Office of Inspector General
Corporation for National and Community Service

AGREED-UPON PROCEDURES FOR CORPORATION FOR NATIONAL AND COMMUNITY SERVICE GRANTS AWARDED TO THE ELVIRITA LEWIS FORUM

OIG REPORT 09-06

Prepared by
Office of Inspector General
1201 New York Avenue, NW
Suite 830
Washington, DC 20525

This report was issued to Corporation management on December 12, 2008. 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 June 12, 2009 and complete its corrective actions by December 12, 2009. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Corporation for
NATIONAL &
COMMUNITY
SERVICE

OFFICE OF INSPECTOR GENERAL

December 12, 2008

TO: Rocco Gaudio
Deputy Chief Financial Officer for
Grants and Field Management

R. Craig Warner
Director, NV State Office

FROM: Stuart Axenfeld Stuart Axenfeld
Assistant Inspector General for Audit

SUBJECT: Office of Inspector General Report 09-06 *Agreed-Upon Procedures of Corporation for National and Community Service Grants Awarded to the Elvirita Lewis Forum*

Attached is the final report on the OIG's Agreed-Upon Procedures Review of Corporation Senior Corps Grants Awarded to the Elvirita Lewis Forum.

Under the Corporation's audit resolution policy, a final management decision on the findings in this report is due by June 12, 2009. The Notice of final action is due by December 12, 2009.

If you have any questions or wish to discuss the draft, please contact Rick Samson, Audit Manager, at (202) 606-9380 or Karen Gardner, Auditor, at (202) 606-9357.

Enclosure

cc: Steven, Brummel, Elvirita Lewis Forum President
Mary Ann Dyer, Elvirita Lewis Forum Director
William Anderson, Deputy Chief Financial Officer for Financial Management
Tess Scannell, Director, Senior Corps
Margaret Rosenberry, Director, Grants Management
Suzanne Fahy, Executive Officer, Senior Corps
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AGREED-UPON PROCEDURES FOR CORPORATION FOR NATIONAL AND COMMUNITY SERVICE GRANTS AWARDED TO THE ELVIRITA LEWIS FORUM

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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 Elvirita Lewis Forum (ELF), a non-profit organization that administers Corporation Senior Corps grants. We performed this review at the request of the Corporation's Nevada State Office. The purpose of the review was to determine whether the costs claimed are allowable, adequately supported, and charged in accordance with the terms of the grant and applicable laws and regulations.

We found that ELF's methods for charging employee salary costs and travel costs were not in compliance with Federal regulations. Salary costs charged to the grant were not based on time and activity reports. The Foster Grandparent Program (FGP) staff travel costs were charged based on the grant budgets. ELF's financial policies and procedures did not include written policies for the drawdown of funds. Additionally, ELF's occupancy cost transactions, conducted with a related party, were based on fair market value instead of the cost of ownership.

SUMMARY OF RESULTS

1. Salaries of ELF employees charging time to the Senior Companion Program (SCP) and FGP grants were not supported by time and attendance reports prepared in accordance OMB Circular A-122, *Cost Principles for Non-Profit Organizations,* Attachment B., *Selected Items of Cost.*

2. ELF claimed budgeted, not actual, travel costs to the FGP grant.

3. ELF does not have written policies and procedures for the drawdown of funds from the Department of Health and Human Services Payment Management System (PMS).

4. Segregation of financial responsibilities was not adequate.

5. Occupancy cost was based on fair market rental value, not the cost of ownership.

RESULTS OF AGREED-UPON PROCEDURES

1. ELF personnel were not using activity based timesheets.

Time and activity reports for ELF employees who charged time to the SCP and FGP grants did not contain sufficient details, as required by OMB Circulars. The timesheets did not specify or distribute time by grant or cost objective. ELF salaries are paid from multiple administrative fund accounts. The timesheets captured the total hours worked each day and did not contain any detail as to how the time should be charged to specific grants.

OMB Circular *A-122, Cost Principles for Non-Profit Organizations,* Attachment B., Paragraph 8*., Compensation for personal services states*:

> m. *Support of salaries and wages*.
>
> (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. (See subparagraph E.2 of Attachment A).
>
> (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.
>
> (b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
>
> (c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.
>
> * * *

(4) Salaries and wages of employees used in meeting cost sharing or matching requirements on awards must be supported in the same manner as salaries and wages claimed for reimbursement from awarding agencies.

ELF personnel stated that they were unaware of the requirement to maintain activity based timesheets until a recent audit finding of ELF's state-issued grants reported the timekeeping deficiency. Additionally, ELF personnel believed administrative funds from all grant sources could be used interchangeably, and outlays did not have to be documented and tracked to the applicable grant; therefore ELF was charging both grants according to the availability of administrative funds.

Because the grantee's timekeeping system does not comply with OMB requirements, ELF labor costs charged to the grants could be overstated. Additionally, management oversight and budgeting of grant labor costs is weakened without an actual history of the cost. We performed alternative procedures for labor costs charged during our agreed-upon procedures period and did not question those costs.

Recommendations

We recommend that the Corporation:

- Require ELF to develop and implement time and activity reports (timesheets) that comply with OMB Circular A-122.

- Ensure that grantee uses activity based timesheets and does not charge unauthorized labor costs to the SCP and FGP grants.

ELF RESPONSE

ELF concurred that it was not using activity based timesheets. ELF will use a Division for Aging Services (DAS) time study form to record time by activity. This will satisfy the requirements of the Corporation, DAS, and comply with OMB Circular A-122.

OIG COMMENT

ELF's planned action satisfies the intent of the recommendation.

2. Travel costs were improperly charged based upon budgeted amounts.

ELF used budgeted, not actual, travel costs to complete its Financial Status Reports (FSRs) on the FGP grant. A reconciliation of costs claimed to actual incurred costs was not used to complete the FSRs. However, ELF maintained supporting documentation and could determine the actual costs associated with travel.

The common rule for administration of Federal grant funds, 45 C.F.R. § 2543.21(b) *Standards for financial management,* states:

Recipients' financial management systems shall provide for the following:

> (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in § 2543.51.
>
> (2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.
>
> * * *
>
> (7) Accounting records including cost accounting records that are supported by source documentation.

Furthermore, the rules governing administration of Senior Corps grants, 45 C.F.R. § 2551 *Senior Companion Program* and 45 C.F.R. § 2552 *Foster Grandparent Program* both state at their respective subsections .25 that:

> A sponsor shall:
>
> * * *
>
> (g) Establish record keeping and reporting systems in compliance with Corporation requirements that ensure quality of program and fiscal operations, facilitate timely and accurate submission of required reports and cooperate with Corporation evaluation and data collection efforts.

ELF's FSR overstated the actual costs reported by $228 for the six month period ending June 30, 2008. Not reporting actual incurred costs on FSRs limits ELF's ability to ensure the costs are allowable under the grant provisions. The fiscal coordinator believed the budgeted travel costs were accurate and the month-to-month differences would zero out during the course of the budget year. This amount will not be questioned because the amount is not material.

Recommendation

We recommend that the Corporation review travel costs reported by ELF to ensure only actual costs charged to the grant, supported by source documentation, are reported on the FSRs.

ELF RESPONSE

ELF concurred that it charged travel costs based on budgeted amounts. ELF has informed employees that submitted travel reimbursement request forms must be based on actual mileage.

OIG COMMENT

ELF's planned action satisfies the intent of the recommendation.

3. Lack of policies and procedures over drawdown of grant funds.

ELF does not have written policies and procedures for drawdown of funds that reference how funds are requested from the Department of Health and Human Services Payment Management System (PMS). According to 45 C.F.R. § 2543.21(b) *Standards for financial management systems*:

> Recipients' financial management systems shall provide for the following:
>
> * * *
>
> (5) Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient. To the extent that the provisions of the Cash Management Improvement Act (CMIA) (Pub. L. 101-453) govern, payment methods of State agencies, instrumentalities, and fiscal agents shall be consistent with CMIA Treasury-State Agreements or the CMIA default procedures codified at 31 CFR part 205, "Withdrawal of Cash from the Treasury for Advances under Federal Grant and Other Programs."
> (6) 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.

ELF's fiscal coordinator was aware of the process and timing for requesting funds when needed, but did not recognize the need to incorporate the process into ELF's financial policies and procedures. Without policies and procedures in place, ELF may overdraw its PMS account and inaccurately report costs associated with the grant. Developing and implementing procedures for drawdown of funds provides direction for other ELF staff to follow in the absence of the fiscal coordinator.

<u>Recommendation</u>

We recommend that the Corporation direct ELF to establish policies and procedures to document its drawdown process.

ELF RESPONSE

ELF concurred that there are no written policies and procedures for drawdown of federal funds. ELF will incorporate written procedures for drawdown of federal funds in its policies and procedures manual.

OIG COMMENT

ELF's planned action satisfies the intent of the recommendation.

4. Separation of duties was not maintained over the accounting functions.

ELF's internal controls for separation of financial duties are not effective. ELF has two employees who share the responsibility for drawing down funds, depositing funds, reconciling bank statements, preparing checks, signing checks, and preparing grant reports during the AUP period. Although both employees review each other's work, they also serve as each other's back-up, thus giving each of them access to and responsibility for asset management (including preparing or signing checks), recording of transactions, and reconciliation of accounts.

The Federal grants administrative common rule, 45 C.F.R. § 2543.21(b) *Standards for financial management* states:

> Recipients' financial management systems shall provide for the following:
>
> * * *
>
> (3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.

An effective internal control policy conveys that management is responsible for ensuring that internal controls are established, properly documented, maintained, and adhered to throughout their organization. An effective internal control system provides reasonable, but not absolute assurance for the safeguarding of assets, the reliability of financial information, and compliance with laws and regulations. Reasonable assurance is a concept that acknowledges that control systems should be developed and implemented to provide management with the appropriate balance between risk of a certain business practice and the level of control required to ensure business objectives are met. The cost of a control should not exceed the benefit derived from it. The degree of control employed is a matter of good business judgment. Separation of duties is one of the key concepts of internal control. It implements an appropriate level of checks and balances upon the activities of individuals. Separation of duty, as a security principle, has as its primary objective the prevention of fraud and errors. When duties can not be separated, compensating controls should be in place.

ELF is a small organization with a limited number of employees, which makes separation of financial responsibilities difficult. However, without effective separation of duties, fraud, waste, or abuse of Federal grant funds could occur.

Recommendation

We recommend that the Corporation ensure ELF reviews its financial policies and procedures periodically and makes adjustments as necessary to assure that no one individual is assigned job functions in more than one of the following categories: (1) asset handling and disposition, (2) recording transactions to the general ledger, subledgers, and journals, and (3) reconciliation, review of transactions, or ensuring that compensating controls are in place.

ELF RESPONSE

ELF concurred that separation of duties for internal control has not been maintained for the accounting functions because of the small staff. To establish internal control, one of our board members has agreed to review all bank reconciliations after they are completed. For the past several years we have provided a check register of all checking accounts to each director at the end of the month. This allows the directors to check the registers against their monthly budget reports. The annual OMB audit provides another method to detect fraud or abuse.

OIG COMMENT

ELF's planned action satisfies the intent of the recommendation.

5. Rental costs charged were improperly based on the fair market value of similar property.

SCP leases building space from the Dyer Living Trust, for which the FGP Director is the Trustee. This has resulted in a less-than-arms-length rental transaction. Less-than-arms-length rental cost transactions are limited to the cost of ownership. Occupancy costs ELF charged on the FSR were recorded as match and were based on sublease rental rates of the fair market value of similar property.

According to OMB Circular A-122 *Cost Principals for Non-Profit Organizations*, Attachment B., Paragraph 43 *Rental cost of buildings and equipment*:

> b. Rental costs under "sale and lease back" arrangements are allowable only up to the amount that would be allowed had the non-profit organization continued to own the property. This amount would include expenses such as depreciation or use allowance, maintenance, taxes, and insurance.
>
> c. Rental costs under "less-than-arms-length" leases are allowable only up to the amount (as explained in subparagraph b. of this paragraph 43.) that would be allowed had title to the property vested in the non-profit organization. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to those between (i) divisions of a non-profit organization; (ii) non-profit organizations under common control through common officers, directors, or members; and (iii) a non-profit organization and a director, trustee, officer, or key employee of the non-profit organization or his immediate family, either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest. For example, a non-profit organization may establish a separate corporation for the sole purpose of owning property and leasing it back to the non-profit organization.

Between July 1, 2006, and June 30, 2008, ELF reported a total of $67,052 in excess match and charged $37,080 in rental cost to the SCP grant. ELF had excess match during each budget year that exceeded occupancy costs charged to the grant. Therefore, we are not questioning the occupancy cost.

ELF Match Reported During Jul 01, 2006 - Jun 30, 2008 Budget Periods							
		07-08		**06-07**		**Cumulative Total**	
Recipient's Share of Outlays							
Volunteer Support	$	287,239	$	247,728	$	534,967	
Volunteer Expense	$	365,778	$	369,136	$	734,914	
	$	653,017	$	616,864	$	1,269,882	
Budgeted Match	$	612,257	$	590,573	$	1,202,830	
Excess Match	$	40,760	$	26,291	$	67,052	

ELF is not in compliance with the requirements of OMB Circular A-122, Attachment B, Paragraph 43, *Rental cost of buildings and equipment* which may overstate occupancy cost on the FSR. ELF personnel were unaware of the limitations set forth in OMB Circular A-122.

Recommendation

We recommend that the Corporation ensure ELF's occupancy cost charged to the grant is limited to the cost of ownership for the rental property.

ELF Response

ELF officials said that, for future reports, the occupancy cost charged to the grant will be limited to the actual cost of ownership.

OIG Comment

ELF's planned action satisfies the intent of the recommendation.

Agreed-Upon Procedures Scope

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

Program	Award No.	Federal Award	Award Period
ELF FGP	06SFPNV003	$983,520	7/1/2006-6/30/2008
ELF SCP	06SCPNV001	$64,056	7/1/2006-6/30/2008

We conducted our on-site field work the week of September 15, 2008. We obtained additional information for our work through October 27, 2008. The agreed-upon procedures included testing to ensure costs in the following areas were charged to the grant in accordance with OMB Circular A-122:

- Salary costs
- Rental and building costs

- Vehicle expenses
- Travel costs
- Severance costs paid to a former SCP director

We performed the procedures, which were agreed to by the OIG and the Corporation at the request of the Nevada State Program Director. This agreed-upon procedures review was performed in accordance with generally accepted government auditing standards.

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. Senior Corps, one of the three major service initiatives administered by the Corporation, supports the engagement of nearly 2 million Americans of all ages and backgrounds in service to meet critical needs in education, the environment, public safety, homeland security, and other areas. Senior Corps taps the skills, talents, and experience of Americans age 55 and older through three main programs: RSVP, the Foster Grandparent Program, and the Senior Companion Program. Foster Grandparents serve one-on-one as tutors and mentors to young people with special needs. Senior Companions help homebound seniors and other adults maintain independence in their own homes. ELF's SCP and FGP serve northern Nevada and northeastern California. ELF also sponsors dental and hearing aid programs for seniors.

ELF, established in California in 1976, is a family foundation. Its' mission is the development and support of programs aimed at maintaining the dignity and productivity of the elderly as contributing members of society. ELF is the sponsor of FGP and SCP. In 1987 ELF expanded to Nevada and worked with Catholic Charities of Nevada on FGP and SCP. In 1990 FGP and SCP transitioned from Catholic Charities to ELF, which has since sponsored both programs.

ELF receives funds for FGP and SCP from the Corporation, the State of Nevada, the County of Washoe, and private businesses and individuals. Grants from the Corporation are the only Federal funds ELF receives. Between July 1, 2006, and June 30, 2008, ELF received $983,520 for its FGP Grant No. 06SFPNV003 and $64,056 for SCP Grant No. 06SCPNV001. Match applied to the grants was $706,889 and $1,269,882, respectively, during the same period.

EXIT CONFERENCE

We provided a discussion draft of this report and conducted an exit conference with ELF and Corporation representatives on November 6, 2008. Their responses to the draft report were in this report as Appendices A and B, respectively. In addition, we included our summary of ELF's comments in the final report.

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 ELF, 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.

Stuart Axenfeld

Stuart Axenfeld, Assistant Inspector General for Audit
Office of Inspector General
Corporation for National and Community Service

APPENDIX A

Elvirita Lewis Forum’s Response to the Draft Report

November 13, 2008

FOSTER GRANDPARENT PROGRAM

Karen J. Gardner, Auditor
Office of the Inspector General
Corporation for National & Community Service
1201 New York Avenue, NW, Suite 830
Washington, DC 20525

Dear Ms. Gardner:

Here is our response to the audit for the Agreed Upon Procedures for the Elvirita Lewis Forum.

1. We concur that ELF personnel were not using activity based time sheets. June 2008, Division for Aging Services (DAS) had requested that all ELF staff conduct a time study to be implemented by July 2008. DAS provides funding to FGP and SCP. They came up with this determination after reviewing the OMB audit previously done. The form utilized for the time study will satisfy the requirements of the Corporation, DAS and comply with OMB Circular
A-122.

2. We concur that travel costs were charged based upon budgeted amounts. Employees have been informed that we will put a cap on their monthly travel and the amount submitted must be for actual miles driven.

3. We concur that there are no written policies and procedures for draw down of federal money. The ELF policies and procedures will now include the draw down process. It was decided that bills will be paid weekly and not on a daily basis to ensure that no extra money is left in the account.

4. We concur that separation of duties for internal control has not been maintained for the accounting functions because of the small staff.

There are two staff working with fiscal and only one is allowed to sign checks. Other signers on the accounts include: directors of programs and an outside business person.

To establish efficient internal control one of our board members has agreed to review all bank reconcilations after they are completed. For the past several years we have provided a check register of all checking accounts to each director at the end of the month. This allows them to check these against their monthly budget reports. The annual OMB audit provides a system to detect fraud or abuse.

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5. The FGP has a commercial realtor as a board member and he states that the amount paid by FGP/SCP is less than one half the cost of the true value.

For future reports the occupancy cost charged to the grant will always be limited to the actual cost of ownership.

Please contact me if you have any questions.

Sincerely,

Steven W. Brummel
President

APPENDIX B

Corporation of National and Community Service Response to the Draft Report

Corporation for
NATIONAL &
COMMUNITY
SERVICE

To: Gerald Walpin, Inspector General

From: Rocco Gaudio, Deputy CFO Grants and Field Management

Date: November 20, 2008

Subject: Response to OIG Draft Audit Report on the Review of Audit Report 09-xx Agreed-Upon Procedures for Corporation for National & Community Service Grants awarded to the Elvirita Lewis Forum.

Thank you for the opportunity to review the draft report on the Review of OIG Report 09-xx, Agreed-Upon Procedures for Corporation for National & Community Service Grants awarded to the Elvirita Lewis Forum (ELF). We reviewed the draft report and participated in discussions with representatives of the ELF. We will address all findings and recommendations at this time.

As noted in the draft, the auditor found that ELF's methods for charging employee salary costs and travel cost were not in compliance with Federal regulations. Salary costs charged to the grant were not based on time and activity reports. The Foster Grandparent Program staff travel costs were charged based on the grant budgets. ELF's financial policies and procedures did not include written policies for the drawdown of funds. Additionally occupancy costs transactions, with a related party, were based on fair market value instead of the cost of ownership. As a result, the auditor recommended the Corporation:

1. Require ELF to develop and implement time and activity reports (timesheets) that comply with Circular A-12 and ensure ELF uses timesheets and does not charge unauthorized labor cost to the FGP and SCP grants.
2. Review travel costs reported by ELF to ensure only actual costs of the grant are reported on the FSRs.
3. Direct ELF to establish policies and procedures to document the drawdown process.
4. Ensure ELF reviews the policies and procedures periodically and makes changes as necessary to assure separation of financial responsibilities.
5. Ensure that the occupancy cost charges to the grant is limited to the cost of ownership for the rental property.

We concur with the findings and recommendations and will work with the ELF to resolve all matters. After your final audit report is issued, we will issue our proposed management decision and provide audit follow-up on corrective actions.

cc: William Anderson, Deputy CFO for Financial Management
Margaret Rosenberry, Director of Grants Management
Tess Scannell, Director, Senior Corps
Suzanne Fahy, Executive Officer Senior Corps
Frank Trinity, General Counsel
Stuart Axenfeld, Assistant Inspector General for Audit
Sherry Blue, Audit Resolution Coordinator, Office of the CFO
R. Craig Warner, NV State Director