

CORPORATION

FOR NATIONAL

 SERVICE

OFFICE OF THE INSPECTOR GENERAL

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Initial Year Review

National Aids Fund

Washington, D.C.

Grant Number 94ADNDC025

This report is issued to CNS Management. According to OMB Circular A-50, *Audit Followup*, the Corporation must make a final management decision within 180 days of the report. 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 this report.

Corporation for National Service
Office of Inspector General
Initial Year Review
Grant Number 94ADNDC025
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We performed a limited review¹ of the National AIDS Fund's (NAF)² accounting and management control systems to assess their ability to safeguard Federal funds and comply with CNS regulations and policies, as well as applicable Federal fiscal accounting and reporting requirements.

Results

With certain exceptions, our review revealed that NAF's accounting system and management controls and procedures appear to be adequate to safeguard Federal funds and to report grant expenditures in accordance with Federal requirements. First, NAF did not have adequate documentation to support third-party in kind contributions. Second, NAF's accounting procedures and policies are not formally documented in a written manual. Based upon the first exception, we have questioned costs of \$91,458.³

We provided a draft report to NAF and CNS management for their response. CNS management did not respond. NAF's response, is presented in its entirety as Exhibit A. In summary, NAF has stated that it has:

- implemented a policy that requires each AmeriCorps site to submit a monthly log listing in-kind contributions; and
- initiated steps to update its accounting policies and procedures manual.

Background

NAF is a national not-for-profit organization whose mission is to address the HIV/AIDS epidemic. Through its service funding activities, NAF builds alliances with communities by developing resources for HIV/AIDS prevention and care services.

The AmeriCorps grant provides funding to support a national multi-site AmeriCorps Youth HIV/AIDS Service Partnership. The partnership deals with the crisis of HIV/AIDS among the

¹ As described in the Scope and Methodology section of this report.

² The National AIDS Fund was originally incorporated under the name of the National Community AIDS Partnership. NAF changed its name September 1994.

³ The \$91,458 of in-kind questioned costs were used to meet NAF's matching requirements.

nation's young people in Birmingham, Alabama; Dayton, Ohio; Sacramento, California; Tacoma, Washington; and Tulsa, Oklahoma.

Five sponsoring organizations in each targeted city identified community-based agencies to host the AmeriCorps members. The AmeriCorps members are supervised by and work directly with the community-based agencies performing direct service in the following areas:

- HIV/AIDS prevention and educational services,
- care and support services for those living with HIV, and
- resource building to enhance community awareness of the HIV/AIDS dilemma.

The grant provided funding for the period July 1, 1994 through September 30, 1995 to support 40 full-time AmeriCorps members.⁴

Approved Funding in Support of NAF AmeriCorps Program			
	CNS Funding	NAF's Match	Total Funding
NAF Program Budget			
Operating Cost	\$ 212,662	\$ 197,581	\$ 410,243
Living Allowances	<u>291,938</u>	<u>76,063</u>	<u>368,001</u>
Total Program Funds	\$ <u>504,600</u>	\$ <u>273,644</u>	\$ <u>778,244</u>
Other Approved Funding*			
Child Care	\$ 20,400		\$ 20,400
Post Service Educational Benefits	<u>189,000</u>		<u>189,000</u>
Total Other Approved Funding	\$ <u>209,400</u>		\$ <u>209,400</u>
<p>* These are budgeted amounts in support of the NAF's AmeriCorps program that are not made available to NAF. Payments for child care benefits are made by the National Association of Child Care Resource & Referral Agencies under a cooperative agreement with CNS, and post service education benefits are paid by the National Service Trust.</p>			

⁴ As of August 15, 1995 there were 33 AmeriCorps members enrolled in the program.

The grant is administered directly through NAF's Washington, D.C. office and all financial records and supporting documentation are maintained there.

Scope and Methodology

We performed our review during the period July 17 through November 30, 1995. We obtained an understanding of the accounting system and management controls and performed limited testing to determine whether they were operating as intended. Our procedures included:

- interviewing key accounting and program personnel at NAF headquarters;
- documenting and nominally testing key management controls over NAF's accounting and reporting systems;
- testing a judgmental sample of financial transactions related to the grant; and
- reviewing prior NAF financial audit reports and a draft Health and Human Services, Center for Disease Control report⁵ based on a review performed by Williams, Adley & Company to document and evaluate NAF's management procedures and financial management systems controls.

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 express 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 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.

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

⁵ Recipient Capability Audit Report, Grant Number U62/CCU311539-01, National HIV/AIDS Prevention and Health Communications Program.

Findings and Recommendations

I. Third party in-kind contributions were not adequately supported.

CNS grant provisions require the grantee to maintain verifiable documentation for all third party in-kind contributions. OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, incorporated in CNS' regulations at 45 C.F.R. Part 2543, requires that in-kind contributions from third parties be documented, and that the documentation include the basis for determining the value of the contributions.

NAF's documentation for third party contributions failed to meet this criteria. The grantee records contained no detail as to who performed the in-kind services, nor did the records establish the basis for determining the value of the services provided. Instead, NAF reported in-kind contributions based upon budget projections. For the ten month period of the grant, NAF claimed in-kind contributions of \$91,458 toward its matching requirement. Because NAF has failed to properly document matching contributions we have questioned the reported costs.

We recommend that NAF provide adequate documentation to support third party in-kind contributions used to meet its current year grant match requirement. NAF has told us that they are in the process of obtaining sufficient supporting documentation for third party in-kind contributions, and implementing a detailed tracking system to support contributions for the new fiscal year. We recommend that CNS followup with NAF to assess their new tracking system to ensure that sufficient documentation is being maintained and that a basis for determining the value of services is provided.

II. NAF's accounting policies and procedures are not formally documented.

OMB Circular A-110 (45 C.F.R. Part 2543), requires that a grantee's financial management system include written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award. In addition, CNS grant agreements, require that a grantee's financial management system include written cost allocation procedures.

At the time of our review, NAF had only documented its instructions related to the internal handling of checks and changes to its travel, check request and check writing procedures. NAF had not formally documented its remaining accounting policies and procedures as required by CNS regulations.

This deficiency was also noted in the Williams, Adley & Company's draft report⁶ which states, "There are no written policies and procedures related to the preparation of the financial statements; processing expenditures, payroll, and cash receipts; and accounting for investments, volunteer services and donated furniture and equipment. Formally documented procurement policies and procedures do not exist."

NAF's management is in the process of formally documenting all accounting policies and procedures. However, the current lack of formally documented written accounting policies and procedures increases the risk that grant requirements are not being met, and that informal policies and procedures currently in place are not followed.

We recommend that NAF continue to formally document all accounting policies and procedures, and establish a policy whereby the manual is periodically updated and approved by management.

⁶ Refer to Scope and Methodology section of this report.

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

January 20, 1996

Dear Ms. Jordan:

I am responding to the draft of your report dated December 13, 1995. In your report, you noted two exceptions. The first covered documentation of in kind contributions and the second dealt with the accounting policies not being documented.

We will first respond to your exception regarding the in kind contributions. Prospectively, the National AIDS Fund is requiring each AmeriCorps site to submit a monthly log listing in kind contributions. Jenny Hamilton, the National AIDS Fund Director of the AmeriCorps program is working with your staff to insure that we have documented all relevant data required under the contract

The second exception in your report stated that National AIDS fund accounting policies and procedures are not formally documented. There are policies documented, however, they are somewhat outdated. Over the past few years the organization has experienced substantial growth. We have found that procedures that worked for an organization with three employees do not work for one with thirty.

We were the subject of a management review by the Big Six accounting firm of Price Waterhouse. We are in the process of adopting a number of their recommendations including updating the accepting policies and procedures.

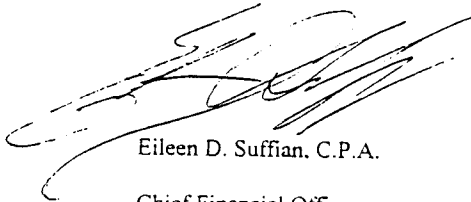
In order to strengthen our internal control the following procedures are being followed:

- Mail is opened and logged by a person not connected with finance.
- A daily cash log is kept of all cash coming into the organization.
- All check requests require supervisor approval.
- Two signatures are required on checks exceeding \$ 5,000.
- Time sheets are kept based upon actual hours and require the supervisor's signature and approval.

The accounting procedures manual is currently being documented.

I hope this addresses the exceptions noted in the report to your satisfaction. If you need any additional information, please do not hesitate to contact me directly.

Very truly yours,



Eileen D. Suffian, C.P.A.

Chief Financial Officer

cc. J. Hamilton
P. Van Ness