipts and disbursements. NOYAC's "Accounting Policy and Procedures" manual requires that a monthly cash receipts log be maintained to record all incoming funds. A copy of the log is then to be reviewed and approved by the Director of Finance and the Executive Director prior to posting the activity in the accounting system. However, according to the Administrative Assistant, no such log was maintained.

Additionally, contrary to NOYAC's accounting policies we found that NOYAC was not separating duties over cash receipts and disbursements. The Director for Finance prepared the cash receipts journal entries, posted the entries in the accounting system and made the bank deposit. Furthermore, we found that the Director for Finance performed accounting functions related to cash disbursements which included receiving vendor invoices, reviewing them for accuracy and reasonableness, matching the invoices against purchase orders, and forwarding the invoice to the appropriate manager for approval. After receiving the manager's approval, the Director for Finance also prepared the checks and recorded the disbursements in NOYAC's accounting system.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, section 21(b) states, "Recipients' financial management systems shall provide for . . . Effective control over and accountability for all fund, property and other assets. Recipients shall adequately safeguard all assets and assure they are used solely for authorized purposes."

While we did not find any evidence that funds were misused, the lack of separation of duties over cash receipts and disbursements renders any controls to prevent and detect such misuse

ineffective. We recommend that NOYAC follow its stated procedures for cash receipts and disbursements, including those specifying segregation of accounting duties.

In its response to a draft of this report, NOYAC stated that it had sufficient controls in place to compensate for the lack of separation of duties. However, during our review, we found no evidence of compensating controls. NOYAC also stated that they received a small number of large dollar receipts, and that the Executive Director was aware of each receipt. However, we found that NOYAC had numerous receipts from contributions, fund raisers, and other grants, in addition to its draw downs of operating funds from LA Serve.

Inadequate supporting documentation for grant costs

NOYAC did not always follow its procedures for maintaining supporting documentation. During our review we examined supporting documentation for judgmental samples of disbursements for goods and services, travel charges, and in-kind contributions. We found:

- Of 28 disbursements for goods and services, two disbursements charged to the grant totaling \$131 did not have a supporting invoice. Additionally, three disbursements did not have the required purchase/check request or any indication of review prior to payment. Also, another disbursement had a purchase/check request, but it was missing an approval signature, account number, and check number.
- Of 15 travel charges examined, three charges to the grant totaling \$682 had incomplete documentation. For example, in one instance a travel agency's itinerary, which did not confirm whether the ticket was used, was provided as support for the purchase of an airline ticket rather than a ticket receipt or airline invoice. Additionally, during our review of travel charges, we noted that NOYAC did not have a systematic method for filing travel documentation.
- Of eight in-kind contributions examined, NOYAC had no documentation for one in-kind contribution and incomplete documentation for two others. NOYAC's independent auditors are currently reviewing the valuation of some in-kind donations.

Federal regulations state that costs charged to the grant must be adequately documented (Circular A-122, Attachment A, section 2g) and that third party in-kind contributions must be verifiable from the recipient's records and the basis for determining the valuation shall be documented (Circular A-110, section 23). Furthermore, NOYAC's "Accounting Policy and Procedures" manual requires that invoices be approved by the appropriate manager as to the satisfactory performance of the services rendered, marked paid, and filed alphabetically by vendor with check copy.

We are questioning \$131 for goods and services and \$682 in travel charges due to inadequate supporting documentation. We also recommend that NOYAC: (1) follow the policies it has established for approving, paying and filing invoices; (2) file all supporting documentation for travel by individual staff person for each separate trip taken; and (3) obtain and maintain adequate supporting documentation for all its in-kind contributions and the basis for determining their value.

In its response, NOYAC stated that it has complete supporting documentation for the costs we questioned. However, during our review, we found that the documentation provided was inadequate to support these costs. If additional supporting documentation is now available related to these amounts, NOYAC should provide this information to CNS grants management officials for their consideration during the resolution process.

Fund raising costs charged to grant

During our review we noted that NOYAC used grant funds to pay the registration costs for the Funding and Development Manager to attend a fund raising seminar and the travel expenses of the Executive Director to attend a different fund raising seminar. We also found that NOYAC used grant funds to purchase fund raising reference books and for the production of promotional packets and a video to be used when meeting with potential donors.

Federal regulations prohibit paying for fund raising activities with grant funds (Circular A-122, Attachment B, section 19). We are questioning \$5,044 in costs charged to the grant for fund raising activities.

NOYAC did not follow CNS guidelines for payment of child care

For the first seven months of the grant, NOYAC made payments for child care directly to providers rather than through the National Association of Child Care Resource and Referral Agencies (NACCRRA) system as required by CNS. NOYAC charged 100% of these child care costs to its AmeriCorps grant.

NACCRRA determines the eligibility of AmeriCorps Members to receive child care benefits and the qualifications of the child care providers. Regulations governing child care subsidies provided by CNS stipulate that eligible providers and the amount of the child care allowance must be tied to the Child Care & Development Block Grant (CCDBG) of 1990. Any child care provider must comply with state and local requirements and be licensed, regulated, or registered in accordance with those regulations.

NOYAC stated that it did not become aware of the NACCRRA child care payment system until March 1995 and at that time began processing its child care payments through the NACCRRA system. However, because NOYAC was unable to provide evidence to us that

CNS and NACCRRA requirements regarding the eligibility of child care providers and the amount of child care allowance were met, we are questioning \$3,208 for child care payments made directly by NOYAC and charged to the grant.

In its response, NOYAC stated that it did not receive clear direction on this matter and that it now has evidence that all CNS and NACCRRA eligibility requirements were met. However, the grant agreement between NOYAC and LA Serve clearly spells out the terms and conditions related to the administration of child care payments. NOYAC should provide any additional information it has related to this matter to CNS grants management officials for their consideration during the resolution process.

Table II: Summary of Questioned Costs

Description	Questioned*
Executive Director's Salary	\$28,940
Funding and Development Manager's Salary	7,479
Subtotal - Salaries	36,419
Goods and Services	131
Travel	682
Fund raising	5,044
Child care	3,208
Subtotal - Unallowable/unsupported Costs	9,065
Total Questioned Costs	\$45,484

*Amount represents questioned charges to the grant. Total expense incurred for a category may be higher.

II. Cash draw downs exceed funds required for day-to-day operations.

Our review of NOYAC's cash draw downs indicated that NOYAC routinely maintained grant funds in excess of its immediate needs. CNS grant funds were consistently in NOYAC's bank account in excess of two weeks before they were disbursed. For one period (August/September 1995) NOYAC maintained grant funds in excess of its needs for more than a month. Federal regulations require that payment methods shall minimize the time

elapsing between the draw down of funds and the disbursing of those funds (OMB Circular A-110, Subpart C, section 22).

As a subrecipient, NOYAC receives grant funds by check from LA Serve who draws down through the HHS SMARTLINK system. LA Serve acknowledged that it needs eight to 20 days to process a request for funds and send a check to NOYAC. The uncertainty and length of time required for LA Serve to disburse funds to NOYAC makes it difficult for NOYAC to forecast its cash needs. However, we believe that the amount of funds in excess of its short term needs routinely maintained by NOYAC indicates that NOYAC can make improvements in its cash forecasting.

We recommend that LA Serve reduce the number of days required to disburse funds to its sub-recipient and that NOYAC forecast its cash needs in such a manner so that it limits its Federal cash on hand.

III. NOYAC reduced the amount of AmeriCorps Members' stipends for unexcused absences.

We found that, contrary to Federal regulations, NOYAC reduced the stipend amount paid to AmeriCorps Members who had unexcused absences during a pay period. Federal regulations (42 U.S.C. §12594 and 45 C.F.R. §2522.240) provide that all members enrolled in an AmeriCorps program on a full time basis are to receive a living allowance of at least 100% of the total annual average provided to VISTA volunteers under 42 U.S.C. §4955.³ Entitlement to a living allowance is dependent upon enrollment in a program as a full time participant, not the amount of service conducted or the number of hours spent working with the program in a particular accounting period.

NOYAC's Project Director stated that NOYAC deducts amounts from the stipend as a tool to ensure that its AmeriCorps Members obtain prior approval of absences. We recommend that NOYAC develop an alternative penalty system, other than reducing stipends, for members who have unexcused absences.

³The minimum living allowance for an AmeriCorps Member is \$7,640. However, because NOYAC was an existing program as of 9/21/93, it was not required to increase the amount paid for the living allowance (42 C.F.R. §12594 (6)). The NOYAC program paid AmeriCorps members a living allowance of \$125 per week.



Lieutenant Governor
Kathleen Babineaux Blanco

Office of the Lieutenant Governor
Louisiana Serve Commission



Executive Director
Sara Sims

February 27, 1996

Ms. Luise S. Jordan
Inspector General
Corporation for National Service
1201 New York Ave., NW
Washington, D.C. 20525

Dear Ms. Jordan:

Thank you for the opportunity to respond to your report about New Orleans Youth Action Corps. Lieutenant Governor Blanco and the Louisiana Serve Commission are committed to improving internal controls with the AmeriCorps grants programs. The Office of the Inspector General has been helpful in providing suggestions for improvements and we welcome the occasion to respond to your February 1, 1996 correspondence.

I am enclosing the response of New Orleans Youth Action Corps in reply to the findings of your review as referenced in your correspondence.

Pertinent to page 8, section II regarding cash draw downs in the report: The period of eight (8) to twenty (20) working days to process a request for funds, referenced by my office, was intended to illustrate the minimum time necessary to process an invoice and the maximum time required if there is a problem with an invoice. The Louisiana Serve Commission has encountered many problems previously with the information provided by NOYAC on their invoices. There have been occasions where as many as twenty (20) days lapsed before questions could be resolved and approval granted to issue a check.

However, to reduce the processing time for NOYAC, we have enacted additional steps to reduce the minimum time frame even further. The new procedures are as follows:

Day 1 NOYAC faxes the invoice to the Louisiana Serve Commission office for review, and, mails the original document.

Day 2 The Louisiana Serve Commission verifies the invoice and notifies the Office of Management and Finance that the invoice will be processed for approval.

OMF draws funds via HHS Smartlink System

Day 3 OMF, using the computerized state FACS system, receives and classifies funds, draws a state warrant, and requests a check as a special process (payment is flagged and removed from normal flow to ensure that the check is not mailed without securing an original invoice with approvals).

Louisiana Serve receives the original invoice and secures signatures of the AmeriCorps Officer, Executive Director and the Lieutenant Governor.

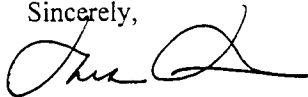
Day 4 The signed original invoice is sent to OMF on day 4 or day 5.

Day 5 The check is received after 2:00 p.m. from the State Treasurer and sent via Federal Express to New Orleans.

The procedure allows time for a check to be processed within 2 days after receipt of the original invoice. No further reduction in time can be made without violating state policies and procedures. This time frame works efficiently unless the invoice appears to reflect excessive cash needs or cash on hand. The Louisiana Serve Commission must request written justification if this is the case.

Again, thank you for the opportunity to respond to the report. We are eager to resolve these and any other concerns you may have regarding the Louisiana Serve Commission and its sub-grantees.

Sincerely,



Sara Sims, Executive Director
Louisiana Serve Commission

cc: Lieutenant Governor Kathleen B. Blanco
Ann Miller, Commission Chair
Lois Ashby, Fiscal Officer - OMF

2301 Burgundy Street
New Orleans, LA 70117



PH (504) 947-6628
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February 22, 1996

Ms. Luise S. Jordan
Inspector General
Corporation for National Service
1201 New York Avenue NW
Washington, DC 20525

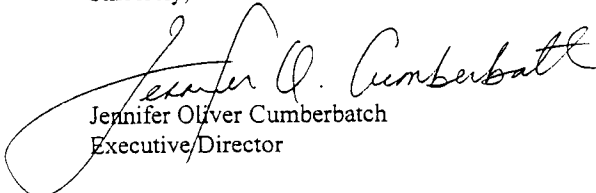
Dear Ms. Jordan:

This transmittal is in response to your February 1, 1996 draft report regarding your review of NOYAC's financial reporting and accounting systems.

Please find attached our response as approved by our board of directors and signed by our finance committee member.

We anxiously await your final report.

Sincerely,



Jennifer O. Cumberbatch
Executive Director

Enclosure



The AmeriCorps National Service Network - GETTING THINGS DONE

Charles L. Lacoste, Jr. CPA

A PROFESSIONAL ACCOUNTING CORPORATION

8116 Burthe Street
New Orleans, Louisiana 70118
(504)861-0513
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February 22, 1996

Luise S. Jordan
Inspector General
Corporation for National Service
1201 New York Ave. NW
Washington, DC 20525

We have considered your review of New Orleans Youth Action Corps (NOYAC) financial reporting and accounting systems. We agree with some of your points, disagree with others. Of those points we agree with, most have been completely corrected.

Taking each point sequentially, we agree that staff time charged to the grant was not properly supported. In particular we acknowledge that compensation for fund raising can not be allowed. We also recognize that the requisite reports of the executive director's time were not maintained in accord with the requirements. However, we know that substantial portions of her time is now and was then, programmatic. Is there any alternative to complete disallowance? If so, we wish to appeal the disallowance.

Secondly, we disagree that controls over cash receipts and disbursements were inadequate. While the separation of duties is highly recommended and important, the lack thereof does not render the system of internal control ineffective if there are sufficient other controls in place. In this particular situation the receipts were so few, so large in regard to cash flow, that the Executive Director was aware of each receipt, was in fact awaiting each receipt and monitoring the cash flow. She was communicating with the Director of Finance and the grantors looking for the funds. It was a virtual impossibility, absent collusion, which separation of duties can not overcome, for cash receipts to be misused. The Board of Directors and staff are in agreement to rewrite the policy manual to correct certain assumptions, such as the existence of another position which will not be filled, and to improve separation of duties to the greatest extent possible. We remain convinced that there has been no failure of the system and that funds were never in jeopardy of misuse.

Thirdly, we believe the two disbursements totaling \$131 are adequately supported. They are a deposit and payment of rent for the use of a state park. It would be unusual for such expenditures to be supported by invoices. The checks are properly prepared, endorsed and purpose noted on the face. The three charges for

travel appear to have complete documentation. What is termed an itinerary is actually an invoice. We believe the audit team has been mistaken on this point. As to the filing method, it appears
Luise S. Jordan
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to the author to be satisfactory. The staff has agreed to review the filing and report to the Board. We also disagree that in-kind contributions are substantially incomplete in their documentation, but are also reviewing that area to improve.

Fourth, the charge of fund raising costs to the grant are improper, but we disagree with the classification of certain items as fund raising. The presentation folders, termed promotional packets, and the videos are only incidently fund raising devices. They are used primarily in community outreach, corps member recruitment and orientation, and in other similar manners. We do not believe they should be disallowed.

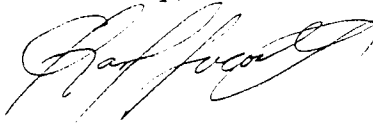
Fifth, we do not agree that child care costs should be disallowed. A review of our files shows no clear direction on the matter before March of 1995, at which time the procedure was corrected. We are providing in a subsequent reply evidence that CNS and NACCRA requirements were met. The Board believes that further investigation will support the eligibilty of the payments.

Sixth, based on our review of the bank statements and cash flow, it appears that there was one instance of funds being accumulated in excess of needs. It is believed to be an isolated instance and the result of a misunderstanding. This misunderstanding was also at the Board level. The Board was fully aware of the large request, it anticipated large start up costs and believed it was acting properly. The board has assigned the Finance Committee to thoroughly review this area and work with the staff and La. Serve to insure that there are no future problems.

Finally, we recognize the problem with reduced stipends and understand that this has been a systemic problem. We are in compliance and will remain so in the future.

In summary, we appreciate the opportunity to comment on the draft report, and wish to emphasize our strong commitment to cooperation with CNS and the La Serve Commission. The Board is fully engaged in this process and will remain so.

Sincerely,

A handwritten signature in cursive script, appearing to read "Luise S. Jordan".