

**Office of the Inspector General**

**Audit of  
Corporation for National Service  
Grant Numbers 94ADFDC011 and 96ADNCA001  
Awarded to Los Angeles Veterans' Initiative, Inc.  
(for the program LA Vets)**

**Report Number 98-13  
December 5, 1997**

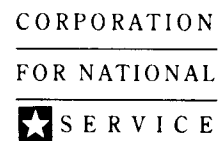
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This report was issued to Corporation management on July 15, 1998. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than January 11, 1999, and complete its corrective action by July 14, 1999. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented or the amount of disallowed costs.

This report was prepared under Department of Labor contract number J-9-G-5-0001.

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Office of the Inspector General  
Audit of Grant Numbers 94ADFDC011 and 96ADNCA001  
Awarded to Los Angeles Veterans' Initiative, Inc.  
(for the program LA Vets)



The enclosed report by R. Navarro & Associates, Inc., describes questioned costs and significant management control deficiencies found as a result of its audit of LA Vets, a program operated by the Los Angeles Veterans Initiative, Inc. The Navarro & Associates' audit, performed under contract to the OIG, was scheduled as part of OIG's annual audit plan. We have reviewed Navarro & Associates' report and work papers supporting its conclusions and agree with the findings and recommendations presented.

The conditions reported in the OIG/Navarro & Associates report are only part of OIG's concerns related to the Corporation for National Service's (the Corporation) award and oversight of its grants to the Los Angeles Veterans Initiative. Specifically, in fiscal year 1997, despite the Los Angeles Veterans Initiative's non-compliance with Federal requirements and the AmeriCorps grant provisions, the Corporation renewed its grant to the Los Angeles Veterans Initiative, Inc., providing \$1.4 million to support the LA Vets program.<sup>1</sup>

In fiscal year 1998, having received a Single Audit Act report that indicated material weaknesses in the Los Angeles Veterans Initiative's financial management systems<sup>2</sup> and a draft OIG audit report that reported additional deficiencies, the Corporation opted to renew the award for another program year at \$1.3 million. Corporation officials stated that this second renewal is "contingent" upon the Los Angeles Veterans Initiative addressing issues raised in the fiscal year 1997 Single Audit Act report.

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<sup>1</sup> OIG work supporting audit report 98-02, *Review of Pre-Award Financial Assessment of Grant Applicants*, revealed that the Corporation had opted to continue funding the LA Vets program by awarding the Los Angeles Veterans Initiative, Inc., funding as a "National Direct" grantee and providing \$1.4 million to the LA Vets program for its 1997-98 operations – *despite the fact that the grants management staff had noted in its files that the program was not in compliance with the Corporation's grant provisions because the organization had not submitted audit reports required by the Single Audit Act and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."*

<sup>2</sup> The Navarro & Associates report indicates that, as of December 5, 1997, LA Vets had not filed required Single Audit Act reports for fiscal years 1996 and 1997 with the Corporation. OIG has since determined that in February 1998, the Corporation received a Single Audit Act report for fiscal year 1997. However, as of July 14, 1998, no report for fiscal year 1996 had been filed. The fiscal year 1997 report, like the Navarro & Associates report, listed a number of material weaknesses in the LA Vets program's management controls. We have summarized the recommendations from the fiscal year 1997 Single Audit Act report for the Los Angeles Veterans Initiative, Inc., in attachment I to this report.

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In April 1998, prior to issuing a draft of this report, OIG auditors had discussions with the Corporation's Grants Management Office staff and representatives of LA Vets to determine the status of corrective actions (if any) and extent of the Corporation's oversight. We also reviewed the Corporation's grant files. We concluded that the Corporation had been slow to take action and follow up on the material weaknesses that were reported in the fiscal year 1997 Single Audit Act report. The Corporation's files indicate that, at the end of April, the report and additional information received from the Los Angeles Veterans Initiative, Inc., were still being evaluated by the Corporation.

In our view, it is troubling that the Corporation did not place a higher priority on reviewing and resolving the reported deficiencies and nevertheless began the funding renewal process. In its response to this report, the Corporation disagreed with our assessment of the timeliness of the Grants Management Office's review and resolution of the reported deficiencies. The Corporation's response is included as Appendix B.

In light of the number and significance of the findings revealed by the enclosed report and the fiscal year 1997 Single Audit Act report, we recommend that the Corporation increase its oversight of the LA Vets program, including making site visits to ensure that all corrective actions are in place, and providing LA Vets with the training and technical assistance necessary to appropriately administer this program. We also recommend that the Corporation require the Los Angeles Veterans Initiative, Inc., to submit its audit for fiscal year 1996 as required.

**LOS ANGELES VETERANS' INITIATIVE, INC.**  
**(for the program LA Vets)**

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## **REPORT SUMMARY**

Inspector General  
 Corporation for National Service  
 Washington, DC

We have performed an audit of the funds awarded by the Corporation for National Service (Corporation) to the Los Angeles Veterans' Initiative, Inc., to operate an AmeriCorps program under Grant Nos. 94ADFDC011 and 96ADNCA001 (LA Vets). Our audit covered the costs claimed during the period July 1, 1994, through September 30, 1997. The program was initially administered by the Department of Veterans Affairs (VA) under Grant No. 94ADFDC011. The VA entered into memorandum of understanding agreements with the National Coalition for Homeless Veterans. The National Coalition for Homeless Veterans entered into memorandum of understanding agreements with Los Angeles Veterans' Initiative, Inc., and Stand Down Homes of Houston to administer the program at their respective VA medical sites. Los Angeles Veterans' Initiative, Inc., however, was the prime recipient of Grant No. 96ADNCA001.

**Audit Results**

Our audit of the costs claimed by Los Angeles Veterans' Initiative, Inc., for its LA Vets program follows:

	<u>Grant Nos.</u>	
	<u>94ADFDC011</u>	<u>96ADNCA001</u>
Award Budget	\$206,488	\$827,672
Claimed Costs	196,633	792,251
Questioned Costs	14,662	107,452

As a result of our audit of the aforementioned awards, we are questioning costs totaling \$122,114, which are summarized below and detailed in Exhibit A to the Independent Auditors' Report. Questioned costs are costs for which there is documentation that the recorded costs were expended in violation of the law, regulations or specific conditions of the award or those costs which require additional support by the grantee or which require interpretation of allowability by the Corporation.

The following summarizes the costs questioned detailed by condition in Exhibit D:

<u>Condition Description</u>	<u>Amount</u>	<u>Exhibit D Reference</u>
■ Consultant costs were not allocable or properly supported by source documentation	\$ 75,571	(1)

	<u>Amount</u>	<u>Exhibit D Reference</u>
■ Training and education costs were not adequately supported by source documentation	1,761	(2)
■ Travel cost allocability to the grant could not be determined	16,469	(3)
■ Salary costs were not adequately supported by timesheets	6,557	(4)
■ Supplies cost were not adequately supported by source documentation	4,074	(5)
■ Other costs were not adequately supported by source documentation	1,537	(6)
■ Reported costs exceeded approved budget	<u>16,145</u>	(7)
Total Questioned Costs	<u>\$122,114</u>	

We used a judgmental sampling method to test the costs claimed by the auditee. Based upon this sampling plan, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been tested. In addition, we have made no attempt to project such costs to total expenditures claimed, based on the relationship of costs tested to total costs.

### **Internal Control Structure**

Our audit disclosed the following matters which we consider to be weaknesses in the internal control structure and its operations.

- Controls over purchases of goods and services were inadequate. (Independent Auditors' Report on Internal Control, Finding No. 1)
- An adequate labor distribution system for consulting and staff costs was not in place. (Independent Auditors' Report on Internal Control, Finding No. 2)
- Segregation of duties was inadequate. (Independent Auditors' Report on Internal Control, Finding 3)
- Journal entries were not consistently supported. (Independent Auditors' Report on Internal Control, Findings Nos. 4 and 6)
- Adequate controls for travel costs were not in place. (Independent Auditors' Report on Internal Control, Finding 5)

- Cost report reconciliations to the general ledger were not maintained. (Independent Auditors' Report on Internal Control, Finding No. 6)

### **Compliance Findings**

Our audit disclosed instances of noncompliance as follows:

- OMB Circular A-133 audit requirements were not met. (Independent Auditors' Report on Compliance, Finding No. 1)
- Quarterly financial status reports were not submitted within the time period specified in the AmeriCorps provisions. (Independent Auditors' Report on Compliance, Finding No. 2)
- Staff time charged to the grant was not supported by time sheets. (Independent Auditors' Report on Compliance, Finding No. 3)
- The use of consultants to provide management and accounting services was not approved or reported properly. (Independent Auditors' Report on Compliance, Finding No. 4)
- Required evaluations of members' performance were not consistently prepared. (Independent Auditors' Report on Compliance, Finding No. 5)
- Member timesheets were not consistently approved by a supervisor as required. (Independent Auditors' Report on Compliance, Finding No. 6)
- Reported costs exceeded the approved site budgets. (Independent Auditors' Report on Compliance, Finding No. 7)
- Matching requirements stated in the award budget were not met. (Independent Auditors' Report on Compliance, Finding No. 8)



The following table illustrates the exceptions noted by program year and condition:

<i>Internal Control Finding</i>	<b>Program Year</b>		
	<u>94/95</u>	<u>95/96</u>	<u>96/97</u>
1. Controls over purchase of goods and services were inadequate	✓	✓	✓
2. Labor distribution system for consulting and staff costs not in place	✓	✓	--
3. Segregation of duties inadequate	✓	✓	✓
4. Journal entries not consistently supported	✓	✓	✓
5. Controls over travel costs inadequate	✓	✓	✓
6. Cost report reconciliation not maintained	✓	✓	✓
<i>Compliance Finding</i>			
1. Audit requirements not met	✓	✓	--
2. Cost reports not filed timely	--	--	✓
3. Staff time not supported by time sheets	✓	✓	✓
4. Use of consultants not approved	--	--	✓
5. Required member evaluations not prepared	✓	✓	--
6. Member time sheets not approved by a supervisor	✓	✓	--
7. Reported costs in excess of budget	--	--	✓
8. Matching requirements not met.	--	--	✓
<u>Legend:</u>			
✓	-	Finding applies to this year	
--	-	Finding does not apply to this year	

### **Purpose and Scope of Audit**

Our audit covered the costs claimed during the period July 1, 1994 through September 30, 1997 under Grant Nos. 94ADFDC011 and 96ADNCA001 which had an award period of July 1, 1994 to December 31, 1996 and August 1, 1996 to December 31, 1997, respectively.

The objectives of our audit were to determine whether:

1. Financial reports prepared by the auditee presented fairly the financial condition of the award;
2. The internal control structure was adequate to safeguard Federal funds;

3. The Los Angeles Veterans' Initiative, Inc., had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations and award conditions; and
4. The award costs reported to the Corporation were documented and allowable in accordance with the award terms and conditions.

We performed the audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed against the grant award, as presented in the Schedule of Award Costs (Exhibit A), are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Exhibit A.

### **Matters of Emphasis**

The grant award documents indicate that the grantee is LA Vets. There is no legal entity with such name. LA Vets is the name of the program which is administered by Los Angeles Veterans' Initiative, Inc., a California non-profit corporation.

Additionally, the Corporation and the Department of Veterans Affairs' grants personnel did not monitor compliance with the requirements of OMB Circular A-133 for Los Angeles Veterans' Initiative, Inc. Notations were made in grant documents indicating that the grantee needed to comply with the Circular. However, as of the end of our fieldwork no follow-up action was taken by the Corporation to assure that the Los Angeles Veterans' Initiative, Inc., filed the required audit reports. The Los Angeles Veterans' Initiative engaged a firm to perform an audit in compliance with OMB Circular A-133. Subsequent to our fieldwork an OMB A-133 audit report was issued for one of the two years for which an audit was required.

### **Background**

Effective July 1, 1994, the Corporation awarded Grant No. 94ADFDC011 to conduct an AmeriCorps program to provide assistance to homeless veterans in achieving greater self-sufficiency through individualized plans. Program years one and two were administered by the Department of Veterans Affairs (VA). Los Angeles Veterans' Initiative, Inc. operated the Los Angeles site only. The administration of similar programs at their respective VA medical sites was coordinated by the VA and the National Coalition for Homeless Veterans.

Effective August 1, 1996, the Corporation awarded Grant No. 96ADNCA001 to Los Angeles Veterans' Initiative, Inc. as grantee to conduct an AmeriCorps program in Los Angeles and Houston. This award was for an expanded program in those geographic areas including adjoining counties.

### **LA Vets' Response**

LA Vets provided comments on this report on June 5, 1998 (see Appendix A, excluding Attachments). In its response, LA Vets generally disagreed with the questioned costs and generally agreed with the internal control and compliance findings. LA Vets provided additional information on several issues. LA Vets' comments and our assessment are summarized after each finding.

The Corporation provided comments on this report on June 8, 1998 (see Appendix B). In its June 8, 1998, response, the Corporation stated that it had no comments concerning the cited conditions and deficiencies at LA Vets. However, the Corporation disagreed with the OIG's assessment of the Grants Management Office's responsiveness to reviewing and resolving deficiencies found at LA Vets. The OIG has addressed the Corporation's concerns in its introduction to the report.

**INDEPENDENT AUDITORS' REPORT**

Inspector General  
Corporation for National Service  
Washington, DC

### INDEPENDENT AUDITORS' REPORT

We have audited the costs claimed by the Los Angeles Veterans' Initiative, Inc., to the Corporation for National Service on the Financial Status Report - Federal Share of Outlays for the award numbers listed below. These Financial Status Reports, as presented in the Schedule of Award Costs (Exhibit A), are the responsibility of the Los Angeles Veterans' Initiative management. Our responsibility is to express an opinion on Exhibit A based on our audit.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
94ADFDC011	July 1, 1994 to December 31, 1996	July 1, 1994 to December 31, 1996
96ADNCA001	August 1, 1996 to December 31, 1997	August 1, 1996 to September 30, 1997

We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying financial schedules were prepared for the purpose of complying with the requirements of the award agreement as described in Note 1, and are not intended to be a complete presentation of financial position or results of operations in conformity with generally accepted accounting principles.

In our opinion, except for \$122,114 of questioned costs detailed in Exhibit D, the financial schedules present fairly, in all material respects, the costs claimed in the Financial Status Report - Federal Share of Outlays as presented in the Combined Schedule of Award Costs (Exhibit A), for the period July 1, 1994 to September 30, 1997, in conformity with the award agreements.

Exhibits B and C are being presented as supplementary information to assist the Corporation's management with the resolution process. This information is not a required part of the financial schedules. Such information has been subjected to the auditing procedures applied in the audit, and, in our opinion is fairly stated in all material respects in relation to Exhibit A taken as a whole.

This report is intended for the information and use of the Corporation's Office of the Inspector General, as well as the management of the Corporation, and Los Angeles Veterans' Initiative, Inc. However, this report is a matter of public record and its distribution is not limited.

*R. Navaro & Associates, Inc.*

December 5, 1997

## **FINANCIAL SCHEDULES**

**The Los Angeles Veterans' Initiative, Inc.**  
**Award Number 94ADFD011 and 96ADNCA001**  
**Combined Schedule of Award Costs**  
**From July 1, 1994 to September 30, 1997**

<u>Cost Category</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Exhibit D Reference</u>
<b>Member Support Costs:</b>			
Training and education	\$ 4,873	\$ 1,761	(2)
Uniforms	<u>634</u>	<u>0</u>	
Subtotal	<u>\$ 5,507</u>	<u>\$ 1,761</u>	
<b>Staff:</b>			
Consultants	\$ 75,571	\$ 75,571	(1)
Salaries	276,571	22,702	(4,7)
Benefits	72,546	0	
Training	<u>440</u>	<u>0</u>	
Subtotal	<u>\$ 425,128</u>	<u>\$ 98,273</u>	
<b>Operational:</b>			
Travel	\$ 20,868	\$ 16,469	(3)
Corporation meetings	2,797	0	
Transportation	41,835	0	
Supplies	21,678	4,074	(5)
Equipment	0	0	
Other	<u>7,745</u>	<u>1,537</u>	(6)
Subtotal	<u>\$ 94,923</u>	<u>\$ 22,080</u>	
Internal Evaluation	<u>\$ 5,801</u>	<u>\$ 0</u>	
Administration	<u>\$ 0</u>	<u>\$ 0</u>	
<b>Other Participant Support Costs:</b>			
Living allowance	\$ 387,813	\$ 0	
FICA	29,668	0	
Workers Compensation Ins.	5,817	0	
Health Care	<u>34,227</u>	<u>0</u>	
Subtotal	<u>\$ 457,525</u>	<u>\$ 0</u>	
Total Corporation Funds	<u>\$ 988,884</u>	<u>\$122,114</u>	
Matching Funds	<u>\$ 454,685</u>	<u>\$ 0</u>	
Total Program Funds	<u>\$1,443,569</u>	<u>\$122,114</u>	
<i>Exhibit Reference</i>	B,C	D	

The accompanying notes are an integral part of this financial schedule.



**The Los Angeles Veterans' Initiative, Inc.**  
**Award Number 94ADFDC011 and 96ADNCA001**  
**Notes to Financial Schedules**

**1. Summary of Significant Accounting Policies**

Organization

Los Angeles Veterans' Initiative, Inc., is a nonprofit organization. It was organized under the nonprofit public benefit laws of the State of California. IRS code 501(c)(3) exempts the organization from income taxes.

Accounting Basis

The accompanying financial schedules have been prepared from the reports submitted to the Corporation. The basis of accounting utilized in preparation of these reports differs from generally accepted accounting principles. The following information summarizes these differences.

A. Equity

Under the terms of the award, all funds not expended according to the award agreement and budget at the end of the award period are to be returned to the Corporation. Therefore, the auditee does not maintain any equity in the award and any excess of cash received (including excess interest thereon) from the Corporation over final expenditures is due back to the Corporation.

B. Equipment

Equipment is charged to expense in the period during which it is purchased instead of being recognized as an asset and depreciated over its useful life. As a result, the expenses reflected in the Combined Statement of Award Costs include the cost of equipment purchased during the period rather than a provision of depreciation.

The equipment acquired is owned by Los Angeles Veterans' Initiative, Inc., in the program for which it is purchased or in other future authorized programs as the Corporation may designate. However, the Corporation has the reversionary interest in the equipment. Its disposition, as well as the ownership of any proceeds therefore, is subject to Federal regulations as adopted by the Corporation.

C. Inventory

Minor materials and supplies are charged to expense during the period of purchase. As a result, no inventory is recognized for these items in the financial schedules.

**The Los Angeles Veterans' Initiative, Inc.**  
**Award Number 94ADFDC011 and 96ADNCA001**  
**Notes to Financial Schedules**

**2. Related Party Transactions**

The Los Angeles Veterans' Initiative, Inc., is a member of a joint venture with a for-profit corporation. The joint venture was organized to provide services to veterans at a housing facility owned by Westside Residence Hall, Inc., the joint venture partner. The joint venture agreement entitles the Los Angeles Veterans' Initiative, Inc., to a grant of 50 percent of the net rental income of the joint venture partner, Westside Residence Hall, Inc. There was no grant required or received during the audit period. The joint venture agreement also provides for reimbursement by the Los Angeles Veterans' Initiative, Inc., of certain operating expenses. Activities between the parties for accounting support, consulting, and other services are considered related party transactions.

**SUPPLEMENTARY INFORMATION**

**EXHIBITS B AND C**

**The Los Angeles Veterans' Initiative, Inc.**  
**(as a Veterans Affairs subrecipient)**  
**Award Number 94ADFDC011**  
**Schedule of Award Costs as Subrecipient**  
**From July 1, 1994 to December 31, 1996**

<u>Cost Category</u>	<u>Final</u> <u>Approved</u> <u>Budget</u>	<u>Claimed</u> <u>Costs</u>	<u>Questioned</u> <u>Costs</u>	<u>Exhibit D</u> <u>Reference</u>
<b>Member Support Costs:</b>				
Training and education	\$ 2,500	\$ 1,293	\$ 0	
Uniforms	<u>1,880</u>	<u>634</u>	<u>0</u>	
Subtotal	<u>\$ 4,380</u>	<u>\$ 1,927</u>	<u>\$ 0</u>	
<b>Staff:</b>				
Salaries	\$127,726	\$142,494	\$ 0	
Benefits	26,855	18,265	0	
Training	<u>0</u>	<u>440</u>	<u>0</u>	
Subtotal	<u>\$154,581</u>	<u>\$161,199</u>	<u>\$ 0</u>	
<b>Operational:</b>				
Travel	\$ 11,760	\$ 12,868	\$ 9,912	(3)
Corporation meetings	750	2,797	0	
Transportation	17,052	4,849	0	
Supplies	7,365	6,916	4,074	(5)
Equipment	2,600	0	0	
Other	<u>2,000</u>	<u>276</u>	<u>676</u>	(6)
Subtotal	<u>\$ 41,527</u>	<u>\$ 27,706</u>	<u>\$14,662</u>	
Internal Evaluation	<u>\$ 6,000</u>	<u>\$ 5,801</u>	<u>\$ 0</u>	
Administration	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	
<b>Other Participant Support:</b>				
Living allowance	\$ 0	\$ 0	\$ 0	
FICA & comp	0	0	0	
Health care	<u>0</u>	<u>0</u>	<u>0</u>	
Subtotal	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	
Total Corporation Funds	<u>\$206,488</u>	<u>\$196,633</u>	<u>\$14,662</u>	
Matching Funds	<u>\$245,321</u>	<u>\$ 59,449</u>	<u>\$ 0</u>	
Total Program Funds	<u>\$451,809</u>	<u>\$256,082</u>	<u>\$14,662</u>	
<i>Exhibit Reference</i>		B-1, B-2		

**The Los Angeles Veterans' Initiative, Inc.**  
**(as a Veterans Affairs subrecipient)**  
**Award Number 94ADFDC011**  
**Schedule of Award Costs as Subrecipient**  
**From July 1, 1994 to August 15, 1995**  
**Final**

<u>Cost Category</u>	<u>Approved Budget</u>	(A) <u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Exhibit D Reference</u>
Member Support Costs:				
Training and education	\$ 2,000	\$ 0	\$ 0	
Uniforms	<u>1,000</u>	<u>0</u>	<u>0</u>	
Subtotal	<u>\$ 3,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	
Staff:				
Salaries	\$ 62,456	\$ 66,747	\$ 0	
Benefits	12,491	13,347	0	
Training	<u>0</u>	<u>440</u>	<u>0</u>	
Subtotal	<u>\$ 74,947</u>	<u>\$ 80,534</u>	<u>\$ 0</u>	
Operational:				
Travel	\$ 8,260	\$ 7,989	\$ 7,989	(3)
Transportation	8,552	4,849	0	
Supplies	2,365	2,695	971	(5)
Equipment	2,600	0	0	
Other	<u>2,000</u>	<u>276</u>	<u>676</u>	(6)
Subtotal	<u>\$ 23,777</u>	<u>\$ 15,809</u>	<u>\$ 9,636</u>	
Internal Evaluation	<u>\$ 2,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	
Administration	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	
Other Participant Support:				
Living allowance	\$ 0	\$ 0	\$ 0	
FICA & comp	0	0	0	
Health care	<u>0</u>	<u>0</u>	<u>0</u>	
Subtotal	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	
Total Corporation Funds	\$103,724	\$ 96,343	\$ 9,636	
Matching Funds	<u>120,400</u>	<u>34,848</u>	<u>0</u>	
Total Program Funds	<u>\$224,124</u>	<u>\$131,191</u>	<u>\$ 9,636</u>	

(A) The total costs claimed represents expenditures reported to the National Coalition for Homeless Veterans (NCHV) for program year one. The matching funds amount represents program cost per books not necessarily reported to NCHV nor to the Corporation.

**The Los Angeles Veterans' Initiative, Inc.**  
**(as a Veterans Affairs subrecipient)**  
**Award Number 94ADFDC011**  
**Schedule of Award Costs as Subrecipient**  
**From August 16, 1995 to December 31, 1996**  
**Final**

<u>Cost Category</u>	<u>Approved Budget</u>	(A) <u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Exhibit D Reference</u>
<b>Member Support Costs:</b>				
Training and education	\$ 500	\$ 1,293	\$ 0	
Uniforms	<u>880</u>	<u>634</u>	<u>0</u>	
Subtotal	<u>\$ 1,380</u>	<u>\$ 1,927</u>	<u>\$ 0</u>	
<b>Staff:</b>				
Salaries	\$ 65,270	\$ 75,747	\$ 0	
Benefits	14,364	4,918	0	
Training	<u>0</u>	<u>0</u>	<u>0</u>	
Subtotal	<u>\$ 79,634</u>	<u>\$ 80,666</u>	<u>\$ 0</u>	
<b>Operational:</b>				
Travel	\$ 3,500	\$ 4,879	\$ 1,923	(3)
Corporation Meeting	750	2,797	0	
Transportation	8,500	0	0	
Supplies	5,000	4,221	3,103	(5)
Equipment	0	0	0	
Other	<u>0</u>	<u>0</u>	<u>0</u>	
Subtotal	<u>\$ 17,750</u>	<u>\$ 11,897</u>	<u>\$ 5,026</u>	
Internal Evaluation	<u>\$ 4,000</u>	<u>\$ 5,801</u>	<u>\$ 0</u>	
Administration	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	
<b>Other Participant Support:</b>				
Living allowance	\$ 0	\$ 0	\$ 0	
FICA & comp	0	0	0	
Health care	<u>0</u>	<u>0</u>	<u>0</u>	
Subtotal	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	
Total Corporation Funds	\$102,764	\$ 100,291	\$ 5,026	
Matching Funds	<u>124,921</u>	<u>24,600</u>	<u>0</u>	
Total Program Funds	<u>\$227,685</u>	<u>\$124,891</u>	<u>\$ 5,026</u>	

- (A) The total costs claimed represents expenditures reported to the Department of Veterans Affairs (VA) for program year two. The matching funds amount represents program cost per books not necessarily reported to VA nor to the Corporation.

**The Los Angeles Veterans' Initiative, Inc.**  
**(as a Corporation grantee)**  
**Award Number 96ADNCA001**  
**Schedule of Award Costs as Grantee**  
**From August 1, 1996 to September 30, 1997**  
**Interim**

<u>Aggregate:</u>		(A)		
<u>Cost Category</u>	<u>Approved Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Exhibit D Reference</u>
Other Member Costs:				
Training and education	\$ 17,070	\$ 3,580	\$ 1,761	(2)
Other	<u>1,920</u>	<u>0</u>	<u>0</u>	
Subtotal	<u>\$ 18,990</u>	<u>\$ 3,580</u>	<u>\$ 1,761</u>	
Staff:				
Consultants	\$ 0	\$ 75,571	\$ 75,571	(1)
Salaries	187,736	134,077	22,702	(4,7)
Benefits	37,400	54,281	0	
Training	<u>5,000</u>	<u>0</u>	<u>0</u>	
Subtotal	<u>\$ 230,136</u>	<u>\$ 263,929</u>	<u>\$ 98,273</u>	
Operational:				
Travel	\$ 6,000	\$ 8,000	\$ 6,557	(3)
Corporation Meeting	3,500	0	0	
Transportation	19,824	36,986	0	
Supplies	14,560	14,762	0	
Equipment	0	0	0	
Other	<u>250</u>	<u>7,469</u>	<u>861</u>	(6)
Subtotal	<u>\$ 44,134</u>	<u>\$ 67,217</u>	<u>\$ 7,418</u>	
Internal Evaluation:	<u>\$ 10,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	
Administration:	<u>\$ 27,656</u>	<u>\$ 0</u>	<u>\$ 0</u>	
Member Support Costs:				
Living allowance	\$ 408,371	\$ 387,813	\$ 0	
FICA	31,240	29,668	0	
Workers Compensation Ins.	26,425	5,817	0	
Health care	<u>30,720</u>	<u>34,227</u>	<u>0</u>	
Subtotal	<u>\$ 496,756</u>	<u>\$ 457,525</u>	<u>\$ 0</u>	
Total Corporation Funds	<u>\$ 827,672</u>	<u>\$ 792,251</u>	<u>\$107,452</u>	
Matching Funds	<u>\$ 480,860</u>	<u>\$ 395,236</u>	<u>\$ 0</u>	
Total Funds	<u>\$1,308,532</u>	<u>\$1,187,487</u>	<u>\$107,452</u>	

(A) The total costs claimed represents expenditures reported on the Financial Status Report - Federal Share of Outlays as of the quarter ended September 30, 1997.

**The Los Angeles Veterans' Initiative, Inc.**  
**(as a Corporation grantee)**  
**Award Number 96ADNCA001**  
**Schedule of Award Costs**  
**From August 1, 1996 to September 30, 1997**  
**Interim**

<u>Parent:</u>		(A)		
<u>Cost Category</u>	<u>Approved Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Exhibit D Reference</u>
Other Member Costs:				
Training and education	\$ 12,000	\$ 789	\$ 0	
Other	<u>0</u>	<u>0</u>	<u>0</u>	
Subtotal	<u>\$ 12,000</u>	<u>\$ 789</u>	<u>\$ 0</u>	
Staff:				
Consultants	\$ 0	\$ 67,060	\$ 67,060	(1)
Salaries	67,800	44,261	1,059	(4,7)
Benefits	14,565	8,754	0	
Training	<u>3,500</u>	<u>0</u>	<u>0</u>	
Subtotal	<u>\$ 85,865</u>	<u>\$ 120,075</u>	<u>\$ 68,119</u>	
Operational:				
Travel	\$ 6,000	\$ 8,000	\$ 6,557	(3)
Corporation Meeting	2,000	0	0	
Transportation	0	0	0	
Supplies	9,250	9,250	0	
Equipment	0	0	0	
Other	<u>0</u>	<u>0</u>	<u>0</u>	
Subtotal	<u>\$ 17,250</u>	<u>\$ 17,250</u>	<u>\$ 6,557</u>	
Internal Evaluation:	<u>\$ 4,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	
Administration:	<u>\$ 20,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	
Member Support Costs:				
Living allowance	\$ 0	\$ 0	\$ 0	
FICA	0	0	0	
Workers Compensation Ins.	0	0	0	
Health care	<u>0</u>	<u>0</u>	<u>0</u>	
Subtotal	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	
Total Corporation Funds	<u>\$139,115</u>	<u>\$138,114</u>	<u>\$ 74,676</u>	
Matching Funds	<u>\$ 61,096</u>	<u>\$ 56,303</u>	<u>\$ 0</u>	
Total Funds	<u>\$200,211</u>	<u>\$194,417</u>	<u>\$ 74,676</u>	

(A) The total costs claimed represents expenditures reported on the Financial Status Report - Federal Share of Outlays as of the quarter ended September 30, 1997.



**The Los Angeles Veterans' Initiative, Inc.**  
**(as a Corporation grantee)**  
**Award Number 96ADNCA001**  
**Schedule of Award Costs**  
**From August 1, 1996 to September 30, 1997**  
**Interim**

<u>Los Angeles Site:</u>		(A)		
<u>Cost Category</u>	<u>Approved Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Exhibit D Reference</u>
Other Member Costs:				
Training and education	\$ 4,400	\$ 2,396	\$ 1,761	
Other	<u>1,408</u>	<u>0</u>	<u>0</u>	(2)
Subtotal	<u>\$ 5,808</u>	<u>\$ 2,396</u>	<u>\$ 1,761</u>	
Staff:				
Consultants	\$ 0	\$ 568	\$ 568	(1)
Salaries	96,000	44,723	4,264	(4,7)
Benefits	17,664	35,563	0	
Training	<u>1,500</u>	<u>0</u>	<u>0</u>	
Subtotal	<u>\$115,164</u>	<u>\$ 80,854</u>	<u>\$ 4,832</u>	
Operational:				
Travel	\$ 0	\$ 0	\$ 0	
Corporation Meeting	750	0	0	
Transportation	14,035	36,426	0	
Supplies	3,300	2,828	0	
Equipment	0	0	0	
Other	<u>250</u>	<u>7,469</u>	<u>861</u>	(6)
Subtotal	<u>\$ 18,335</u>	<u>\$ 46,723</u>	<u>\$ 861</u>	
Internal Evaluation:	<u>\$ 2,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	
Administration:	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	
Member Support Costs:				
Living allowance	\$300,319	\$283,227	\$ 0	
FICA	22,974	21,667	0	
Workers Compensation Ins.	21,022	4,693	0	
Health care	<u>25,920</u>	<u>24,021</u>	<u>0</u>	
Subtotal	<u>\$370,235</u>	<u>\$333,608</u>	<u>\$ 0</u>	
Total Corporation Funds	<u>\$511,542</u>	<u>\$463,581</u>	<u>\$ 7,454</u>	
Matching Funds	<u>\$334,961</u>	<u>\$264,730</u>	<u>\$ 0</u>	
Total Funds	<u>\$846,503</u>	<u>\$728,311</u>	<u>\$ 7,454</u>	

(A) The total costs claimed represents expenditures reported on the Financial Status Report - Federal Share of Outlays as of the quarter ended September 30, 1997.

**The Los Angeles Veterans' Initiative, Inc.**  
**(as a Corporation grantee)**  
**Award Number 96ADNCA001**  
**Schedule of Award Costs**  
**From August 1, 1996 to September 30, 1997**  
**Interim**

<u>Houston Site:</u>		(A)		
<u>Cost Category</u>	<u>Approved Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Exhibit D Reference</u>
Other Member Costs:				
Training and education	\$ 670	\$ 395	\$ 0	
Other	<u>512</u>	<u>0</u>	<u>0</u>	
Subtotal	<u>\$ 1,182</u>	<u>\$ 395</u>	<u>\$ 0</u>	
Staff:				
Consultants	\$ 0	\$ 7,943	\$ 7,943	(1)
Salaries	23,936	45,094	17,379	(4,7)
Benefits	5,171	9,964	0	
Training	<u>0</u>	<u>0</u>	<u>0</u>	
Subtotal	<u>\$ 29,107</u>	<u>\$ 63,001</u>	<u>\$ 25,322</u>	
Operational:				
Travel	\$ 0	\$ 0	\$ 0	
Corporation Meeting	750	0	0	
Transportation	5,789	559	0	
Supplies	2,010	2,684	0	
Equipment	0	0	0	
Other	<u>0</u>	<u>0</u>	<u>0</u>	
Subtotal	<u>\$ 8,549</u>	<u>\$ 3,243</u>	<u>\$ 0</u>	
Internal Evaluation:	<u>\$ 4,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	
Administration:	<u>\$ 7,656</u>	<u>\$ 0</u>	<u>\$ 0</u>	
Member Support Costs:				
Living allowance	\$108,052	\$104,586	\$ 0	
FICA	8,266	8,001	0	
Workers Compensation Ins.	5,403	1,124	0	
Health care	<u>4,800</u>	<u>10,206</u>	<u>0</u>	
Subtotal	<u>\$126,521</u>	<u>\$123,917</u>	<u>\$ 0</u>	
Total Corporation Funds	<u>\$177,015</u>	<u>\$190,556</u>	<u>\$ 25,322</u>	
Matching Funds	<u>\$ 84,803</u>	<u>\$ 74,203</u>	<u>\$ 0</u>	
Total Funds	<u>\$261,818</u>	<u>\$264,759</u>	<u>\$ 25,322</u>	

(A) The total costs claimed represents expenditures reported on the Financial Status Report - Federal Share of Outlays as of the quarter ended September 30, 1997.

**The Los Angeles Veterans' Initiative, Inc.  
Award Number 94ADFDC011 and 96ADNCA001  
Explanation of Questioned Costs  
From July 1, 1994 to September 30, 1997**

1. **Consultant Costs**

We have questioned \$75,571 of the amount claimed for consultant costs which were not allocable or adequately supported as required. The services provided, including accounting, temporary services, and consulting were, for the most part, provided by a related party as explained in Note 2 of the Notes to the Financial Schedules. (45 CFR 2543.21(b)(6) and (7), OMB Circular A-122 Attachment B.35, AmeriCorps Provisions paragraph 23.e. and 16.a.iii.)

- \$7,943 represents the costs claimed for the Houston program director for which no contractor agreement was made.

**LA Vets' Response**

"We do not concur. A temporary consultant was needed to set up the Houston site. Sample copies of two invoices supporting these costs are included with Exhibit 1 of the Supplemental Information."

**Auditors' Comments**

The Houston program director was required to have a contractor agreement. There is no evidence of this agreement. It is essential to have a contract to assure that written documentation exists outlining the duties and responsibilities of the parties. At a minimum the contract should pass-through AmeriCorps provisions to the contractor, outline the expected scope of services, the term of the contract, a payment or fees schedule and the responsibilities for program performance. The lack of an agreement precluded our assessment of these items, consequently the costs remain questioned.

- \$568 represents the costs claimed for the Los Angeles site temporary services.

**LA Vets' Response**

"We do not concur. We used temporary services to bridge some of the service gaps created in the two month period between AmeriCorps Member terms of service, and to help develop and launch the expansion into San Luis Obispo County."

**Auditors' Comments**

The Los Angeles' site temporary services were required by AmeriCorps provisions to have a contractor agreement. It is essential to have a contract to assure that written documentation exists outlining the duties and responsibilities of the parties. At a minimum

**The Los Angeles Veterans' Initiative, Inc.  
Award Number 94ADFDC011 and 96ADNCA001  
Explanation of Questioned Costs  
From July 1, 1994 to September 30, 1997**

the contract should pass-through AmeriCorps provisions to the contractor, outline the expected scope of services, the term of the contract, a payment or fees schedule and the responsibilities for program performance. The lack of an agreement precluded our assessment of these items, consequently the costs remain questioned.

- \$9,134 represents the costs claimed for accounting consulting services provided to the parent organization.

**LA Vets' Response**

"We do not concur. We believe adequate support is available for these services. We have a contract and invoices from our service provider, and a copy of the contract...."

**Auditors' Comments**

The documentation provided includes a contract for services between Cantwell Anderson, Inc., and the consultant not LA Vets. The documentation does not make LA Vets privy to the contract, and other support provided indicates that some of the time incurred and allocated to LA Vets was for discussions related to construction. LA Vets, as funded by the Corporation, did not have construction activities. Therefore, the costs remain questioned since the documentation does not substantiate the propriety of allocating these costs to LA Vets.

- \$29,400 represents the costs claimed for accounting services provided to the parent organization.

**LA Vets' Response**

"We do not concur. These expenses were inadvertently reported as consultant costs and should have been reported as administration costs. They were reclassified at program year-end. A copy of the contract for services is included as Exhibit 4 of the Supplemental Information."

**Auditors' Comments**

The costs remain questioned. The contractor's invoices did not contain the required detail such as the specific time and scope of the services provided.

- \$28,526 represents the costs claimed for program consulting services provided to the parent organization.

**The Los Angeles Veterans' Initiative, Inc.  
Award Number 94ADFDC011 and 96ADNCA001  
Explanation of Questioned Costs  
From July 1, 1994 to September 30, 1997**

**LA Vets' Response**

"We do not concur. These services were provided by one consultant who performed strategic planning and program development for the parent organization, the expansion of the Los Angeles operating site, and the transition from the Houston site being operated by a local non-profit to being operated by Veterans Initiative with a completely new set of objectives and management guidelines. A written contract does exist and documentation of services performed is enclosed as Exhibit 5 of the Supplemental Information."

**Auditors' Comments**

Based on the supporting documentation provided, we could not determine allowability under Grant No. 96ADNCA001 since the consultant invoices did not provide detail such as the specific time and scope of the services provided. The questioned costs require consultant invoices to provide detail such as the specific time and scope of the services provided. The above costs remain questioned.

2. **Training and Education**

We have questioned \$1,761 of the amount claimed under Grant No. 96ADNCA001. No documentation was provided to support the amount. (45 CFR 2543.21(b)(7), OMB Circular A-122 Attachment B.49, AmeriCorps Provisions paragraph 23.b.)

**LA Vets' Response**

"We do not concur." The auditee provided a discussion of their disagreement detailing participants who attended.

**Auditors' Comments**

We reviewed the documentation and did not consider it adequate to support the cost. If LA Vets obtains further support documentation, it should be provided to the grants officer.

3. **Travel**

We have questioned \$16,469 of the amount claimed for travel. Of this amount, \$9,913 represents costs claimed under Grant No. 94ADFDC011. The remaining \$6,556 represents cost claimed under Grant No. 96ADNCA001. The amount was questioned because allocability to the grant could not be determined based on the documentation provided by the grantee. (45 CFR 2543.21(b)(6) and (7), OMB Circular A-122 Attachment B.51, AmeriCorps Provisions paragraph 23.a. and 23.b.)

**The Los Angeles Veterans' Initiative, Inc.  
Award Number 94ADFDC011 and 96ADNCA001  
Explanation of Questioned Costs  
From July 1, 1994 to September 30, 1997**

We selected 78% (\$16,469) of travel costs claimed for testing. No documentation (expense report, receipts, tickets, detail of daily expenses, etc.) was provided for \$1,109 of travel cost tested. The documentation included travel agency invoices for \$2,246 and \$4,760 of credit card statements. One meal cost claimed of \$119 exceeded allowable subsistence rates. For the remaining \$8,234 of travel cost, supporting documentation was not adequate nor sufficient to determine allowability and allocability.

**LA Vets' Response**

"We do not concur that the costs were not adequately supported." A narrative was provided for the travel cost questioned and documentation provided.

**Auditors' Comments**

The documentation provided is similar to the information previously reviewed in the field. Information such as hotel lodging receipts, detailed expense reports, ticket receipts, daily calculation of subsistence allowances, pursuant to the Federal Travel Regulations, was not provided. Detailed records of this nature are necessary to assess the allowability, allocation and reasonableness of the costs charged to LA Vets. Consequently, the costs remain questioned.

**4. Salary Cost**

We have questioned \$6,557 of the amount claimed for salaries under Grant No. 96ADNCA001. No time sheets or other documentation to support the charges to the grant were provided for six pay periods made to four different individuals. (45 CFR 2543.21(b)(7), OMB Circular A-122 Attachment B.6, AmeriCorps Provisions paragraph 23.c.)

**LA Vets' Response**

"We concur with the finding that the time sheets for the six pay periods for the four individuals, were not available. We can confidently state, however, that we did not pay anyone under any contract if they were not performing the services for which they were paid.

We are eager to remedy the situation in any way possible. If we are provided with a list of those individuals and the periods involved, we will obtain signed affidavits from the individuals involved to support the time periods worked under Grant No. 96ADNCA001."

**The Los Angeles Veterans' Initiative, Inc.  
Award Number 94ADFDC011 and 96ADNCA001  
Explanation of Questioned Costs  
From July 1, 1994 to September 30, 1997**

5. **Supplies**

We have questioned \$4,074 of the amount claimed under Grant No. 94ADFDC011 for supplies since no documentation (invoices, receipts, etc.) was provided to support this amount. (45 CFR 2543.21 (b)(7), OMB Circular A-122 Attachment B.24, AmeriCorps Provisions paragraph 16.b. and 23.b.)  
**LA Vets' Response**

"We concur with the finding that documentation was not available to support the supplies costs for this grant. These expenses were incurred in 1995 and our records were maintained off-site during that time. It is unlikely we would be able to produce substitute documentation due to the passage of time. However, we are confident all supply costs charged to this grant were legitimate and authorized by the appropriate personnel."

6. **Other Costs**

We have questioned \$1,537 of the amount claimed under Grant No. 94ADFDC011, since no documentation (invoices, receipts, etc.) was provided to support the amount for other costs. (45 CFR 2543.21(b)(7), AmeriCorps Provisions paragraph 23.b.)

**LA Vets' Response**

LA Vets concurred with the finding.

7. **Reported Costs Exceeding Approved Site Budget**

We have questioned \$16,145 of the amount claimed under Grant No. 96ADNCA001, which represents the amount of cost exceeding the approved program site budgets as shown on the following page. (45 CFR 2543.25(b), AmeriCorps Provisions paragraph 23.b. and 16.b.)

**LA Vets' Response**

"We concur that the costs claimed for Section B-G of the Houston site, exceeded the budgeted amounts by \$16,145.... We must reiterate that although we did not understand the need to request this budget change in writing, all involved parties clearly understood and agreed that the money necessary to run the Houston site would have to come from other sources within the funded grant."

**The Los Angeles Veterans' Initiative, Inc.**  
**Award Number 94ADFDC011 and 96ADNCA001**  
**Explanation of Questioned Costs**  
**From July 1, 1994 to September 30, 1997**

Reports filed subsequent to the audit reflected the budget differences. The Financial Status Report (FSR) for the period July 1, 1997 through September 30, 1997, submitted on November 7, 1997, included an adjustment for the overage, and the FSR for the period from October 1, 1997 through December 31, 1997, submitted February 23, 1998, shows total costs of \$177,015, the amount of the approved budget.”

	Grant No. 96ADNCA001		
	Approved Budget	Claimed Costs	Questioned Costs
<i>Houston</i>			
Section A.	\$126,521	\$123,916	\$ 0
Section B-G.	50,494	66,639	16,145
Sub-total	177,015	190,555	16,145
Total	\$827,672	\$792,251	\$ 16,145



**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL STRUCTURE**

Inspector General  
Corporation for National Service  
Washington, DC

**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL STRUCTURE**

We have audited the Schedule of Award Costs, as reported in Exhibit A, which summarizes the financial reports submitted by the Los Angeles Veterans' Initiative, Inc., to the Corporation for National Service for the awards listed below, and have issued our report thereon dated December 5, 1997.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
94ADFDC011	July 1, 1994 to December 31, 1996	July 1, 1994 to December 31, 1996
96ADNCA001	August 1, 1996 to December 31, 1997	August 1, 1996 to September 30, 1997

We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement.

In planning and performing our audit for the period July 1, 1994 to September 30, 1997, we considered the grantee's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control structure.

The management of the Los Angeles Veterans' Initiative, Inc., is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs on internal control structure policies and procedures. The objectives of an internal control structure 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 schedules in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

We obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we have assessed control risk.

We noted the following matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure, that, in our judgement, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial schedules.

1. **Controls Over Purchase of Goods and Services** (Grant Nos. 94ADFDC011 and 96ADNCA001)

The Los Angeles Veterans' Initiative, Inc., lacks adequate controls for the purchase of goods and services (i.e. a requisition process). Our review of the Los Angeles Veterans' Initiative, Inc., records and discussions with company personnel disclosed that the Los Angeles Veterans' Initiative, Inc., did not implement adequate policies and procedures over the purchase of goods or services. This resulted in the costs claimed for equipment in excess of the approved budget amounts. (45 CFR 2543.40 through 2543.44.)

**Recommendation**

The Los Angeles Veterans' Initiative, Inc., should develop and implement policies and procedures to adequately control the purchase of goods and services in accordance with grant provisions. At a minimum, the controls should include a purchase request approval process. The approval process should include an assessment of necessity, available budget and reasonableness of the cost of the item requested.

**LA Vets' Response**

"We concur that during the early stages of the period covered by the audit, we did not have a written requisition process in place due to our small size and the need for efficiency over form. As time went on we did implement a check request procedure.

We have implemented new purchasing procedures effective May 1, 1998, requiring all purchases over a certain minimum to be approved by the program director prior to purchase."

2. **Labor Costs Distribution for Consulting and Staff Cost** (Grant No. 94ADFDC011)

The Los Angeles Veterans' Initiative, Inc., does not require all staff to prepare and submit time sheets as part of its labor distribution system. As a result allocability and allowability for time charged to the grant is not supported. (Circular A-122: Attachment B.6.I.)

**Recommendation**

We recommend that the Los Angeles Veterans' Initiative, Inc., implement a labor distribution system to allocate labor costs to the grant for professional and non-professional staff based on time sheets, detailing the time, the date and description of work performed.

### **LA Vets' Response**

“We do not concur. We do require all staff to prepare and submit time sheets as part of our labor distribution system. We also realize that during the time covered by the audit, there were instances where time sheets were not prepared or could not be located. As a result, allocability and allowableness for time charged to the grant during the period under audit may not have been 100% supported by time sheets.

To strengthen our control system for labor costs, we have implemented a policy effective May 1, 1998, that a pay check will be released only upon receipt of approved time sheets from the employee.”

### **Auditors' Comments**

Currently, the auditee describes having adequate internal controls over the labor costs distribution. During our audit period the auditee did not require all staff to prepare and submit time sheets as part of its labor distribution system as required by the provisions cited previously. Consequently, through the September 30, 1997, reporting period this was an internal control issue the auditee must address.

### 3. **Segregation of Duties** (Grant Nos. 94ADFDC011 and 96ADNCA001)

One individual is responsible for making the bank deposits and also recording the cash receipts. As a result there is an inadequate segregation of duties related to cash transactions.

### **Recommendation**

We recommend that the Los Angeles Veterans' Initiative, Inc., assign different individuals the responsibilities of making the bank deposits and recording the cash receipts.

### **LA Vets' Response**

“We agree that only one individual is responsible for making bank deposits and also recording cash receipts. The size of our accounting staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties.

We believe the nature of our cash receipts (currently less than 10 checks per month, with minimal cash involved), and monthly independent review by our controller, provides adequate internal controls for our present needs. As our organization becomes more complex, we acknowledge these controls will need to be re-evaluated.”

### **Auditors' Comments**

We fully understand LA Vets' concern with segregation of duties due to staff size. At a minimum the agency should consider moving the deposit responsibility to a receptionist or other administrative assistant not involved in the accounting process.

4. **Journal Entries Not Consistently Supported** (Grant Nos. 94ADFDC011 and 96ADNCA001)

The Los Angeles Veterans' Initiative, Inc., lacks adequate controls over the maintenance of records. During our testing of compliance with various AmeriCorps Provisions, it was disclosed that either required documentation was not used or else it could not be located. (45 CFR 2543.21 and 45 CFR 2543.53.)

**Recommendation**

We recommend that the Los Angeles Veterans' Initiative, Inc., establish and implement policies and procedures to retain documentation as required by 45 CFR 2543.21, 45 CFR 2543.53 and the AmeriCorps provisions. The regulations generally require retention of records for three years after final disposition. The financial records should include supporting documents, statistical records, and other pertinent records.

**LA Vets' Response**

"We agree that during the startup of our operations, we were inconsistent in maintaining records to support journal entries. We had a variety of service providers during the period under audit, and the moving of records between these organizations or individuals resulted in inadequate maintenance of supporting documentation.

On October 1, 1997, we had a change in controller and we now have consistency in both review of supporting documentation and in retention of supporting documentation."

5. **Controls Over Travel Costs** (Grant Nos. 94ADFDC011 and 96ADNCA001)

The Los Angeles Veterans' Initiative, Inc., lacks adequate controls over the expenditure of travel costs. Our review of the grantee's records and discussions with grantee officers disclosed that the grantee did not implement adequate policies and procedures over travel expenditures. Actual expenditures should be supported by detailed travel reports which include date and time travel began and ended, daily cost incurred by type (transportation, lodging, meals, other), and amount. As a result the allowability could not be determined and/or adequate support was not provided for expenditure of Corporation funds. (45 CFR 2543.21(b)(6) and (7), OMB Circular A-122 Attachment B.51.)

**Recommendation**

We recommend that the Los Angeles Veterans' Initiative, Inc., establish and implement policies and procedures in accordance with federal regulations. Actual expenditures should be supported by detailed travel reports which includes date and time travel began and ended. Daily cost incurred by type (transportation, lodging, meals, other) and amount should be recorded.

**LA Vets' Response**

"We concur that we did not maintain detailed written travel reports in the detail described in the auditor's report. We can confidently state that a policy did exist, although it was verbal; no travel was recorded to a contract that was not actually incurred for that contract; and no travel was allowed without the board's verbal approval.

Effective March 1998, our Policies and Procedures manual was revised to incorporate a written travel policy which we believe will meet the standards set forth in federal regulations."

6. **Cost Report Reconciliation** (Grant Nos. 94ADFDC011 and 96ADNCA001)

The Los Angeles Veterans' Initiative, Inc., did not maintain adequate support such as worksheets, schedules, etc. In addition, documentation supporting the reconciliation of books to cost reports could not be located. (45 CFR 2543.53 and 2543.21(b)(7).)

**Recommendation**

We recommend Los Angeles Veterans' Initiative, Inc., establish and implement policies and procedures over the control of cost report and reconciliations.

**LA Vets' Response**

"We disagree that we did not maintain adequate support. We do acknowledge that in some cases we were unable to show the auditors where the cost reports reconciled to the general ledgers because adjustments were occasionally made to the accounting system (general ledger) after the cost reports were filed, and the old accounting system information (general ledger) used to prepare the cost report was not always retained when an update was made. We always maintained manual records that reconciled to the cost reports.

We now realize the importance of maintaining all copies of information used to prepare the FSR even where it is outdated. After receiving a similar recommendation from our OMB-133 auditor, in February 1998 we implemented a policy to attach this documentation to our working copy of the FSR."

**Auditors' Comments**

Adequate records were not maintained during the review period. The Corporation should follow-up during a subsequent review. An assessment should be made to assure that corrective action has been taken to resolve the internal control weakness.

This report is intended for the information and use of the Corporation's Office of the Inspector General, as well as the management of the Corporation, and Los Angeles Veterans' Initiative, Inc. However, this report is a matter of public record and its distribution is not limited.

*R. Navarro & Associates, Inc.*

December 5, 1997

**INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE WITH LAWS AND REGULATIONS**

Inspector General  
Corporation for National Service  
Washington, DC

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH LAWS AND REGULATIONS**

We have audited the Schedule of Award Costs, as reported in Exhibit A, which summarizes the financial reports submitted by the Los Angeles Veterans' Initiative, Inc. to the Corporation for National Service (Corporation) for the awards listed below, and have issued our report thereon dated December 5, 1997.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
94ADFDC011	July 1, 1994 to December 31, 1996	July 1, 1994 to December 31, 1996
96ADNCA001	August 1, 1996 to December 31, 1997	August 1, 1996 to September 30, 1997

We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement.

Compliance with laws, regulations, and the provisions of the award is the responsibility of the Los Angeles Veterans' Initiative, Inc., management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and the terms and conditions of the award. However, our objective was not to provide an opinion on overall compliance with such provisions.

Instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, and the provisions of the award that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial schedules. The results of our tests of compliance disclosed the following instances of noncompliance.



1. **Audit Requirements Not Met** (Grant No. 94ADFDC011)

During program years one and two, the Los Angeles Veterans' Initiative, Inc. did not have audits as required under the AmeriCorps Provisions paragraph 23.d. and OMB Circular A-133. OMB Circular A-133 required that federal funds over \$25,000 be audited for compliance with laws and regulations and legal agreements. (45 CFR 2543.26.) An audit should have been performed for the past two years in order to conform to the requirements. Subsequent to our end of fieldwork an A-133 audit report was issued for the year ended June 30, 1997, the second year for which an audit was required. (The criteria in effect when the federal funds were expended was \$25,000. The criteria is currently \$300,000.)

**Recommendation**

In future program years the Los Angeles Veterans' Initiative, Inc., should obtain timely audits in accordance with OMB Circular A-133, when over \$300,000 of federal funds are received. Furthermore, a waiver for prior audit requirements should be obtained from the Corporation.

**LA Vets' Response**

"We agree that we did not have an audit as required, for the year ended June 30, 1996. This was not an intentional violation, and it was our understanding we were not subject to a Single Audit for the year ended June 30, 1996. We are attaching a copy of a letter of explanation from our accountant dated March 26, 1998, written to Mr. Stephen Wolk of the Corporation for National Service.

We have had an OMB-133 audit performed for the year ended June 30, 1997. We are in the process of requesting a waiver of the single audit requirement for the year ended June 30, 1996, as recommended by the auditors."

2. **Cost Reports Not Filed Timely** (Grant No. 96ADNCA0012.)

The Los Angeles Veterans' Initiative, Inc., did not file one quarterly financial status report and three were not submitted within the required time period. The reports ranged from 5 to 99 days late. The Corporation's regulations and AmeriCorps provisions prescribe the deadlines for the submission of quarterly reports which are due within one month after quarter end. (45 CFR 2543.51 and 2543.52. and AmeriCorps Provisions, paragraph 17.)

**Recommendation**

The grantee should establish and implement policies and procedures to submit quarterly reports on a timely basis.

**LA Vets' Response**

"We agree that one quarterly financial status report was not filed and three were not submitted within the specified time period. The one report was not filed because the actual program did not begin until October 1, 1996. Therefore it was our understanding that our first FSR was due for the period ending December 31, 1996."

3. **Staff Time Not Supported by Time Sheets** (Grant Nos. 94ADFDC011 and 96ADNCA001)

Los Angeles Veterans' Initiative, Inc., did not utilize an adequate labor distribution system for staff as required. According to attachment B, paragraph 6.1. of OMB Circular A-122:

"(1) charges to awards for salaries and wages, whether treated as direct cost or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization."

"(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."

**Recommendation**

Los Angeles Veterans' Initiative, Inc., should implement a labor distribution system to allocate labor costs to the grant for professional and non-professional staff so that labor costs are properly allocated and supported. The time sheet should include detail of the time, date and description of work performed.

**LA Vets' Response**

"We disagree that we do not have an adequate labor distribution system for staff. We do require and maintain time sheets documenting work performed. As noted in Section II - item #2, above, time sheets were occasionally missing.

On May 1, 1998, we implemented a policy whereby the payroll checks will be held until a completed time sheet is submitted. All time sheets are now required to include project allocations verified by a supervisor as applicable."

**Auditors' Comments**

LA Vets describes having internal controls currently in place for distribution of labor costs. However, during our audit period, the auditee did not require all staff to prepare and submit time sheets as part of its labor distribution system. Therefore, through September 30, 1997, there was a lack of compliance as stated in the finding.

4. **Programmatic Change and Consultant Supporting Documentation** (Grant No. 96ADNCA001)

The Los Angeles Veterans' Initiative, Inc., utilized consultant contracts for management and accounting services. No consultants were budgeted on the approved grants and legal documents. The consultant agreements were such that they did not require itemization of hours and work performed. The AmeriCorps Provisions paragraphs 16a.iii and 23.e. require approval for budget and programmatic changes and limit consultant costs to a maximum daily rate of \$443. Furthermore, the consulting services were provided by a related party as discussed in Note 2 of the Notes to the Financial Schedules and the services should have been reported as an administration cost.

## **Recommendation**

The grantee should establish and implement policies and procedures to ensure that costs are incurred only for approved budgeted costs and consultant agreements state hourly rates and require detailed invoices.

## **LA Vets' Response**

"We do not concur with this finding and offer the following by way of explanation.

"In order to make this transition successfully, all agreed that the following things would occur:

- a. L.A. Vets would plan and develop the site in cooperation with local Houston service providers based on the successful program we had already established in Los Angeles.
- b. L.A. Vets would hire a full time staff member who would report to the Executive Director of L.A. Vets and would manage the Houston AmeriCorps team.
- c. Due to the timing of these decisions, L.A.Vets would hire a consultant in Houston for a designated period of time to help negotiate site placements with local service providers, recruit and hire Members, conduct pre-service training, and set up offices in Houston complete with adequate reporting systems.

There was no funding in Houston's budget to accomplish these tasks so we agreed to use money designated to the parent organization and the Los Angeles site in order to preserve the site and the services provided there to homeless veterans."

## **Auditors' Comments**

The auditee lacks adequate written approvals and support from the grants officer, therefore the finding remains.

### **5. Member Evaluations Not Performed (Grant No. 96ADNCA001)**

Los Angeles Veterans' Initiative, Inc., did not consistently perform written mid-term and end-of-term Member's evaluations for program years 94/95 and 95/96. Paragraph 8.g. of the AmeriCorps Provisions states, in part, that "The grantee must conduct at least a mid-term and end-of-term written evaluation of each member's performance." (45 CFR 2522.220(d).)

## **Recommendation**

The Los Angeles Veterans' Initiative, Inc., should establish and implement policies and procedures to conduct and document the required evaluations of each Member's performance.

## **LA Vets' Response**

"We do not concur. Member evaluations were performed but were not systematically copied [and] placed in each member's file. We have implemented a more detailed record keeping policy which is attached as Exhibit 14 and should mitigate this problem in the future."

### **Auditors' Comments**

The auditee was required to perform written evaluations at least twice during the members' term in accordance with the cited provisions. Our test results indicate a lack of compliance in this area. The auditee should implement the recommendation provided.

#### **6. Member Time Sheets Not Signed by a Supervisor (Grant No. 94ADFDC011)**

The Member time sheets at the Los Angeles Veterans' Initiative, Inc., were not signed by a supervisor. AmeriCorps Provision 23c states, in part, that "time and attendance records must be signed by both the Member and by an individual with oversight responsibilities for the Member." While the time sheets were signed by the Members, the time sheets were not all consistently signed or initialed by a supervisor. The purpose for the supervisor's signature on the time sheets is to indicate approval and concurrence of the hours worked and recorded by the Members.

### **Recommendation**

The Los Angeles Veterans' Initiative, Inc., should establish and implement policies and procedures to have all Member time sheets signed by a supervisor and provide for a description and time distribution of the hours reported.

### **LA Vets' Response**

"We do not concur that member time sheets were not signed by a supervisor. This was an occasional lapse, despite the policies which were in place. A more stringent policy has been implemented."

### **Auditors' Comments**

Timesheets were not consistently signed by a supervisor. Since LA Vets states that a new policy has been implemented, a subsequent review by the grants officer should assess the adequacy of the controls of the new policy.

#### **7. Reported Costs in Excess of Budget (Grant Nos. 94ADFDC011 and 96ADNCA001)**

The Los Angeles Veterans' Initiative, Inc., claimed costs which exceeded approved site budget section amounts. (See Schedule of Questioned Costs, Item No. 7). AmeriCorps Provisions paragraphs 23.a. and 16.b., state that grantees must obtain the prior written approval of the Corporation before deviating from the approved budget. (45 CFR 2543.25(b).)

### **Recommendation**

The Los Angeles Veterans' Initiative, Inc., should establish and implement policies and procedures to monitor and request budget line items changes from the Corporation. In addition, budget changes not requiring approval should be evaluated and updated on a quarterly basis.

### **LA Vets' Response**

"We concur with reservation.... The costs referred to are within the Houston budget for the 96-97 program year. Overall reported costs for the grant during the 96-97 year were below budget by \$36,000."

### **Auditors' Comments**

Additional controls should be implemented over budgetary reporting. Those controls should be assessed during subsequent audit follow-up.

#### **8. Matching Requirements Not Met (Grant No. 96ADNCA001)**

The Los Angeles Veterans' Initiative, Inc., reported a total \$395,236 matching funds on its September 30, 1997, Financial Status Report. The amount included \$77,725 match for Section A Outlays and \$317,511 for Section B-G Outlays. The Section A match amount resulted in a 15% matching level in accordance with the award budget. The Section B-G match amount resulted in a 49% matching level. The award budget requires a 54% matching level. (45 CFR 2543.23.)

### **Recommendation**

The Los Angeles Veterans' Initiative, Inc., should establish and implement policies and procedures to monitor matching level award budget requirements. At a minimum, the procedures should require quarterly reviews and, if needed, a request to the Corporation to reduce matching requirements when allowed.

### **LA Vets' Response**

"We agree that the matching requirements were not met as reported on the FSR for September 30, 1997. In our opinion, it is impractical to require the matching requirements be met on a quarterly or other interim basis. Expenditure of individual lines, which have individual matching requirements, often occur on a non-systematic basis over the passage of time. If all costs were incurred at the same time and in the same percentages, the matching requirements would be more readily met."

This report is intended for the information and use of the Corporation's Office of the Inspector General, as well as the management of the Corporation, and Los Angeles Veterans' Initiative, Inc. However, this report is a matter of public record and its distribution is not limited.

*R. Navarro & Associates, Inc.*

December 5, 1997

## **APPENDIX A**



A PUBLIC-PRIVATE PARTNERSHIP FOR HOMELESS VETERANS

June 5, 1998

Mr. Luis Barajas  
 R. Navarro & Associates, Inc.  
 Certified Public Accountants  
 2831 Camino Del Rio South, Suite 306  
 San Diego, California 92108

**Response to Audit Report No. 98-13**

Dear Mr. Barajas:

Los Angeles Veterans Initiative, Inc., respectfully submits the following responses to the audit of funds awarded by the Corporation for National Service to Los Angeles Veterans Initiative, Inc. to operate an AmeriCorps program under Grant Nos. 94ADFDC011 and 96ADNCA001. The audit report was prepared by R. Navarro & Associates, Inc., of 2831 Camino Del Rio South, Suite 306, San Diego, CA 92108. The audit period was July 1, 1994 through September 30, 1997.

The audit report included three sections to which we are responding:

**Section I - Questioned Costs**

For each of the questioned costs identified in Exhibit D of the Inspector General's Audit Report Number 98-13, we have stated our position, and, if applicable, have provided an explanation and/or referred to a supporting exhibit.

1. Consultant costs - \$75,571 questioned because costs were not allocable or were not adequately supported as required.
  - a. \$7,943 of costs claimed for the Houston program director.

We do not concur. A temporary consultant was needed to set up the Houston site. Sample copies of two invoices supporting these costs are included with Exhibit 1 of the Supplemental Information. This expense is described more fully under Section III, item #4.

**A VENTURE BETWEEN:**

Westside Residence Hall, Inc. (A California Corporation) AND  
 Los Angeles Veterans Initiative, Inc. (A501 (c) (3) Non-Profit Corporation)

Clinical Support: Department of Veterans Affairs • Financing: Century Freeway Housing Program • Program Support: Corporation for National Service - AmeriCorps

Westside Residence Hall  
 at 733 South Hindry Avenue  
 Inglewood, California 90301  
 ph (310) 548-7600 • fax (310) 541-2661

Mr. Luis Barajas  
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Response to Audit Report No. 98.13, continued

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- b. \$568 of costs claimed for the LA site temporary services.

We do not concur. We used temporary services to bridge some of the service gaps created in the two month period between AmeriCorps Member terms of service, and to help develop and launch the expansion into San Luis Obispo County. Documentation is provided in Exhibit 2 of the Supplemental Information.

- c. \$9,134 of costs claimed for accounting consulting services provided to the parent organization.

We do not concur. We believe adequate support is available for these services. We have a contract and invoices from our service provider, and a copy of the contract and a sample invoice are included as Exhibit 3 of the Supplemental Information.

- d. \$29,400 of costs claimed for accounting services provided to the parent organization.

We do not concur. These expenses were inadvertently reported as consultant costs and should have been reported as administration costs. They were reclassified at program year-end. A copy of the contract for services is included as Exhibit 4 of the Supplemental Information.

- e. \$28,526 of costs claimed for program consulting services provided to the parent organization.

We do not concur. These services were provided by one consultant who performed strategic planning and program development for the parent organization, the expansion of the Los Angeles operating site, and the transition from the Houston site being operated by a local non-profit to being operated by Veterans Initiative with a completely new set of objectives and management guidelines. A written contract does exist and documentation of services performed is enclosed as Exhibit 5 of the Supplemental Information.

2. Training and education - \$1,761 of costs questioned.

We do not concur.

\$1,031.96 was charged to the Sacramento Hilton August 5, 1996. The following individuals attended the annual National Service Program Training conducted by the California Commission on Improving Life Through Service at the Sacramento Hilton from the morning of August 6 through August 8, 1996.

Stephani Hardy - Program Director  
Jeff Coleman - Grants Officer



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Gail Pruitt - Los Angeles Operating Site Director  
Diana Rogers - Tri-Counties site coordinator  
Ken Audibert - San Luis Obispo site coordinator

We have asked both the California Commission and the Sacramento Hilton for verification of attendance and both have confirmed that they will send us this documentation. Enclosed as Exhibit 6 of the Supplemental Information is a copy of the cover of a training manual received at the training meeting.

\$728.75 was charged to Edie's Diner in Marina Del Rey on August 8, 1996. This restaurant supplied food for a training session conducted by Pete Dougherty from Secretary Jesse Brown's office at the Department of Veterans Affairs. All 19 AmeriCorps Members, program staff, and site supervisors attended. Cost per person was approximately \$24.

3. Travel - Questioned costs of \$16,469.

We do not concur that the costs were not adequately supported. The following narrative explains the travel cost questioned, and documentation is enclosed as Exhibit 7.

\$2,246.00 was charged to Crown City Travel September 16, 1997, for airline tickets to Washington, D.C. We were not aware at the time these expenses were incurred that we were required to show boarding passes as well as receipt as proof of travel. These tickets were for the following individuals to attend a Corporation sponsored training in Arlington, Virginia September 16 - September 18, 1997.

Stephani Hardy - Executive Director  
Gail Pruitt - Education Awards Only Program Director  
Tim Cantwell - Strategic Planning and Development Consultant

\$492.87 was charged in expense reimbursement to Stephani Hardy for costs incurred during a trip to Houston from July 23 to July 28, 1996, including air travel and meals. This trip was taken as part of L.A.VETS' preparation for becoming the parent organization for the operating site in Houston. During this trip Stephani Hardy met with Stand Down Homes, the Director of the Houston VA Medical Center along with various staff, local service providers, current AmeriCorps Members, and the Director of the Harris County Coalition for the Homeless.

\$1,109.01 are costs incurred by Tim Cantwell during two AmeriCorps site visits as follows. \$671.00 was spent July 23 through July 28, 1996 on the same Houston site visit that is described above. \$438.01 represent costs incurred by both Tim Cantwell and Stephani Hardy for a planning and development trip through the tri-counties of Ventura, Santa Barbara, and San Luis Obispo August 15 and 16, 1996. Meetings were held with city representatives, homeless coalitions, service providers, VA staff members, county officials,

Mr. Luis Barajas  
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Response to Audit Report No. 98.13, continued

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and state employment representatives in each of these counties.

\$1,637.79 are costs incurred by both Tim Cantwell and Stephani Hardy during a site visit to Houston October 30 through November 1, 1996 and includes air travel, hotel, meals, and ground transportation. This visit was to conduct pre-service training for the Houston AmeriCorps team. During this trip they also met with local service providers and site supervisors.

\$1,070.89 are expenses incurred by Tim Cantwell, Stephani Hardy, and Anthony Love for a Corporation sponsored annual training conference for the Pacific region held in San Diego, November 13 - November 15, 1996, and includes air travel, hotel, and meals.

\$1,220.19 are expenses incurred by Tim Cantwell and Stephani Hardy for a trip to Washington, D.C. April 23 through April 26, 1996, and includes air travel, hotel, and meals. The trip was to meet with parent organization and plan transfer of grant from the VA to L.A. VETS. Also began strategic planning for an operating site in the D.C. metro area which they believed would be installed in the fall of 1996.

\$704.00 is air travel for Tim Cantwell for a trip to Houston September 25, 1995, for AmeriCorps Member pre-service training, and air travel for a trip to Washington, D.C. October 2, 1995, for meetings with parent organization and Corporation staff.

\$7,989.00 are costs incurred by all Los Angeles AmeriCorps Members and Staff for a trip to Houston in May of 1995. Please see Exhibit 8. In the original AmeriCorps grant for 1994-95, written by the Department of Veterans Affairs and the National Coalition for Homeless Veterans, they had planned for all AmeriCorps Members and staff from both the Houston and Los Angeles sites to travel to Washington, D.C. for a homeless veterans Stand Down to be held during the fall or winter of that program year. This stand down never materialized so a decision was made between the parent organization and the Corporation for the two operating sites to do a Member exchange.

In May of 1995 the Los Angeles team traveled to Houston to participate in a city-wide homeless service day and to do some in-service training with Houston AmeriCorps Members. The team then traveled 40 miles south to Galveston where they participated in an all day training and service event with the AmeriCorps team stationed on the Sea Borne conservation ship.

In late June of 1995 the Houston AmeriCorps team traveled to Los Angeles to participate in the Long Beach Stand Down for homeless veterans, and to receive training with Los Angeles AmeriCorps Members.

In our judgement the above explanation and supporting documentation already reviewed by the auditor is sufficient evidence to show allowability and allocability.

Mr. Luis Barajas  
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4. Salary cost - \$6,557 claimed with no time sheets or other supporting documents.

We concur with the finding that the time sheets for the six pay periods for the four individuals, were not available. We can confidently state, however, that we did not pay anyone under any contract if they were not performing the services for which they were paid.

We are eager to remedy the situation in any way possible. If we are provided with a list of those individuals and the periods involved, we will obtain signed affidavits from the individuals involved to support the time periods worked under Grant No. 96ADNCA001.

5. Supplies - \$4,074 of costs claimed under Grant No. 94ADFDC001

We concur with the finding that documentation was not available to support the supplies costs for this grant. These expenses were incurred in 1995 and our records were maintained off-site during that time. It is unlikely we would be able to produce substitute documentation due to the passage of time. However, we are confident all supply costs charged to this grant were legitimate and authorized by the appropriate personnel.

6. Other Costs - \$1,537 of cost claimed under Grant No. 94ADFDC011

We concur, with the same explanation as given under #5 above.

7. Reported costs exceeded approved site budget - \$16,145 of amounts claimed under Grant No. 96ADNCA001.

We concur that the costs claimed for Section B-G of the Houston site, exceeded the budgeted amounts by \$16,145. However, by way of explanation to support the expenditure of these costs, we refer you to the explanation under Section III, item #4, below. We must reiterate that although we did not understand the need to request this budget change in writing, all involved parties clearly understood and agreed that the money necessary to run the Houston site would have to come from other sources within the funded grant.

Reports filed subsequent to the audit reflected the budget differences. The Financial Status Report (FSR) for the period 7/1/97 through 9/30/97, submitted on 11/7/97, included an adjustment for the overage, and the FSR for the period from 10/1/97 through 12/31/97, submitted 2/23/98, shows total costs of \$177,015, the amount of the approved budget. These are enclosed with the Supplemental Information as Exhibit 9.

Mr. Luis Barajas  
R. Navarro & Associates, Inc.  
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## Section II - Internal Control Structure

### 1. Controls over purchase of goods and services

We concur that during the early stages of the period covered by the audit, we did not have a written requisition process in place due to our small size and the need for efficiency over form. As time went on we did implement a check request procedure.

We have implemented new purchasing procedures effective May 1, 1998, requiring all purchases over a certain minimum to be approved by the program director prior to purchase. See Exhibit 10 of the Supplemental Information for the new purchasing procedures.

### 2. Labor costs distribution for consulting and staff cost

We do not concur. We do require all staff to prepare and submit time sheets as part of our labor distribution system. We also realize that during the time covered by the audit, there were instances where time sheets were not prepared or could not be located. As a result, allocability and allowableness for time charged to the grant during the period under audit may not have been 100% supported by time sheets.

To strengthen our control system for labor costs, we have implemented a policy effective May 1, 1998, that a pay check will be released only upon receipt of approved time sheets from the employee. See a copy of the policy as Exhibit 11 of the Supplemental Information.

### 3. Segregation of Duties

We agree that only one individual is responsible for making bank deposits and also recording cash receipts. The size of our accounting staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties.

We believe the nature of our cash receipts (currently less than 10 checks per month, with minimal cash involved), and monthly independent review by our controller, provides adequate internal controls for our present needs. As our organization becomes more complex, we acknowledge these controls will need to be re-evaluated.

### 4. Journal entries not consistently supported

We agree that during the startup stages of our operations, we were inconsistent in maintaining records to support journal entries. We had a variety of service providers during the period under audit, and the moving of records between these organizations or individuals resulted in inadequate maintenance of supporting documentation.

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On October 1, 1997, we had a change in controllers and we now have consistency in both review of supporting documentation and in retention of supporting documentation.

5. Controls over travel costs

We concur that we did not maintain detailed written travel reports in the detail described in the auditor's report. We can confidently state that a policy did exist, although it was verbal; no travel was recorded to a contract that was not actually incurred for that contract; and no travel was allowed without the board's verbal approval.

Effective March 1998, our Policies and Procedures manual was revised to incorporate a written travel policy which we believe will meet the standards set forth in federal regulations. Please see Exhibit 12.

6. Cost report reconciliation

We disagree that we did not maintain adequate support. We do acknowledge that in some cases we were unable to show the auditors where the cost reports reconciled to the general ledgers because adjustments were occasionally made to the accounting system (general ledger) after the cost reports were filed, and the old accounting system information (general ledger) used to prepare the cost report was not always retained when an update was made. We always maintained manual records that reconciled to the cost reports.

We now realize the importance of maintaining all copies of information used to prepare the FSR even where it is outdated. After receiving a similar recommendation from our OMB-133 auditor, in February 1998 we implemented a policy to attach this documentation to our working copy of the FSR.

**Section III - Compliance with Laws and Regulations**

1. Audit requirements not met

We agree that we did not have an audit as required, for the year ended June 30, 1996. This was not an intentional violation, and it was our understanding we were not subject to a Single Audit for the year ended June 30, 1996. We are attaching a copy of a letter of explanation from our accountant dated March 26, 1998, written to Mr. Stephen Wolk of the Corporation for National Service.

Mr. Luis Barajas  
R. Navarro & Associates, Inc.  
Response to Audit Report No. 98.13, continued

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We have had an OMB-133 audit performed for the year ended June 30, 1997. We are in the process of requesting a waiver of the single audit requirement for the year ended June 30, 1996, as recommended by the auditor. A copy of this letter to Mr. Mike Kenefick of the Corporation for National Service, is provided as Exhibit 13 of the attached Supplemental Information.

2. Cost reports not filed timely

We agree that one quarterly financial status report was not filed and three were not submitted within the specified time period. The one report was not filed because the actual program did not begin until October 1, 1996. Therefore it was our understanding that our first FSR was due for the period ending December 31, 1996.

There has been a change in personnel and all reports have been filed in a timely manner since this change was made.

3. Staff time not supported by time sheets

We disagree that we do not have an adequate labor distribution system for staff. We do require and maintain time sheets documenting work performed. As noted in Section II - item #2, above, time sheets were occasionally missing.

On May 1, 1998, we implemented a policy whereby the payroll checks will be held until a completed time sheet is submitted. All time sheets are now required to include project allocations verified by a supervisor as applicable.

4. Programmatic change and consultant supporting documentation

We do not concur with this finding and offer the following by way of explanation.

In 1996, when the decision was made to no longer fund federal agency programs under the AmeriCorps grant, Los Angeles Veterans Initiative became the Parent Organization for the National Collaboration for Homeless Veterans. The Houston operating site was to remain under the leadership of a local Texas non-profit, Stand Down Homes, and the Los Angeles operating site was expanded to include the communities of Long Beach and the tri-counties of Ventura, Santa Barbara, and San Luis Obispo.

During August of 1996 (after the grant was awarded) Stand Down Homes decided they could no longer participate in the AmeriCorps program. After much discussion between the executive staff of Veterans Initiative, grant and program staff from the Corporation for National Service, local Houston service providers, and Pete Dougherty who had previously

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administered the grant from the Department of Veterans Affairs in Washington, D.C.; a decision was made to retain the Houston site and to manage it under the direction of our organization. In order to make this transition successfully, all agreed that the following things would occur:

- a. L.A.VETS would plan and develop the site in cooperation with local Houston service providers based on the successful program we had already established in Los Angeles.
- b. L.A.VETS would hire a full time staff member who would report to the Executive Director of L.A.VETS and would manage the Houston AmeriCorps team.
- c. Due to the timing of these decisions, L.A.VETS would hire a consultant in Houston for a designated period of time to help negotiate site placements with local service providers, recruit and hire Members, conduct pre-service training, and set up offices in Houston complete with adequate reporting systems.

There was no funding in Houston's budget to accomplish these tasks so we agreed to use money designated to the parent organization and the Los Angeles site in order to preserve the site and the services provided there to homeless veterans. It is correct that we did not request these "no cost" changes in writing. Unfortunately, we did not understand at the time that this was necessary. However, the use of consultants to perform planning and development services for the overall organization, the Houston site, and some of the accounting functions was clearly understood by all parties involved from the beginning of the implementation of this grant.

Supporting documentation does exist for these consultant charges and is included as supplemental information as more fully described in Section I, item #1.

5. Member evaluations not performed

We do not concur. Member evaluations were performed but were not systematically copied placed in each member's file. We have implemented a more detailed record keeping policy which is attached as Exhibit 14 and should mitigate this problem in the future. A sample evaluation is also included as Exhibit 15.

6. Member time sheets not signed by a supervisor

We do not concur that member time sheets were not signed by a supervisor. This was an occasional lapse, despite the policies which were in place. A more stringent policy has been implemented.

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7. Reported costs in excess of budget

We concur with reservation. Please see Section 1, item #7, and Section 3, item #4 for an explanation. The costs referred to are within the Houston budget for the 96-97 program year. Overall reported costs for the grant during the 96-97 year were below budget by \$36,000.

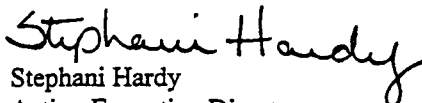
8. Matching requirements not met

We agree that the matching requirements were not met on the as reported on the FSR for September 30, 1997. In our opinion, it is impractical to require the matching requirements be met on a quarterly or other interim basis. Expenditure of individual lines, which have individual matching requirements, often occur on a non-systematic basis over the passage of time. If all costs were incurred at the same time and in the same percentages, the matching requirements would be more readily met.

We do not believe any corrective action is necessary since by the end of the contract period, the matching requirement had been met.

If you have any questions regarding this response, please feel free to call me at (310)348-7600.

Sincerely,



Stephani Hardy  
Acting Executive Director  
Los Angeles Veterans Initiative, Inc.



**APPENDIX B**

## MEMORANDUM

TO: Luise Jordan, OIG

CC: Vince Conti, DCFO  
Donna Cumminghame, CFO

FROM: Michael Kenefick, Director, Grants Management *mk.*

SUBJECT: OIG Report 98-13, Draft Audit of Los Angeles Veterans' Initiative, Inc.  
(LA Vets)

DATE: June 8, 1998

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The subject draft report with the attached A-133 cites conditions and deficiencies pertaining to the LA Vets organization, which is in its fourth year of operations as an AmeriCorps program. The first two were funded and operated under the aegis of the Veterans Administration and subsequently transferred to direct Corporation funding with the end of Federal agency AmeriCorps programs. We have no comments at this time concerning the cited conditions and deficiencies at LA Vets, which we have begun addressing even prior to this audit. The resolution of these issues will be addressed during the normal audit resolution processes after issuance of the final audit reports.

The OIG introduction to the audit expresses a concern that the Corporation has not placed a higher priority on reviewing and resolving the reported deficiencies and had not reviewed the A-133 audit report until one month after its receipt in early February nor considered the issues at a site visit on February 4, 1998.

In fact, Grants Management has placed a high priority on the audit and deficiencies at LA Vets. We proactively pursued LA Vets to have the required A-133 audit performed covering the first year of Corporation direct funding. A site visit was scheduled and performed before actual receipt of the A-133. The visit by the Grants Officer was characterized in the OIG introduction as concentrating on programmatic areas. However, the visit specifically focused on financial matters including the time and effort reporting, matching documentation, travel policies, member activities, etc.

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Luise Jordan, OIG  
June 8, 1998

On the alleged matter of not reviewing the LA Vets A-133 audit until one month after receipt on February 3, 1998, Grants Management reviewed the report within days of receipt and held several conversation with LA Vets on its contents and subsequently issued a letter to LA Vets on March 3, 1995 concerning the audit and requesting information be submitted by March 13, 1998.

In summary, we have in writing, site visits and numerous phone calls continuously followed up on the financial system issues at LA Vets prior to and after issuance of the audit.

Finally, we agree with the OIG that technical assistance for LA Vets is necessary to appropriately administer the program. We have been providing assistance and, as necessary, will use the Corporation's technical assistance providers to supplement these activities.

MK/ab

**ATTACHMENT I**

**Summary of Findings and Recommendations**  
**OMB Circular A-133 Audit<sup>1</sup> of**  
**the Los Angeles Veterans' Initiative, Inc.**  
**for the Fiscal Year Ended June 30, 1997**

Finding	Recommendation
<i>Internal Control Weaknesses</i>	
Internal control weaknesses included lack of knowledge about Federal award compliance requirements, an inadequate financial reporting system, and inadequate segregation of duties (finding B97.1).	Develop accounting systems to accommodate the growing complexity of the financial system.
<i>Cash Management</i>	
Six exceptions in cash disbursement testing (from a sample of 40) were cited: two checks may not have been coded to the correct general ledger account, one check did not clear the bank but was marked cleared on the reconciliation, and three voided checks were not retained nor were they referenced as void on check register (finding B97.2).	A system should be instituted so that all invoices are approved by a supervisor, or checks issued are supported by appropriate authorization. Voided copies of checks should be retained with the signature portion destroyed. Accounting personnel and program directors should be provided with OMB A-122 Cost Principles for Nonprofit Organizations guidelines.
<i>Payroll</i>	
Twenty-nine payroll exceptions (from a sample of 40) were reported including a lack of supporting documentation, unsigned time cards, and discrepancies between gross pay and hours recorded on time card or amount posted in the general ledger (finding B97.3).	All time cards should include project allocations and be signed by the employee and an authorized supervisor. Gross wages should be reconciled to payroll detail reports and general ledger allocation. If preprinted checks are used, the computer system should be adjusted so that the computer generated check number agrees to the preprinted check number.
<i>Matching Funds and Documentation of In-Kind Costs</i>	
LA Vets lacked a system to determine if its matching requirements have been met and to prevent the over-recording of income as related to grants with matching requirements (finding B97.4)	Establish a system for contracts having matching requirements to calculate amounts earned at fiscal year end so that income will not be over-reported.
LA Vets did not maintain supporting documentation for in-kind costs (finding C97.8).	All in-kind contributions should be documented in accordance with OMB A-122 and A-110 cost principles. The organization should establish a method of recording in-kind space costs.

<sup>1</sup> Prepared by Montgomery Niemeyer & Company LLP under OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**Summary of Findings and Recommendations**  
**OMB Circular A-133 Audit of**  
**the Los Angeles Veterans' Initiative, Inc.**  
**for the Fiscal Year Ended June 30, 1997**

Finding	Recommendation
<i>Indirect Costs Allocations</i>	
Evidence was not available to determine uniform application of indirect costs in accordance with OMB Circular A-122, <i>Cost Principles for Nonprofit Organizations</i> (finding B97.5).	Develop a written cost allocation plan that encompasses the entire organization and covers both federal and nonfederal programs. Include in this plan all organization costs that should be allocated as indirect.
<i>Documentation of Member Files</i>	
Members' files lacked documentation related to completion of the program (finding C97.5).	Develop procedures for tracking and ensuring completeness of member documentation.
<i>Timeliness of Financial Reporting</i>	
The Financial Status Report for the period ended June 30, 1997, was filed late (finding C97.6).	Establish a procedure to ensure the reports are filed in a timely manner.
<i>Documentation Supporting Financial Reporting</i>	
Financial Status Reports were not supported by accounting records and there was a \$20,171 variance between the general ledger and one Financial Status Report (finding C97.7).	Establish a procedure of documenting amounts presented in the Financial Status Report.