
CORPORATION

FOR NATIONAL



S E R V I C E

OFFICE OF THE INSPECTOR GENERAL

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Review of

Mid-Atlantic Network of Youth and Family Services

Pittsburgh, Pennsylvania

Grant Number 94ADNPA021

This report is issued to CNS Management. According to OMB Circular A-50, *Audit Follow Up*, the Corporation must make final management decisions on the report's findings and recommendations no later than February 5, 1997. 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 Inspector General
Review of the Mid-Atlantic Network of Youth and Family Services
CNS Grant # 94ADNPA021

Tichenor and Associates, under contract to the Office of Inspector General, performed a limited review of the Mid-Atlantic Network of Youth and Family Services' (MANY) financial reporting and accounting systems to assess their ability to comply with Federal fiscal accounting and reporting requirements applicable to its AmeriCorps grant, as well as its ability to safeguard related funds. We have reviewed the report and workpapers supporting its conclusions and agree with the findings and recommendations presented.

Based on their review, MANY's accounting systems and system of internal controls are not adequate to report grant expenditures in accordance with grant requirements and to safeguard Federal funds. Tichenor and Associates noted the following deficiencies:

- MANY did not have written agreements with its subgrantees;
- MANY needs to improve its monitoring of subgrantees' financial data;
- MANY did not adequately track labor hours to ensure that lobbying and fundraising activities were not charged to the grant; and
- MANY's FSRs were inaccurate.

In its response to a draft, MANY agreed with the findings and is working towards corrective action.

In addition to the funds covered by this review, the Corporation has awarded MANY a grant for year two of the program totaling \$696,541 covering the period September 1, 1995 through August 30, 1996. We recommend that CNS grants management consider the impact of these deficiencies in its oversight and monitoring activities and determine that MANY has corrected the conditions noted above before awarding any future grants to MANY.

TICHENOR & ASSOCIATES
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Mid-Atlantic Network of Youth and Family Services (MANY) was awarded AmeriCorps Grant No. 94ADNPA021, by the Corporation for National Service (CNS) effective June 29, 1994, for use in accordance with the National and Community Service Act of 1990, as amended. We performed a limited scope review, as described in the Scope and Methodology Section of this report of MANY's financial management system to determine its adequacy in providing effective control over this grant in accordance with criteria contained in applicable Federal regulations and included within the terms of the grant. Our review included applying agreed-upon procedures to test compliance with such criteria during the period June 29, 1994 through August 31, 1995. Our review did not constitute an audit of any financial statements prepared by MANY.

Results in Brief

Based on our review, MANY's accounting systems and system of internal controls are not adequate to report grant expenditures in accordance with grant requirements and to safeguard Federal funds. We noted the following deficiencies:

- MANY did not have written agreements with its subgrantees;
- MANY needs to improve its monitoring of subgrantees' financial data;
- MANY did not adequately track labor hours to ensure that lobbying and fundraising activities were not charged to the grant which resulted in questioned costs of \$5,261; and
- MANY's FSRs were inaccurate.

These deficiencies are discussed in detail in the Findings and Recommendations section of this report. We have discussed these issues with the management of MANY and they agree with the issues and are working towards corrective action.

Background

MANY is a non-profit organization headquartered in Pittsburgh, PA. MANY operates a regional runaway and homeless youth project aimed at promoting youth development through community service.

The purpose of its AmeriCorps grant was to conduct a program to provide tutoring and college preparation training for runaway and homeless youth, independent living training and counseling for runaway and homeless youth and increased resources for rehabilitation of homeless shelters and recreation facilities. The AmeriCorps grant for \$459,705 was MANY's first AmeriCorps grant and covered the period June 29, 1994 through August 31, 1995. MANY was awarded a grant for year two (September 1, 1995 through August 30, 1996) in the amount of \$696,541.

The grant provided support for the program as follows:

<u>Cost Category</u>			
National Headquarters:	Support costs	\$ 14,000	
	Staff	25,016	
	Operational	15,615	
	Monitoring	12,207	
	Administration	<u>11,500</u>	
	Sub Total		\$ 78,338
Subrecipients:	Support costs	\$ 2,000	
	Staff	113,783	
	Operational	14,468	
	Monitoring	0	
	Administration	8,969	
	Other support costs	226,947	
	Child care	<u>15,200</u>	
	Sub Total		<u>381,367</u>
TOTAL			<u>\$ 459,705</u>

*Under the grant, MANY and/or its subgrantees agreed to provide an additional \$372,311 in matching funds for the program.

The program is administered by a national program coordinator located at MANY's headquarters in Pittsburgh, PA. The three participating sites (Latin American Youth Center in Washington, D.C.; Loudoun County Youth Shelter in Leesburg, VA; and the Centre County Youth Service Bureau in State College, PA) received a total of \$366,167 in grant funds.

Scope and Methodology

We performed this review at MANY's headquarters in Pittsburgh during the period February 12, 1996 to February 14, 1996. We obtained an understanding of MANY's accounting and management controls and performed limited testing to determine whether they were operating as intended by MANY management and whether they were adequate for administration of CNS grants. The management of MANY is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of an internal control system are to provide management with reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial reports in accordance with generally accepted accounting principles and applicable regulatory requirements.

We reviewed MANY's monitoring of its subgrantees' operating the grant program. We also visited two of MANY's three subgrantees, the Latin American Youth Center in Washington, DC and the Loudoun Youth Center in Leesburg, Virginia.

Our review included:

- interviewing key management, accounting, and program personnel;
- reviewing MANY's organization chart, policy and procedures manuals, and its chart of accounts;
- reviewing prior single audit reports on MANY's financial statements and management controls;
- testing a judgmental sample of financial transactions related to the grant; and
- reviewing MANY's oversight and monitoring of subgrantees participating in CNS' grants.

We performed our review in accordance with Government Auditing Standards issued by the Comptroller General of the United States. However, our procedures were substantially less in scope than an audit, and accordingly, did not include elements essential to express an opinion on management controls. Accordingly, we do not express such an opinion. Further, if additional audit procedures had been performed, other matters might have come to our attention

that would have been reported. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because the degree of compliance with the policies or procedures may deteriorate.

This report was issue for comment to MANY and CNS. MANY provided comments (see Attachment I) on July 25, 1996. In its response, MANY offered explanations for the conditions described, but generally agreed with the findings. MANY partially disagreed with Finding III. Its response to the specific issues of Finding III and our related assessment are included in the finding. CNS did not respond.

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

Findings and Recommendations

I. MANY Does Not Have Written Agreements With Subgrantees

MANY did not enter into written agreements with its subgrantees participating in its AmeriCorps grant. MANY's approved grant included three subgrantees who received funding totalling \$366,167 for their part in the project. The grant provided that the subgrantees were to provide \$330,805 in matching funds, as well as their efforts to complete the project. Without signed agreements with the subgrantees, MANY could not ensure that the matching promised by the subgrantees would be met, nor could they enforce the requirements set forth in the grant award including all relevant Federal regulations.

We recommend that MANY enter into written agreements with all subgrantees to ensure that MANY's contractual responsibilities as a grantee are met.

II. MANY Needs to Improve Monitoring of Subgrantee Financial Data

MANY does not adequately monitor subgrantee financial activities consistent with Federal regulations (45 CFR 2541.400 (a)). In addition, MANY does not have written procedures setting forth its method for oversight of the subrecipients. This would include how MANY would approve invoices from the subrecipients, determine how and when advances would be approved and reconciled/liquidated, determine specific reporting requirements and support to be provided and determine allowability of costs including indirect costs, and whether the subrecipients would need their own approved indirect rates.

Although MANY has conducted monitoring visits to its subgrantees and evaluated on-going program activities and operations, the visits have not included reviewing financial systems,

Although MANY has conducted monitoring visits to its subgrantees and evaluated on-going program activities and operations, the visits have not included reviewing financial systems, documentation to support claimed costs, or the allowability of these costs when compared to grant terms and conditions. In addition, MANY did not require the subgrantees to provide support for their requests for reimbursement or for the claimed matching costs. Such reviews and supporting documentation are necessary to ensure that costs are incurred consistent with grant objectives and otherwise eligible for reimbursement under the AmeriCorps grant.

We recommend that MANY develop and implement policies and procedures to ensure that costs claimed by subgrantees are eligible for reimbursement and matching under its AmeriCorps grant. Specifically, these written procedures should detail its method of oversight of the subgrantees including approval of invoices from the subgrantees, methods for how and when advances should be approved and reconciled/liquidated and methods for determining allowability of costs including matching costs.

III. MANY Does Not Adequately Track Labor Hours

MANY does not have policies and procedures to ensure labor costs claimed for reimbursement and matching costs under its AmeriCorps grant are allocated equitably and are supported by time sheets. MANY utilizes biweekly time sheets which record the total hours worked each day, or partial day, however, they do not record the number of hours worked each day on specific projects. Instead, MANY utilized a percentage of salaries methodology to calculate labor charges to the grant based on budget percentages in violation of Federal regulations (OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment B, Section 6.1 (2)).

During our review, we noted that the duties of the executive director include performing both fund raising and lobbying activities. Federal regulations (45 CFR 2520.30) prohibit using grant funds for fund raising and lobbying activities. Because MANY staff did not allocate their time to specific projects or activities, we were not able to determine if any of the time spent by the executive director was being charged to either lobbying or to fund raising. Therefore, we are questioning \$5,261 for both matching and administration costs charged to the grant by the executive director.

We recommend that CNS require MANY to repay \$5,261 paid to the executive director. We further recommend that MANY develop and implement policies and procedures to ensure employees record the number of hours worked on each activity and that employee time sheets be reviewed and approved by the supervisor. In addition, we recommend that MANY charge labor costs to the grant based on the hours worked on the project rather than on estimated percentage rates.

Summary of grantee's comments and auditor's assessment

In its response, MANY indicated that they are instituting new policies for timekeeping that will comply with Federal regulations. MANY indicated that at no time does the executive director engage in lobbying activities. MANY stated that they have a National Policy Council staffed by volunteers that conduct all advocacy efforts on behalf of MANY. MANY further stated that the executive director spent an estimated 40 percent of her time during the grant period under review engaged in grant related activities and that no CNS funds were used for the executive director's salary. This additional information does not satisfy the auditor's concerns discussed in the finding. In our opinion, the nature of the organization at MANY indicates a high probability that the executive director's position includes some membership activities including fundraising and advocacy. Without detailed timesheets and accurate cost data by budgeted line items as required by Federal regulations, CNS has no assurance that its funds are not being utilized in some manner for these unallowable activities.

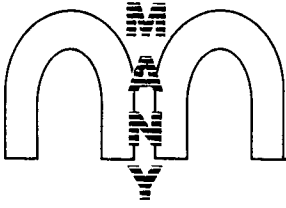
IV. MANY's FSRs are Inaccurate

MANY submitted FSR's for its headquarters costs to CNS for the cumulative matching costs in the fourth quarter that were inaccurate. MANY reported headquarters matching costs of \$41,506 for the fourth quarter FSR when actual cumulative expenditures totaled only \$25,788 (though the amount was above the percentage minimum of \$23,384.25). In addition, MANY reported matching costs each quarter based upon a percentage of the budgeted matching costs instead of the actual costs incurred in violation of Federal regulations which state, in part, that claimed costs must be adequately supported by source documentation or be part of an approved indirect cost rate (OMB Circular A-110, *Grant and Agreements with Institutions of Higher Education, Hospitals, and other Nonprofit Organizations*, Attachment E, 3.b.). MANY did not have an approved indirect cost rate.

We recommend that MANY establish adequate internal controls to ensure that costs, including matching costs, reported on the FSRs reflect actual expenditures. We further recommend that MANY resubmit an accurate FSR for the fourth quarter to CNS.


TICHENOR & ASSOCIATES
February 16, 1996

Attachments



**THE MID-ATLANTIC NETWORK
OF YOUTH AND FAMILY SERVICES**

July 25, 1996

Inspector General
Corporation for National Service
1201 New York Ave., N.W.
Washington, D.C. 20525

Dear Mr. Jordan:

Enclosed is our response to the draft report prepared by Tichenor and Associates following their recent review of our administrative systems. We offer our assurance that we will immediately implement the changes discussed in our response and that we will provide appropriate supporting documentation upon request.

We appreciate the opportunity to continue to work with the Corporation for National Service. Please let us know if additional information is needed to resolve this matter.

Sincerely,

A handwritten signature in cursive script that reads "Nancy A. Johnson".

Nancy A. Johnson
Executive Director

Enclosure

MID-ATLANTIC NETWORK OF YOUTH & FAMILY SERVICES**Response to Draft Report of Findings**

7/23/96

I. Written Agreements With Grantees

It was our understanding that grant applications signed by the Executive Director of each agency constituted such an agreement. We appreciate the suggestion that we require sub-grantees to sign more specific grant agreements and have drafted such a document for use with our four sub-grantees. The agreement will include agreement by sub-grantees to:

- Comply with all financial requirements of the grant, including matching requirements.
- Comply with federal regulations set forth in the grant award including OMB Circular A-122 and A10.
- Comply with all financial and programmatic reporting requirements of the grant.
- Make all documentation of financial procedures and supporting documentation of grant expenses available to MANY upon request.

II. Improved Monitoring of Sub-Grantee Financial Data

MANY's existing financial policies and procedures were not updated to include policies and practices developed for managing sub-grantee financial activities. These procedures are currently being updated to include the following:

- approval procedure for payment of sub-grantee invoices.
- procedure for approving and reconciling advances.
- procedure for determining reporting requirements of sub-grantees.
- procedure for determining allowability of costs, including indirect cost rate and matching costs.

MANY proposes to include a review of financial systems in its site visits to sub-grantees. In addition to demonstrating the adequacy of their financial systems during these site visits, financial officers will be notified that selected grant expenses will be periodically spot-checked to make sure proper documentation of allowability is maintained. Also, MANY grantees will send financial officers to a meeting at the start of the program year to review financial practices and administrative regulations.

MANY would like to note that the largest category of expenses in this grant is member stipends and benefits. MANY does currently track closely hours worked by members as

part of its evaluation process. These figures provide a good test against which to measure whether drawdowns in this area are reasonable.

III. Tracking of Labor Hours

MANY will institute use of a new bi-weekly time and activity sheet immediately. This form will document staff hours allocated to this and other projects and will be reviewed and signed by the Executive Director or other MANY Supervisor. (Currently time-sheets are reviewed by a supervisor).

Regarding the concern about the duties of the Executive Director, MANY would like to note that at no time do the Executive Director or any other MANY staff engage in lobbying activities. MANY is a membership organization consisting of community based human services agencies. The membership elects state representatives and a representative to a National Policy Council for organizations similar to ours. It is these volunteers who conduct all advocacy and public policy work undertaken by our membership. If such work involves minor costs incurred by MANY such as meeting space or postage, (and such occasions are few), MANY is vigilant to use non-federal and non-matching funds supported by membership dues paid by member agencies for such expenses.

Further, the amount of time devoted by the Executive Director to this project, particularly in year one when the project was being planned and launched, greatly exceeds the amount of time charged to the matching portion of the grant (Corporation funds were not used to fund the Executive Director's position). The Executive Director estimates that 40% of her time was spent during that period engaged in the following activities:

- Working directly with sub-grantees' staff to develop their programs and administrative systems.
- Developing MANY's administrative practices for managing the grant.
- Supervising MANY staff in coordinating project activities, including facilitating weekly staff meetings.
- Site visits to grantees.
- Development of relationships with other Community Service programs, including State Commissions and participation in a local network of AmeriCorps programs.
- Meetings in Washington with CNS staff.
- Planning and attendance at MANY's AmeriCorps training events.
- Development of MANYCorps' newsletter.
- Participating in the development of the technology and training methods to be used in developing youth leadership in the project.

IV. Financial Status Reports

MANY has reviewed its financial status reports for this project. In preparing these reports MANY inappropriately reported estimated expenses rather than actual. This practice will not be repeated. MANY will report all expenditures based upon actual documented costs.

In reviewing past FSRs MANY wishes to note the following:

- Despite the fact that quarterly reports were based upon estimated matching funds, revision of these reports substantiates adequate matching expenses based upon actual costs.
- An error in the calculation in the budget detail supporting the budget has been corrected, resulting in a minor change in the matching amount for the office manager's salary. This amount is offset by other matching expenditures and does not result in a reduction of matching funds. MANY will re-submit a corrected FSR for the fourth quarter of year one.