

**Office of the Inspector General  
Corporation for National Service**

**Letter Report on Review of HANCI Audits  
that Cover Corporation for National Service  
Grants**

**Report Number 99-27  
June 2, 1999**

*Prepared by:*  
Leonard G. Birbaum & Company, LLP  
6285 Franconia Road  
Alexandria Virginia 22310

Under Department of State OIG  
Contract # S-OPRAQ-99-D-0020

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June 2, 1999

Ms. Irene Elia  
Executive Director  
Health Association of Niagara County, Inc.  
1302 Main Street  
Niagara Falls, New York 14301

Dear Ms. Elia:

At our request, the firm of Leonard G. Birnbaum & Company, Certified Public Accountants, reviewed the entity-wide audit report and related audit programs and workpapers prepared by Simpson, Kling, Quarantillo and Frosolone, PLLC, which covered Federal assistance programs administered by Health Association of Niagara County, Inc. for the year ended December 31, 1997.<sup>1</sup> The review was performed to determine the extent of reliance that could be placed on the audit performed by HANCI's independent auditor in the areas of internal control, compliance with laws and regulations, and transaction testing.

The entity-wide audit report on HANCI states that it was prepared in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and states that the audit was performed in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Organizations*. Further, the audit report identifies the Corporation for National and Community Service's (Corporation) Foster Grandparent Program and Senior Companion Program as major programs, as defined by OMB Circular A-133.

OMB Circular A-133, at §\_\_\_.500(d)(1), requires an auditor to determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs. Our review of the audit workpapers, however, found no evidence of tests for compliance with the requirements for Corporation programs. These include:

- the auditor used an outdated audit guide issued by the Corporation rather than the OMB Circular A-133 compliance supplement, which became effective for audits of entities with fiscal years ending after July 1, 1996,
- there was no evidence in the audit workpapers that tests were made to determine that HANCI provided its share of funds (matching requirement) for projects as required by the Corporation awards,

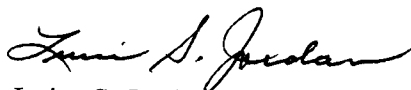
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<sup>1</sup>A copy of Birnbaum & Company's report is included as an attachment.

- there was no evidence in the audit workpapers that tests were made for compliance with the requirements for filing the *Foster Grandparent Program Project Profile and Volunteer Activity Survey*, and
- there was no evidence in the audit workpapers that tests were made for compliance with the requirements for filing the *Senior Companion Program Project Profile and Volunteer Activity Survey*.
- Despite knowledge of an investigation into HANCI's performance of its AmeriCorps grant, which would indicate high risk, the auditor did not consider this risk in planning the audit and did not provide any discrete coverage of the AmeriCorps program.

We request that you require the firm of Simpson, Kling, Quarantillo & Frosolone, PLLC to complete these compliance tests for the, as yet unreleased, audit of your 1998 financial statements. We further request that, should you retain the firm of Simpson, Kling, Quarantillo & Frosolone, PLLC for future audits, you require that their Peer Review engagement specifically cover the firm's policies and procedures for performing audits of Federal programs in conformance with *Government Auditing Standards* and OMB Circular A-133.

Within 30 days, please respond to the above recommendations. We are apprizing Simpson, Kling, Quarantillo & Frosolone, PLLC of the results of our review and also providing them with a copy of this letter. Should you have any questions or comments, please contact Mr. William L. Anderson, III, Assistant Inspector General for Audit at (202) 606-5000, extension 390.



Luise S. Jordan  
Inspector General

c: John Frosolone, Partner,  
Simpson, Kling, Quarantillo & Frosolone, PLLC

**Attachment**

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May 27, 1999

**Inspector General  
Corporation for National and Community Service**

In support of ongoing work by the Office of the Inspector General, Corporation for National Service, to determine whether the amounts incurred and claimed by the Health Association of Niagara County, Inc. (HANCI) under several awards by the Corporation for National Service are allowable under the terms and conditions of the grant agreements and applicable Federal laws and regulations, we performed certain agreed-upon procedures on audit workpapers prepared by HANCI's independent accountants in connection with their audits of HANCI's financial statements as of, and for the years ended December 31, 1997 and 1998.

Overall, the procedures were intended to determine whether the reports issued by the independent accountant contained all the reports and schedules required under *Government Auditing Standards* issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and whether the workpapers contained evidence that the independent auditor performed sufficient tests of internal controls and compliance with laws and regulations.

Findings

The audit report package related to the audit of HANCI's 1997 financial statements<sup>1</sup> contained all of the elements and schedules required by *Government Auditing Standards* and by OMB Circular A-133.

However, we noted several deficiencies in the audit of HANCI, as follows:

- the auditor used an outdated audit guide issued by the Corporation rather than the OMB Circular A-133 compliance supplement, which became effective for audits of entities with fiscal years ending after July 1, 1996,

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<sup>1</sup> While field work for the audit of the 1998 financial statements had been completed at the time of our review, the report package had not been released.

- there was no evidence in the audit workpapers that tests were made to determine that HANCI provided its share of funds (matching requirement) for projects as required by the Corporation awards,
- there was no evidence in the audit workpapers that tests were made for compliance with the requirements for filing the *Foster Grandparent Program Project Profile and Volunteer Activity Survey*,
- there was no evidence in the audit workpapers that tests were made for compliance with the requirements for filing the *Senior Companion Program Project Profile and Volunteer Activity Survey*, and
- despite knowledge of an investigation into HANCI's performance of its AmeriCorps grant, which would indicate high risk, the auditor did not consider this risk in planning the audit and did not provide any discrete coverage of the AmeriCorps program.

The firm of Simpson, Kling, Quarantillo & Frosolone, PLLC (and predecessor firms) has been the independent auditor for HANCI for the past fifteen years. The engagement partner, Mr. John Frosolone, advised that he had been aware of an in-depth investigation into the operation of the AmeriCorps program at HANCI, and that, because of the extent of the investigation, he decided that testing of specific AmeriCorps compliance requirements would not be necessary. Therefore, he stated, such testing was not completed.

While we conclude that these deficiencies do not rise to the level warranting formal referral to the Government Technical Standards Subcommittee of the American Institute of Certified Public Accountants, we believe that the accounting firm should be notified of these deficiencies and required to correct them in the as yet unreleased audit of HANCI's 1998 financial statements and in future audits.

Our review was conducted at the offices of Simpson, Kling, Quarantillo & Frosolone, PLLC, in Niagara Falls, New York on April 27, 1999. We applied the agreed-upon procedures in accordance with *Government Auditing Standards*.

### Scope and Methodology

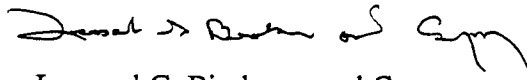
The procedures we performed encompassed the following:

- to determine whether the scope of the engagement encompassed the requirements of OMB Circular A-133, we reviewed the engagement letters related to the audits of HANCI's 1997 and 1998 financial statements,
- to determine whether the audits had been planned in accordance with the requirements of OMB Circular A-133, we examined relevant planning documents,

- to assess the overall competency of the audit firm, we reviewed their latest peer review report and letter of comments,
- to determine that the staff assigned to the engagement were appropriate, we reviewed related continuing professional education records,
- to determine whether consideration was given to internal controls, we examined related audit programs and workpapers,
- to determine whether appropriate tests for compliance with laws and regulations were made, we examined related audit programs and workpapers,
- to determine whether nonmaterial findings existed with respect to internal controls and/or compliance, we reviewed management letters issued in connection with the audits of HANCI's 1997, 1996, and 1995 financial statements, and
- to determine whether routine transaction testing was adequate, we examined related audit programs and workpapers.

Because the above procedures do not constitute an audit conducted in accordance with *Government Auditing Standards*, we do not express an opinion on the adequacy of the reviewed data. In connection with the procedures referred to above, no matters came to our attention that caused us to believe that there were significant inadequacies related to the data reviewed except as described herein.

This letter is intended for the information and use of the Corporation's Office of Inspector General, Corporation management, and the Health Association of Niagara County, Inc. However, this letter is a matter of public record and its distribution is not limited.

  
Leonard G. Birnbaum and Company