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CORPORATION

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S E R V I C E

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## OFFICE OF THE INSPECTOR GENERAL

Review of the  
National Organization for Victim Assistance  
Award Number 95ADNDC013

**This report is issued to CNS Management. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than December 15, 1997 and complete its corrective actions by June 20, 1998. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented or the amount of disallowed costs.**

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

Office of the Inspector General  
Review of the  
National Organization for Victim Assistance  
Award Number 95ADNDC013



Tichenor and Associates, under contract to the Office of the Inspector General, performed a limited review of the National Organization for Victim Assistance's (NOVA) accounting systems and management controls to determine whether they are adequate for managing the award in accordance with Federal and grant requirements and for safeguarding Federal funds. We have reviewed the report and workpapers supporting its conclusions and agree with the findings and recommendations presented.

Tichenor and Associates found that the accounting systems and management controls of NOVA and its subgrantees were inadequate to report grant expenditures and to safeguard Federal funds. The conditions leading to this conclusion included

- NOVA's financial management system was not adequate to properly record grant expenditures. As a result, we are questioning \$15,656 of unallocable costs charged to the grant.
- NOVA did not adequately monitor subgrantee activity in the areas of reporting financial status, establishing AmeriCorps Member eligibility, providing health insurance for Members, and quantifying program accomplishments.
- The procedures of the Fund for the City of New York, a subgrantee, were inadequate for summarizing and reporting AmeriCorps Member service hours.

In its comments on a draft of this report, NOVA generally disagreed with the findings and recommendations and provided additional information and documentation. We considered this information and revised our report where appropriate. NOVA's comments are included as Appendix I and summarized in the report with the auditor's comments, as appropriate.

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Inspector General  
Corporation for National Service

We performed a limited review, as described in the Scope and Methodology section of this report, of the National Organization for Victim Assistance's (NOVA) accounting systems and management controls. Our objective was to determine whether the controls are adequate and suitable to report grant expenditures in accordance with Federal requirements and to safeguard Federal funds. Our review covered Corporation for National Service (CNS) award number 95ADNDC013 in the amount of \$700,800 for the period from August 1, 1995 through December 31, 1996, the expiration date of the award.

## **RESULTS IN BRIEF**

We found that the accounting systems and management controls of NOVA and its subgrantees were inadequate to report grant expenditures and to safeguard Federal funds. Our conclusion is based on the following conditions:

- NOVA's financial management system was not adequate to properly record grant expenditures. As a result, we are questioning \$15,656 of unallocable costs charged to the grant.
- NOVA did not adequately monitor subgrantee activity in the areas of reporting financial status, establishing AmeriCorps Member eligibility, providing health insurance for Members and quantifying program accomplishments.
- The procedures of the Fund for the City of New York (FCNY), a subgrantee, were inadequate for summarizing and reporting AmeriCorps Member service hours.

These matters are discussed in greater detail in the Findings and Recommendations section of this report.

We provided CNS and NOVA officials with a draft of this report for their comments on February 28, 1997. CNS did not provide a response.

In its response, NOVA generally disagreed with our findings and recommendations and provided additional information and documentation to support their position. NOVA's response included comments from FCNY. Although FCNY's response disagrees with the descriptions of the conditions we are reporting, FCNY describes corrective actions it has taken. NOVA's letter, with FCNY's letter attached, is included as Appendix I.

## **OTHER MATTERS**

On March 25, 1997, NOVA provided audited financial statements for the year ended September 30, 1995. The statements contained the following information that would indicate NOVA's financial viability could be a matter of concern to CNS, as follows:

- Nova reported a net loss of \$44,479 for Results of Operations for the year September 30, 1995; additionally, its debts exceeded its assets by \$12,070.
- NOVA showed indebtedness to two of its officers in the amount of \$67,171, secured by promissory notes paying interest of 8 percent per annum.
- The Notes to the Financial Statements disclosed questionable related-party transactions.

Although the Independent Auditor's Report accompanying the financial statements did not express substantial doubt about NOVA's ability to continue operations, we concluded that the operating loss and debts cast doubt on the ability of NOVA to support CNS grant programs. We recommend that CNS consider these issues, as well as the other Findings and Recommendations in this report, when monitoring the financial status of this grantee.

In its response to a draft of this report, NOVA disagreed with our comments that questioned their financial viability. We revised the Other Matters section above based on NOVA's comments and the information contained in the audited 1995 financial statements provided to us during a meeting with NOVA on March 26, 1997. The 1995 financial statements were not provided to us during our fieldwork.

## **BACKGROUND**

The National Organization for Victim Assistance (NOVA) is a non-profit District of Columbia Corporation founded in 1975. The headquarters and administrative offices are located in Washington, D.C. NOVA is a national organization devoted to advancing rights of victims through advocacy, training and direct service.

The majority of NOVA's funding comes from its AmeriCorps grant and several Department of Justice grants. NOVA was awarded a planning grant by CNS in 1994, which was used to assist them in planning how AmeriCorps Members could be utilized within communities to help prevent crime. The result of the planning grant was the creation of the Red Hook Public

Safety Corps (Red Hook), located in the Red Hook public housing community in Brooklyn, New York.

The AmeriCorps grant was effective on August 1, 1995, but activities under the grant did not begin until November 27, 1995. Three subgrantees, known collectively as the Red Hook Public Safety Corps, participated in the grant.

- The Fund for the City of New York (FCNY), located in New York, NY, was the lead operating site agency. FCNY was established in 1968 by the Ford Foundation and is a city-wide non-profit agency that works to enhance the efficiency and effectiveness of both government and non-profit organizations.
- The Kings County District Attorney's Office, Brooklyn, NY, is a pioneer in the field of community prosecution, working with the community to make justice quicker, more accessible and more responsive to the needs of the residents.
- Victim Services is a non-profit organization based in New York, NY, providing practical and emotional support to crime victims and their families.

## **SCOPE AND METHODOLOGY**

We conducted our review at NOVA's offices in Washington, D.C., and FCNY's offices in New York, NY. We performed the procedures listed below in evaluating management's assertion about the effectiveness of NOVA's accounting systems and systems of management control over compliance with laws and regulations applicable to the grant during the period August 1, 1995 through December 31, 1996. We selected the June 30, 1996 Financial Status Report (FSR) for our review as the most current FSR submitted as of the beginning of our fieldwork. Consequently, we reviewed transactions and identified questioned costs associated with the June 30, 1996 FSR. However, our findings and recommendations address the accounting and management controls of NOVA and its subgrantees as of the date of this report, December 31, 1996.

Our procedures included:

- interviewing key management, accounting, and program personnel;
- reviewing NOVA's and the subgrantees' organization charts, policies and procedures manuals, and charts of accounts;
- reviewing audit reports on NOVA's and the subgrantees' financial statements and management controls;
- testing a judgmental sample of financial transactions related to the grant; and

- reviewing NOVA's oversight and monitoring of the subgrantees participating in the AmeriCorps grant.

We performed our review in accordance with *Government Auditing Standards* (1994 Revision) 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 procedures had been performed, other matters might have come to our attention that would have been reported. Also, projections of any evaluation of the management control structure may become inadequate because of changes in conditions, or because the degree of compliance with policies and procedures may deteriorate.

## **FINDINGS AND RECOMMENDATIONS**

- I. NOVA's financial management system was not adequate to properly record grant expenditures. As a result, we are questioning \$15,656 of unallocable costs charged to the grant.

CNS regulations (45 CFR 2543.21(b)(3)) require NOVA to establish a financial management system that provides effective control over and accountability for all funds, property and other assets while assuring such assets are safeguarded and used for authorized purposes. Additionally, CNS regulations (45 CFR 2543.21(b)(1)) require NOVA's financial management system to provide accurate, current and complete disclosures of financial results. We found that NOVA:

- Claimed costs for salaries and benefits that were not proportional to actual hours worked.
- Claimed administrative costs as direct costs for salaries, benefits and insurance costs.
- Claimed excess administrative costs.
- Did not report Recipient Outlays on the June 30, 1996 FSR.
- Submitted each of three FSRs, which were due during the period of our review, approximately 15 days late.

As a result of our findings, we are questioning \$15,656 as follows:

<b>Summary of Awarded, Reported and Questioned Costs June 30, 1996</b>					
<b>Budget Categories</b>	<b>Approved Budget</b>	<b>Total Outlays</b>	<b>Adjustments</b>	<b>Questioned Costs</b>	<b>Notes</b>
Member Support	\$423,674	\$214,972			
Other Member Costs	16,975	1,647			
Staff	192,975	151,966	\$(36,470)	\$ 458	1, 2
Operating Costs	51,697	20,808	(266)		3
Administration	<u>15,479</u>	<u>13,502</u>	<u>36,736</u>	<u>15,198</u>	2, 3, 4
<b>Total Award<sup>1</sup></b>	<b><u>\$700,800</u></b>	<b><u>\$402,895</u></b>	<b><u>\$ 0</u></b>	<b><u>\$15,656</u></b>	
<b>NOVA's Cost Sharing</b>	<b><u>\$220,823</u></b>	<b><u>\$ 49,214</u></b>			
<b>Total Project Costs</b>	<b><u>\$921,623</u></b>	<b><u>\$452,109</u></b>			

**Notes:**

- NOVA staff did not distribute administrative time by activity. In addition, labor hours charged to the grant were not proportional to the actual hours worked. NOVA employees routinely work more than eight hours a day and record these hours on their time sheets. At the end of each biweekly pay period, NOVA required its employees to reduce the hours chargeable to each activity so that total hours did not exceed 80 hours for the pay period. These hours were then allocated to NOVA's various programs. We determined that one staff member's time was misallocated and overstated by as much as 10 percent when compared to actual hours. Federal regulations (OMB Circular A-122, Attachment B, subparagraph 6.1.(2)(a)) require that reports (time sheets) reflect an after-the-fact determination of actual activity. We are questioning \$458 as a result of the misallocation of hours.
- NOVA charged all parent organization staff salaries as direct program costs. CNS regulations (45 CFR 2510.20) consider parent organization costs to be administrative in nature unless there is direct responsibility for the training, recruitment, placement or

<sup>1</sup> Child care costs for 15 Members were not included as part of the operating budget because they are paid directly to the providers from CNS through the National Association of Child Care Resources and Referral Agencies (NACCRRRA). Additionally, educational awards of \$236,250 for 50 Members were approved in the award budget but not included as part of the operational budget because they are paid through the National Service Trust.

**(Notes to table, continued)**

supervision of the Members. Our review of the duties described in the budget narrative provided by NOVA staff indicated that only the Project Director had limited direct involvement with the Members. However, NOVA claimed all staff salaries because they were identified as such in the approved budget and did not segregate direct and administrative hours on its time sheets. We concluded that the staff costs were administrative in nature because NOVA is the parent organization with no Members directly under their supervision. Further, NOVA was unable to show with its time sheets the amount of time spent by the Program Director in direct contact with Members. We identified \$36,470 of staff salaries and benefits charged as direct program costs and reclassified this amount as administrative costs.

3. Victim Services, a subgrantee, claimed \$266 of property, general and professional liability insurance as direct costs. CNS regulations (45 CFR 2510, *Administrative Costs*, (1) (iii)) specifically identify insurance as an administrative cost subject to the five percent limitation. We reclassified \$266 of insurance costs as administrative costs.
4. As a result of reclassifying direct costs as administrative costs, we found that NOVA exceeded the limitation for administrative costs. We are questioning excess administrative costs as shown below:

**Administrative Costs  
June 30, 1996**

Total Award – Federal Share	\$700,800	
Administrative Cap – Five Percent	<u>x 0.05</u>	
Maximum Allowable Administrative Costs		\$35,040
Administrative Costs Reported	\$ 13,502	
Direct Costs Reclassified as Administrative Costs	<u>36,736</u>	
Total Administrative Costs Incurred		<u>50,238</u>
Questioned Administrative Costs – Net of Allowable and Incurred Administrative Costs		<u>\$15,198</u>

We also found that NOVA reported no cost sharing contributions in the Recipient Outlays Section of its parent organization June 30, 1996 Financial Status Report (FSR). CNS regulations (45 CFR 2543.21 (b) (1)) require NOVA to submit FSRs that are current, accurate and complete. NOVA officials stated that matching costs had been incurred but omitted from the FSR in error.

Additionally, NOVA did not submit FSRs in a timely manner. CNS regulations (45 CFR 2543.52) require FSRs to be submitted no later than 30 days after the end of each quarter. We found that NOVA submitted three FSRs between December 31, 1995, and June 30, 1996, each



approximately 15 days late. NOVA attributed its late submissions to the inability of the subgrantees to submit their reports in a timely manner.

We recommend CNS require NOVA to:

- Reimburse \$458 of misallocated salaries and \$15,198 of administrative costs in excess of the five percent limitation. Additionally, CNS should determine the amount of additional administrative costs, if any, claimed during the period from June 30, 1996 through December 31, 1996.
- Establish a time keeping system to support allocation of costs to the grants in proportion to actual hours worked and to distribute hours properly between administrative and direct activities. Further, we recommend that NOVA's program salary costs be allocated to grant activities using actual recorded hours as the base (OMB Circular A-122, Attachment A, subparagraph D3). This would eliminate the need for NOVA to reduce the recorded hours as done under the questioned method.
- Compile support for its cost sharing and submit a revised June 30, 1996 FSR to show the amounts contributed. Additionally, NOVA should implement procedures to properly segregate matching costs in its accounting records.
- Submit FSRs on a timely basis to CNS. NOVA should request an extension of the FSR due date from CNS whenever circumstances prevent timely submission.

In its response, NOVA explained that cost sharing of \$26,465 was omitted from the June 30, 1995 FSR in error because NOVA's staff completed the form incorrectly. NOVA also provided a schedule, which summarized cost sharing provided at the end of the project at December 31, 1996. We did not review the schedule, which was included to support their comments. We recommend that CNS review the allocability and allowability of the amounts reported on the schedule.

In a separate response, FCNY disagreed with the finding concerning our determination that the costs for office equipment were administrative costs. FCNY stated that the office equipment purchase was identified in the grant budget and was intended solely for use by the Red Hook Safety Corps Members. We agreed with FCNY that the costs were identified for a specific purpose in the grant and that they were direct in nature. We revised the finding to eliminate the questioned costs of the office equipment of \$890.

- II. NOVA did not adequately monitor subgrantee activity in the areas of reporting financial status, establishing AmeriCorps Member eligibility, providing health insurance for Members and quantifying program accomplishments.

Subgrantee operating site costs recorded by NOVA did not agree with the costs reported on the FSRs submitted by the subgrantees. CNS regulations (45 CFR 2543.21 (b)(1)) require NOVA's financial management systems to provide for accurate, current and complete disclosure of the financial results of each federally-sponsored project or program. We determined that the reason for this inconsistency was that subgrantees were provided grant funds by NOVA on a reimbursement basis and that the record keeping lagged behind the submission of the FSRs. During our field work, NOVA stated it was not their responsibility to monitor the subgrantees' financial activity or ensure the accuracy of the subgrantees' financial information reported to CNS.

We also found that NOVA and its subgrantees had not verified the eligibility status of the Members since the start of grant activities on November 27, 1995. CNS regulations (45 CFR 2522.200 (d)) require Members to be U.S. citizens or permanent resident aliens. Further, grant special provision 15a requires the grantee to maintain verifiable records, which document each member's eligibility to serve, based upon citizenship or lawful permanent residency. As a result, NOVA increased the risk to CNS that ineligible Members participated in the AmeriCorps program. At the time of our review, subgrantee personnel stated that they were in the process of having all current AmeriCorps members complete the I-9 form to verify membership eligibility.

Additionally, we found that NOVA did not verify that the monthly health insurance premiums for the members were paid. Grant Special provision 12e requires the grantee to provide health care coverage for all eligible full-time members. NOVA stated that FCNY enrolled the Members with the CNS-sponsored health insurance carrier and told the carrier that FCNY would pay the premiums. However, FCNY did not pay the premiums or provide a required monthly membership roster. NOVA received the first notice of delinquency, dated September 25, 1996, on December 12, 1996. NOVA stated that all prior health insurance premium invoices were received and ignored by FCNY. We saw no evidence that NOVA followed up with FCNY to verify that the premiums were paid or that the subgrantee forwarded the insurance invoices or delinquency notices to NOVA for payment. We concluded that NOVA's monitoring was inadequate to detect and correct this misunderstanding. In its March 25, 1997, response, NOVA indicated that CNS' carrier would continue coverage for the Members until the issue of non-payment was resolved.

Further, we found that NOVA did not establish procedures for compiling numerical data to compare program accomplishments to approved program objectives. CNS regulations (45 CFR 2543.51(d)(1)) require a comparison of actual accomplishments with the program goals and objectives, including quantitative analysis. We found that the subgrantees prepared periodic reports but that NOVA did not collect and summarize the quantitative data.

We recommend that CNS require NOVA to:

- Establish procedures to provide reasonable assurance that billings are current and costs reported on the FSRs are properly supported in its accounting records.
- Establish a system to monitor progress towards achievement of program objectives, including numerical data, and provide this information to CNS in their quarterly progress reports.
- Review the Member files of FCNY to confirm that INS Form I-9 has been completed for each Member and that the forms support the eligibility of enrolled Members.

In its response, NOVA acknowledged our reported findings and indicated that corrective actions had been implemented. NOVA also explained that although their records of subgrantee costs did not agree with FSR's as submitted, they did perform a reconciliation of the records to the FSRs each quarter. Summaries of NOVA's reconciliations for September and December 1996 were included with NOVA's comments. We revised the finding to show that the difference resulted from NOVA's submitting the FSR prior to receiving the subgrantee's invoices.

Regarding our finding that NOVA did not verify eligibility of Members based on their citizenship status, NOVA stated that they relied upon procedures other than completion of the Form I-9 to verify citizenship. NOVA also stated that subsequent to our review, Members completed Form I-9 and no Members were found to be ineligible.

In its response, NOVA also agreed that reporting of program accomplishments did not include numerical data. They explained that they had requested the subgrantees to provide numerical data in their reports, but unexpected events such as the theft from the operating site of the program's computers interrupted the process. Additionally, NOVA stated they were not aware that progress reporting was inadequate because they received favorable reviews from CNS program monitors during the project.

III. The procedures of the Fund for the City of New York (FCNY), a subgrantee, were inadequate for summarizing and reporting AmeriCorps Member service hours.

Grant special provision 23 c (ii) requires NOVA to keep time and attendance records on all Members in order to document their eligibility for in-service and post-service benefits, and also requires time and attendance records to be signed by both the Member and an individual with oversight responsibility. FCNY's records of Member service hours were not accurate or approved by management. We found that there was no indication of supervisory review and approval for two of the time sheets reviewed. We also noted several addition errors on the time sheets completed by Members. Five of the time sheets completed by Members had discrepancies resulting in service hours being overstated by 64 hours. Additionally, we noted a discrepancy of 14 hours between one Member's time sheet and the master summary maintained by FCNY used to monitor Member service hours.

We recommend that CNS require NOVA to implement procedures for Member time sheets to be reviewed and approved for accuracy. Also, NOVA should require FCNY to maintain an accurate summary of earned service hours. NOVA should periodically review the summary and supporting documentation.

In its response, FCNY generally disagreed that controls over Member time sheets were inadequate. FCNY further stated it had reviewed and corrected the Member time sheets and summaries. We recommend that CNS require NOVA to assess and report on the results of FCNY's corrective actions to determine that all Member service hours were accurately recorded and summarized.

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

TICHENOR & ASSOCIATES  
Woodbridge, Virginia  
December 31, 1996

*Tichenor & Associates*

## Appendix I

Response of the National Organization for Victim Assistance (NOVA)  
March 25, 1997



**NATIONAL ORGANIZATION  
FOR VICTIM ASSISTANCE®**

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- Jean Bacigalupi  
Palo Alto, CA
- Harold O. Bozovich, Director  
Alameda County (CA) Victim/Witness Program
- Hon. Richard Barajas, Chief Justice  
8th Circuit (TX) Court of Appeals  
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Beverly Hills, CA
- Kenneth R. Feinberg, Esq.  
Washington, DC
- Hon. Lois Haight, Superior Court Judge  
Martinez, CA
- Ralph H. Hubbard, State Coordinator  
Parents of Murdered Children of NY State, Inc.
- Maggie J. Lipman, Coordinator  
St. Charles County (MO) Victim Assistance Program
- Denise McDonald, Families First Supervisor  
Kalamazoo (MI) YWCA Domestic Assault Program
- Sandra J. McGowan, Coordinator  
Morris County (NJ) Victim Witness Program
- Karen A. McLaughlin, Senior Policy Analyst  
Educational Development Center  
Newton, MA
- David Migliore  
Worthington, OH
- Joseph A. Myers, Esq., Executive Director  
National Indian Justice Center  
Petaluma, CA
- Tom Satterly, Executive Director  
Louisiana Mothers Against Drunk Driving
- Viki C. Sharp, Program Director  
Pima County (AZ) Victim Witness Program
- Michael C. Turpen, Esq.  
Oklahoma City, OK
- Steven J. Twist, Assistant General Counsel  
The Dial Corp  
Phoenix, AZ
- Hon. John Heinz  
United States Senator  
Board Member: 1988-1991

Mr. John Apkar  
Tichenor & Associates  
12531 Clipper Drive, Suite 202  
Woodbridge, VA 22192

For delivery at meeting at NOVA offices  
March 25, 1997

Draft Response to: Corporation for National Service  
Draft Audit Report Received 26 February 1997

Dear Mr. Apkar:

We have read the Independent Auditor's Report and detailed Findings and Recommendations report.

Our response is followed by copies of backup documentation.

**"Other Matters"**

We strongly protest the questioning of NOVA's financial viability as a going concern.

The debt to two of NOVA's officers has been reviewed by independent auditors and Department of Justice auditors for years. The debt relates to a period in the mid 1980's when NOVA was unable to pay two of the officer salaries in full. The officers continued to work and agreed to be paid later. The Board of Directors approved the debt instruments that were filed in court, and over the years these amounts have been paid down. Each independent auditor has concluded that although legally empowered to collect amounts due the officers "at any time," the officers intend that payment will be demanded only as and when NOVA is able to comfortably make such payments and that such amounts may be eventually partly or wholly forgiven.

See the related footnotes in each of our annual independent audit reports attached. Please also review the full copy of our fiscal year 1995 audit and general ledger detail, showing decreases to this debt in the last several months, provided to you during the 26 March meeting.

The notes payable to officers are listed as current debt, because they are legally payable upon demand. The facts show, however, that they are long-term debt.

Our cash position for the last 4 years is as follows: As of 30 September —

1993	88,265
1994	117,526
1995	83,296
1996	134,555
Total	<u>423,642</u>
Average	<u>105,911</u>

Tichenor & Associates  
 March 25, 1997  
 Page Two

The average revenue these four years was \$928,810. On average, we had 11% of annual revenues in cash, on hand, at year's end — hardly the picture of an organization in jeopardy of continuing in existence.

NOVA has been awarded increasing dollar amounts of grants from Department of Justice year after year. We are stronger than ever, and are not "a going concern" problem.

We request that "Other Matters" be deleted from the audit report — it is incorrect and inappropriate.

## SECTION I

### *NOVA's financial management system*

#### Match

NOVA's financial system includes a general ledger to capture job costs and indirect cost pools, and a spreadsheet system (Excel) to allocate the indirect costs to jobs and to compare budgets on a monthly basis.

Our required match is listed in our budget at \$24,226. Of this amount, \$16,300 is specifically allocated to Victim Services for training. That component was given to Victim Services in budget negotiations and is detailed in the budget as such. NOVA's remaining required match is \$7,926, budgeted as follows:

Staff salaries	4,500
Staff benefits	695
Internal evaluation	2,000
Administration	<u>731</u>
Total	<u><u>7,926</u></u>

Total NOVA AmeriCorps salaries through 6/30/96:	31,441
17 month total budget (Corporation and match)	33,500
11 Month Budget — period through 30 June, 1996	21,676
Excess of salaries over budget	9,765

This \$9,765 excess salary over budget more than meets NOVA's match requirement, and this contribution occurred by June, 1996, six months before the end of the grant. For the period ending 31 December, 1996, NOVA provided \$26,785.70 in match. Details are attached.

We agree that the match was not reported on the correct line of the quarterly financial status report. None of the actual forms had copies of the instructions on the back, and NOVA's Controller failed to request proper instructions from the Corporation, and the Corporation staff either did not catch the error or did not consider it significant.

We request that this section be reworded to address only the match reporting error.

#### Staff Salaries as Program Costs

This issue relates to the conflict between the Corporation for National Service budgeting process and Federal Regulations. CNS negotiated with NOVA a budget detailing NOVA staff positions and work to be

Tichenor & Associates  
 March 25, 1997  
 Page Three

performed and included the dollars in Category C-staff costs. NOVA proceeded to perform the services and report the costs in Category C. We understand from the auditor that all Parent organization activities, except those performed on site with the Members, are administrative costs according to the Federal Regulations.

The Parent Organization Budget Narrative (revised 9/1/95) indicated specifically that the following positions would be funded as staff (*not* "Administration," which was a separate budget line).

10% Program Director @ \$ 55,000	\$ 5,500
Marlene A. Young, Ph.D., J.D	
10% Deputy Program Director @ \$ 55,000	5,500
John Stein, J.D.	

"The Deputy and Program Director will be responsible for overall coordination of the program as well as the development of education and training materials for the Red Hook Staff and Public Safety Corps Members. They will also design and conduct an evaluation of the project's success."

50% Red Hook Project Coordinator @ \$ 40,000	20,000
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"The Red Hook Project Coordinator will be Carl Grimes, NOVA Training Coordinator and a former resident of Red Hook. He will spend 25% of his time in Red Hook working and co-training with Red Hook site staff. In addition he will administer any evaluation instruments designed for the assessment of the project and prepare regular information bulletins on the project's progress for distribution throughout the country."

10% Support Staff @ \$ 33,500	2,500
Fringes @ 15.44%	<u>5,172</u>

Total	\$ 38,672
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NOVA budgeted as projected project expenses the staff time indicated above, performed the services, recorded the time on timesheets which were approved by supervisors, booked it in the general ledger against the budget lines presented in our proposal, and reported it on the FSRs. This budgeting plan was carefully reviewed in the presence of NOVA and FCNY executives by at least half a dozen CNS staff — programmatic, administrative, and financial — and there were no questions raised over the projected duties the project staff would perform or the budget lines against which the performance of those duties would be booked. Nor, for that matter, were there questions raised about our projected plans for the receipt of administrative costs (which were to be appropriately placed in NOVA's overhead pool).

Furthermore, both Marlene Young and John Stein are hands-on managers who perform direct services to most all of NOVA's grants and projects, including the development of educational and training materials and the presentation of these when needed. NOVA is too small of an organization to have purely supervisory personnel overseeing staff. One of the reasons that the auditors found a related audit finding with proportional hours worked, is because the Executive Director and Deputy Director have to provide many extra hours to NOVA in order to maintain the consistent high quality of services for such a low price. By the same token, we note that Carl Grimes was expected to work one-half time, or 130 days, on the project. In fact, he spent over 140 days on it, with an additional 75 hours in that fiscal year which we logged as "volunteer" hours. Virtually all of Carl Grime's time on the AmeriCorps project involved direct Member contact. Time in New York City on site and time in Washington, D.C., on the phone with Members can be



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fully documented with travel logs, expenditures, and phone bills to and from New York — a time-consuming task and one that fails to address the real issue, which are the apparent conflicts between CNS practices and regulations.

As drafted, the audit report would retroactively rewrite the CNS grant to transfer some 80 percent of its staff time from a "staff" category to "administration." The calculation for these questioned costs was based on the auditor assumption that, the 25% of the time budgeted for Mr. Grimes to be on site in New York, was the only direct Member contact provided by NOVA staff. This is simply incorrect and we strongly protest this proposal, and request that this section be deleted from the auditor's report.

#### Proportional Hours

This finding relates to NOVA's staff working significant numbers of extra hours on grants and projects over the standard working hours per month. In order to properly record dollars, we have to prorate direct project hours worked within each pay period to calculate the proportionate amount of salaries to be allocated to a project. NOVA staff record all of their hours worked in each day. Specific hours recorded for specific projects are actual. Overtime for grants and membership are paid for by membership funds. NOVA continues to record all hours worked because of numerous other reporting requirements for our non-profit organization, such as media relations, membership, and volunteer hours.

We believe that this accurate time keeping system is preferable than the standard system of "8 hours per day booked according to budgeted hours" that many organizations follow.

We object to the auditors' finding that proportional hours could result in questioned costs. Absolute AmeriCorps hours are over and above the budgeted amounts.

There are no costs to be questioned here. We request that this section be removed from the report.

#### Bank Reconciliations and Vouchers

NOVA is a small organization. Deborah Baroch, the Grants and Accounts Manager, prepares vouchers, writes checks, keeps the check book and prepares the bank reconciliation. She is not authorized to sign checks or approve vouchers. Either the Executive Director or Deputy Director approve vouchers before payment. Every non-salary payment has a color-coded voucher stapled to the original invoice. Almost every vendor has an individual folder.

Each voucher is first approved, and then the check number and date paid are recorded on the voucher. The voucher has space to record the account number, project number, and a brief description of the item being expensed. In our judgment, this voucher system is preferable to stamping an original invoice and recording account numbers for numerous expense accounts on the actual invoice. It is an effective internal control long found to be in accord with Federal regulations.

NOVA's Controller reviews journal entries on a quarterly basis, and at this time reviews the bank reconciliation journal entries. In the future, the Controller will initial the bank reconciliation forms to indicate this review. It would be a waste of time for the Executive Director to sign and review the bank reconciliations each month, nor would it serve as a useful, added internal control. Given the size of the organization, internal controls are excellent at NOVA, as evidenced by the minimal recommendations provided by independent

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auditors and those of the Department of Justice.

We request that this unnecessary recommendation be deleted from the report.

## SECTION II

### *Monitoring of subgrantee financial activity*

#### Equipment

See the attached Fund for City of New York Response in response to this issue.

#### Subgrantee late billings and properly supported.

NOVA's FSRs submitted tied into the FSRs provided to NOVA from the subgrantees. The subgrantees however were able to manage their part of the project without instant reimbursement for expenditures. Invoices for expenditures lagged behind the reporting, but were reconciled quarterly. NOVA did compare total billings to the amount submitted on the FSRs — copies of worksheets are attached.

In the early quarters, NOVA staff made phone calls to request invoices from the subgrantees. In September, we started writing and faxing the subgrantees to request current invoices and Financial Status Reports.

## SECTION III

### *NOVA did not properly supervise subgrantees*

#### In general

We believe that the title of this section should read, "NOVA's supervision of the subgrantees," since NOVA did supervise them closely.

As is indicated at the end of Section II, NOVA experienced some difficulty in obtaining needed paperwork from the subgrantees, and in time instituted more aggressive measures to correct these deficiencies. Much of the problem stemmed from the fact that ours was a start-up project involving four agencies in two cities. We also attribute problems to the inadequate performance of the original Site Coordinator on whom the subgrantees placed the paperwork responsibilities, a problem which was compounded by the subgrantees' resistance to programmatic and administrative recommendations made by NOVA's Project Coordinator (and NOVA's project monitor).

In NOVA's judgment, a tacit policy of resisting the suggestions of NOVA's Project Coordinator carried over to a pattern of ignoring requests for needed material. As to whether requests were answered fully and promptly, at least three NOVA staff recall frustrating instances when they were not. Moreover, we found few tools of leverage in resolving these difficulties, having established no right of review of the subgrantees' personnel decisions and having only the option of terminating the subcontracts. The informal tool of withholding reimbursements to the subgrantees was useless since they had ample resources and were, in fact, lax in submitting reimbursement requests.

The only punitive measure NOVA could take was to withhold stipend payments to the Members when the subgrantee failed to provide timesheet records in advance, as is required. Because even these were often late, we threatened to invoke that sanction several times, but held back because it would harm low-income people who were not the wrongdoers. Yet so persistent was the problem that we did in fact delay stipend payments one time — a painful decision, especially since we had no such sanctions available in other areas.

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We request that the report reflect that NOVA supervised the subgrantees closely, repeatedly called them on their deficiencies, and used strong sanctions to obtain subgrantee compliance with CNS requirements in the one area where such sanctions were available.

#### Non-verification of Member eligibility

Member eligibility was clearly established by the project's requirement that Members submit to a police background check, including a fingerprint check, which would have revealed if any Member was ineligible on the grounds of citizenship status.

However, the audit is accurate in reporting that, when the auditors arrived, the subgrantees were in the process of collecting the I-9 forms, as NOVA had repeatedly requested (having personally delivered a set to a subgrantee staff member in March and then having put another subgrantee staff member in touch with a CNS staff member to obtain additional forms).

In any event, we believe that the audit report should reflect an additional point: the Site Coordinator whom the auditors met, then new to the job, completed this task, and has performed other administrative duties required of the grant in a far more timely manner than his predecessor. The report should also reflect that the I-9 forms were all completed by September, 1996, and none of the Members were found to be ineligible.

#### Nonpayment of monthly health insurance premiums

The audit accurately reports that the premiums were not paid for most of the life of the grant, and that NOVA bears responsibility for this lapse. It does not quite accurately encapsulate that mistake, which happened this way: after the subgrantee enrolled the Members and manifestly told the carrier that it, the subgrantee, was responsible for paying the premiums, it subsequently failed to pay them or to keep the insurance carrier apprised of the monthly membership roster or to inform NOVA of either problem. When NOVA and the subgrantee discussed the matter in December, 1996, the only record had on the matter was a copy of the insurance carrier's September 25 delinquency notice (attached), was not faxed to NOVA until December 12. As the second attached letter from the carrier shows, NOVA had moved the problem toward resolution on December 13.

The draft is misleading in suggesting that, during the period of nonpayment, the Members would have been denied the policy's benefits, for NOVA was assured by the CNS-sanctioned carrier that its policy is to provide coverage under such circumstances as the nonpayment problem is cleared up, a policy which should be known to the CNS-contracted auditors.

#### Noncompliance with statistical reporting requirements

NOVA asked the subgrantees to compile their monthly and quarterly progress reports in the sequence of the proposal's narrative and with statistical progress indicators on its target goals and objectives. Our requests produced only partially-satisfactory results. One aspect of this was the lapse in report writing at all for a period after August, 1996, when the project's computer and other equipment in Red Hook were stolen.

NOVA was pleased with the overall quality of the monthly and quarterly reports that were produced by the subgrantees, as these tracked the project's activities in a coherent way, using the proposed goals and activities as the roadmap, but often without reference to the numerical goals (although these were found in the progress report that accompanied the renewal application which was later withdrawn in favor of an applica-

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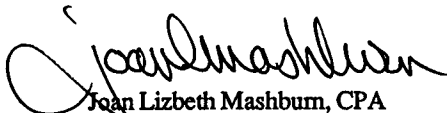
tion to the New York State Commission). Our confidence that these reports were meeting the CNS oversight needs was reinforced by the favorable reviews we received from the project's CNS monitor.

**SECTION IV**

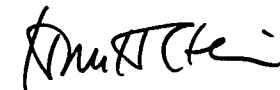
***FCNY Service hour reporting inadequate.***

See the attached response from the Fund for the City of New York.

Finally, this draft response is intended solely for the information and use of Tichenor & Associates and the Corporation for National Service.



Joan Lizbeth Mashburn, CPA  
Controller



John H. Stein  
Deputy Director

FUND FOR THE CITY OF NEW YORK

March 20, 1997

Chairman  
Frederick A. O. Schwarz, Jr.

Directors  
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Geoffrey Canada  
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Alfonso Wyszcz  
Richard Zorza

Joan Lizbeth Mashburn  
National Organization for Victim Assistance  
1757 Park Road, N.W.  
Washington, DC 20010

Dear Ms. Mashburn:

I am responding to your letter to John Feinblatt dated March 7, 1997 regarding the draft audit report from Tichenor and Associates. We have carefully reviewed pages 12 through 15 of the report (the only section provided to us), and have the following comments, which we ask that you pass on to Tichenor and Associates when you meet with them:

Section II: "NOVA did not monitor subgrantee financial activity."

We contest the auditors' findings regarding the Fund for the City of New York's claim for reimbursement for the purchase of equipment. The Fund's claim was both completely proper and in accordance with the Fund's normal practices. First, the auditors are incorrect that the office equipment was not included in the grant budget. I have attached a copy of the approved operating site budget, which includes an \$8,400 budget line for equipment, as a direct expense. In the attached budget narrative which was a part of the original application to CNS, that budget line is clearly described as permitting the purchase of some basic office equipment for the operating site office. So, the purchase of the equipment with CNS funds was certainly in accordance with the CNS-approved budget. Second, the equipment was not general purpose office equipment, but was dedicated solely to the Red Hook Public Safety Corps. The copier and printer were physically located at the project's operating site, and were used solely for the project. No other Fund projects used the equipment. Third, the Fund's normal practice is NOT to allocate equipment through indirect expenses. Rather, the Fund's practice is always to charge equipment acquisition costs as a direct charge to the specific project, as allowed by the project budget(s).

Consequently, we ask that the entire section regarding the Fund's claim for office equipment be struck from the auditor's report.

Section IV: "FCNY's procedures for summarizing and reporting member's service hours were inadequate."

We disagree with the auditors' characterization of the Fund's procedures as inadequate. The audit covered the period from August 1995 through June 1996. The auditors were provided with timesheets for 50 Americorps members, most of whom had worked approximately 35 weeks by that point. We estimate that the auditors must have been given at least 750 time sheets, containing approximately 9,000 entries. We cannot

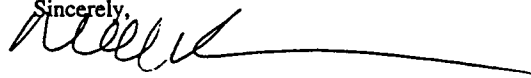
121 AVENUE OF THE AMERICAS (AT BROOME STREET), NEW YORK, N.Y. 10013-1590  
TEL: 212-925-6675 FAX: 212-925-5675

understand how they could characterize the timesheets as inaccurate when they found only two of the time sheets lacked supervisory review, found only several addition errors on the timesheets, found that only five of the time sheets had discrepancies in the number of service hours reported, and that only one time sheet differed from the master log. The overwhelming majority of timesheets were signed by both the member and their supervisor, and the vast, vast majority of service hours were recorded correctly. Moreover, to the extent that these relatively few problems were found, all time sheets were subsequently reviewed by the project director, corrections made where necessary, and hours were carefully logged and summarized for the remainder of the year. All members put in the required number of service hours by the end of the period.

We ask that the auditors' finding regarding the Fund's maintenance of members' timesheets and of the service hours log be struck from the auditors' report.

Please feel free to call me if you have any questions or need any further information. I will be happy to discuss our response with you.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Rosen", followed by a long horizontal line extending to the right.

Michael Rosen  
Director  
Fiscal & Administrative Services

Enc.