

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

**OFFICE OF INSPECTOR GENERAL
AGREED-UPON PROCEDURES FOR
CORPORATION FOR NATIONAL AND COMMUNITY
SERVICE
GRANTS AWARDED TO
AMERICAN RED CROSS METRO NEW JERSEY**

OIG Report Number 08-07



Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

Prepared by:

**Office of Inspector General
1201 New York Avenue NW
Washington, DC 20525**

This report was issued to Corporation management on November 21, 2007. Under the laws and regulations governing audit follow-up, the Corporation is to make final management decisions on the report's findings and recommendations no later than May 19, 2008, and complete its corrective actions by November 20, 2008. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



OFFICE OF INSPECTOR GENERAL

November 21, 2007

TO: Rocco Gaudio
Director, Field Financial Management Center

Malcolm Coles
Area Manager

FROM: Carol Bates (signature on file)
Assistant Inspector General for Audit

SUBJECT: Office of Inspector General Report 08-07, *Agreed-Upon Procedures of Corporation for National and Community Service Grants Awarded to the American Red Cross of Metropolitan New Jersey*

Attached is the final report on our application of agreed-upon procedures to the Senior Corps grants awarded by the Corporation to the American Red Cross of Metropolitan New Jersey.

Under the Corporation's audit resolution policy, a final management decision on the findings in this report is due by May 19, 2008. Notice of final action is due by November 20, 2008.

If you have any questions pertaining to the report, please contact Rick Samson, Audit Manager, at 202-606-9380.

Enclosure

cc: Nancy Asaro, Sr. Director, American Red Cross
Elizabeth Seale, Chief Operating Officer
Nicola Goren, Chief of Staff
Tess Scannell, Director, Senior Corps
William Anderson, Deputy Chief Financial Officer
Sherry Blue, Audit Resolution Coordinator
Gloria Sokolowski, Director New Jersey State Office
Larry Floyd, Senior Grants Manager Specialist



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Senior Corps



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EXECUTIVE SUMMARY

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), performed an agreed-upon procedures (AUP) review of Senior Corps grants awarded to the American Red Cross Metropolitan New Jersey Chapter (Metro NJ). We performed this review at the request of the Corporation's New Jersey State Office. The purpose of the review was to determine whether labor, occupancy and other volunteer support costs claimed by Metro NJ for the Retired and Senior Volunteer Program (RSVP) were allowable, allocable, and in compliance with applicable laws, regulations, and terms and conditions of the grants.

We found that Metro NJ's methods for charging some employee salary costs and occupancy cost were not in compliance with Federal regulations. Administrative and accounting labor costs were charged based on the grant budgets. Occupancy cost was charged based on rental rates. The office space is owned by Metro NJ therefore rent charged to its Corporation grants must not exceed Metro NJ's cost of ownership.

BACKGROUND

The Corporation awards grants and cooperative agreements to assist in the creation of full-time and part-time national and local community service programs. The Senior Corps program is one of the Corporation's three major service initiatives. The purpose of the RSVP program is to provide grants to qualified organizations to engage persons, age 55 and older, in providing assistance to help meet the needs of local communities. Metro NJ's RSVP volunteers serve Hudson, Essex and Passaic Counties in a variety of programs, such as tutoring, companion outreach, health education, consumer education, disaster preparedness, and food collection and distribution.

AGREED-UPON PROCEDURES SCOPE

We performed the agreed-upon procedures for the grants and award periods shown below:

Program	Award No.	Award Period
RSVP Hudson & Essex	03SRANJ004	7/1/2003-6/30/2006
RSVP Passaic	03SRANJ005	7/1/2003-6/30/2006

We conducted our on-site field work on January 31, 2007, and February 1, 2007. We obtained additional information for our work through August 6, 2007. The agreed-upon procedures included:

- Reconciling, on a test bases, grant costs claimed to the accounting records.
- Comparing actual costs to budgeted costs for compliance with grant terms.
- Testing costs claimed for allowability, allocability and reasonableness.

SUMMARY OF RESULTS

<u>Grant Number</u>	<u>Program</u>	<u>Approved Budget</u>	<u>Claimed Cost</u>	<u>Questioned Cost</u>	<u>Notes</u>
03SRANJ004	RSVP	\$912,773	\$909,238	\$7,079	1
03SRANJ005	RSVP	<u>508,421</u>	<u>495,020</u>	<u>2,493</u>	2
Totals		<u>\$1,421,194</u>	<u>\$1,404,258</u>	<u>\$9,572</u>	

Notes

1. Questioned costs include personnel costs of \$2,406 and occupancy costs of \$4,673.
2. Questioned costs include personnel costs of \$5,422 and occupancy cost recommended upward adjustments of (\$2,929).

We performed the procedures, which were agreed to by the OIG and the Corporation, solely to assist Corporation management in reviewing some categories of claimed costs and volunteer files for the grantee's RSVP program. This agreed-upon procedures review was performed in accordance with generally accepted government auditing standards.

EXIT CONFERENCE

We provided a discussion draft of this report and conducted an exit conference with Metro NJ and Corporation representatives on October 9, 2007. Their responses to the draft report are included in the final report as Appendices A and B, respectively. Based on the response to the draft report and additional documentation provided with it, our results of agree-upon procedures changed. These revised results are included in this report. In addition, we included our summary of Metro NJ's comments in this report.

RESULTS OF AGREED-UPON PROCEDURES

1. **Personnel labor support costs for administration and accounting were based on budgeted amounts instead of actual costs.**

Award No.	Questioned Personnel Expense
03SRANJ004	\$2,406
03SRANJ005	<u>5,422</u>
Total	<u>\$7,828</u>

Metro NJ's administrative personnel did not complete activity based time sheets. Accounting personnel did complete activity based timesheets but they were not used to record the labor costs on the RSVP grants. By using the grant budget to charge the cost, the actual cost of Metro NJ's grant administration and accounting cannot be determined. The lack of an actual cost determination increases the possibility that future budgets for the same programs will not be accurate.

OMB Circular A-122 Cost Principles for Non-Profit Organizations, Appendix B, Selected Items of Cost, paragraph 8.m. *Compensation for Personal Services, Support of salaries and wages*, states:

(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency.

(2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:

(a) The reports must reflect an *after-the-fact* determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.

Recommendations

We recommend that the Corporation:

- Require the grantee to complete time and activity reports to record labor costs in accordance with OMB Circular A-122, Cost Principles for Non-Profit Organizations, Appendix B, paragraph 8.m.
- Disallow and recover the questioned costs.

Auditee's Response

A time study for the RSVP program functions will be completed to substantiate charges for the accounting and administrative effort. Metro NJ also requested that the questioned cost be adjusted for the RSVP activity that accounting personnel recorded on their time sheets.

Auditor's Comment

We considered Metro NJ's request and reviewed documentation provided with its response. The questioned cost from the draft report was adjusted for the RSVP effort accounting personnel recorded on the time sheets. The questioned Federal share of \$3,142 for the budget entry on Grant No. 03SRANJ005 was reduced by \$1,888. The claimed costs for Grant No. 03SRAN004 increased (\$1,529) because of the recorded time sheet hours. The remaining questioned costs that we recommend be disallowed and recovered is \$7,828.

2. Rental costs were charged to the grants instead of ownership costs.

Award No.	Questioned Occupancy Expense
03SRANJ004	\$4,673
03SRANJ005	<u>(2,929)</u>
Total	<u>\$1,744</u>

Metro NJ moved from rented office space to owner-occupied space in October 2003. The project period for both grants was July 1, 2003, through June 30, 2006. Rental costs were charged for the life of the grants. The budgeted grant costs were charged to Federal share and the remaining costs to match. The questioned cost represents the Federal share. We are not questioning the match portion because the grantee has enough excess match to make up the unallowable match. The upward adjustment on the Passaic grant, No. 03SRANJ005, is due to the fact that the budgeted Federal share was less than the cost. The cost is questioned based on OMB Circular A-122, Cost Principles for Non-Profit Organizations, Appendix B, Selected Items of Cost paragraph 43. *Rental Costs of building and equipment*. Rental costs cannot exceed ownership costs when the grantee owns the property. The questioned cost is the Federal portion of the excess of the rental rate above the ownership rate.

Recommendations

We recommend that the Corporation:

- Require that actual occupancy costs are charged to the grants.
- Disallow and recover the questioned costs and revise the grantee's Financial Status Report to reflect the upward adjustment.

Auditee's Response

In its response to the draft report, Metro NJ provided additional costs and supporting documentation (\$1,594 for award no. 03SRANJ004 and \$1,429 for award no. 03SRANJ005) associated with the relocation from rental space to owner occupied space.

Auditor's Comment

The additional costs and supporting documentation were reviewed using criteria in OMB circular A-122 Cost Principals for Non-profit organizations. The costs consisted of the moving costs, a Fairfield Township development fee and interest costs for a building loan. We reviewed the supporting documentation and determined the costs are allowable. We adjusted the questioned cost from the draft report accordingly.

We were not engaged to, and did not perform an examination, the objective of which would have expressed of an opinion on the subject matter. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the management of the Corporation and Metro NJ, and should not be used by those who have not agreed to the procedures or have not taken responsibility for the sufficiency of the procedures for their purposes. However, the report is a matter of public record and its distribution is not limited.

(signature on file)

Carol Bates, Assistant Inspector General for Audit
Office of Inspector General
Corporation for National and Community Service

APPENDIX A

**AMERICAN RED CROSS OF METROPOLITAN NEW JERSEY
RESPONSE TO AGREED-UPON PROCEDURES REPORT**



American Red Cross

of Northern New Jersey

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Fairfield, New Jersey 07004
Tel: 973-797-3300 / 800-507-6058
Fax: 973-575-8462
www.redcrossnj.org

November 6, 2007

Fax: 202-606-9397
Sent via Federal Express
Rick Samson
Audit Manager
Corporation for National Community Service
1201 New York Avenue, NW
Suite 830
Washington, DC 20525

Dear Mr. Samson:

Below is my response to your letter dated October 10, 2007.

American Red Cross Metropolitan NJ
Response to Agreed Upon Procedures Report
RSVP Grants 03SRANJ004 AND SRANJ005
PERFORMANCE PERIOD 7/1/03-6/30/06

1. Personnel labor support costs for administrative and accounting were based on budgeted amounts instead of actual costs.

While management administration did not consistently submit timesheets prior to 2005, subsequent to CNS visit in September 2005 timesheets were regularly submitted. However, administrative time was spent in monthly closings, audit preparation and budgeting for RSVP programs with regular review of any variances and reporting that was required. Budgets for the grants and the agency were developed based on individual staff estimating the amount of time of particular function. Those estimates have been carried forward over many years. Management administration relied on historical estimated time studies provided by staff. We will complete a time study of RSVP program functions to substantiate any charges for accounting and administrative charges. The auditor did receive time sheets from accounting personnel and found that the difference was less than \$1000, please adjust the amount of questioned costs to reflect his findings.

Ridgewood Service Center 74 Godwin Avenue Ridgewood, NJ 07450 Tel: 201-652-3210 Fax: 201-492-9408	Junior League of Bergen County Service Center 345 Union Street Hackensack, NJ 07601 Tel: 201-487-7470 Fax: 201-487-6773	Jersey City Service Center 53 Mill Road Jersey City, NJ 07302 Tel: 201-433-3100 Fax: 201-433-9705	Bayonne Service Center Route 440 South Military Ocean Terminal Building 51 Bayonne, NJ 07002 Tel: 201-339-3490 Fax: 201-339-3490
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**American
Red Cross**

of Northern New Jersey

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2. Rental costs were charged to the grants instead of ownership costs.

American Red Cross Metropolitan NJ requests the auditor to include one time costs related to our move from rental space to owner occupied space during the period of September – November 2003. The additional costs were moving expenses \$36,986, Mt Laurel tax/fee \$52,460, and loan interest \$41,561 related to an unsecured loan related to the construction costs. All documentation and invoices are included with this response. Adding this one time cost of \$131,007 calculates to a net of questioned costs \$1,197.

I hope this helps clarify your questions. I look forward to hearing from you soon regarding any revised figures for the report. Please do not hesitate contacting me at 973-797-3333 or asaron@redcrossnj.org.

Sincerely,

Nancy Asaro
Sr. Director, Response & Preparedness
American Red Cross of Northern NJ

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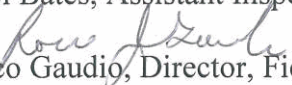
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APPENDIX B

CORPORATION'S RESPONSE TO METRO NJ AGREED-UPON PROCEDURES REPORT

To: Carol Bates, Assistant Inspector General for Audit

From:  Rocco Gaudio, Director, Field Financial Management Center

CC: William Anderson, Deputy CFO for Finance
Andrew Klein, Deputy CFO for Planning and Program Management
Carol Bates, Assistant Inspector General for Audit
Sherry Blue, Audit Resolution Coordinator, Office of the CFO
Malcolm Coles, Area Manager
Anthony DeColli, Senior Grants Management Specialist

Date: October 12, 2007

Subject: Response to OIG Draft Audit Report, Agreed-Upon Procedures Review of Corporation for National and Community Services Senior Corps Grants Awarded to the American Red Cross Metropolitan New Jersey Chapter

Thank you for the opportunity to review the draft audit report of the Corporations grants awarded to the American Red Cross Metropolitan New Jersey Chapter.

The FFMC does not have specific comments at this time. After your final audit report is issued, we will review the findings in detail, work with the American Red Cross Metropolitan New Jersey Chapter to resolve all findings and recommendations, determine the allowability of questioned costs, and provide you with our management decision.

