DEPARTMENT OF HEALTH & HUMAN SERVICES **Office of Inspector General**

Washington, D.C. 20201

October 9, 2009

TO: Patricia E. Brown
Acting Director
Office of Head Start

FROM: /Lori S. Pilcher/
Assistant Inspector for Grants, Internal Activities,
and Information Technology Audits

SUBJECT: Results of Limited Scope Review at La Peninsula Community Organization, Inc., for the Period February 1, 2008, Through January 31, 2009 (A-02-09-02012)

The attached final report provides the results of our limited scope review of La Peninsula Community Organization, Inc. (La Pen), for the period February 1, 2008, through January 31, 2009. This review was requested by the Administration for Children and Families, Office of Head Start as part of its overall assessment of Head Start grantees that have applied for additional funding under the Recovery Act.

The Recovery Act was signed into law by President Obama on February 17, 2009. The Recovery Act includes measures to modernize our nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

At the President's direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. All Federal agencies and departments receiving Recovery Act funds must maintain strong internal controls and implement oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

The objectives of our limited scope review were to determine whether: (1) La Pen is fiscally viable, (2) La Pen's financial management system adequately managed and accounted for Federal funds, and (3) La Pen fiscal personnel are bonded.

Based on its current financial condition, La Pen can not ensure the continuing viability of the organization as a going concern unless it restructures its debt or receives additional funding. Also, La Pen's financial management system does not adequately manage and account for Federal funds. As a result, Federal Head Start funds were used to pay for nonfederal expenditures, accounting records were not properly maintained and reconciled, budget controls were lacking, and financial reports included inaccurate data. Lastly, La Pen's fiscal personnel are bonded.

In written comments on our draft report, La Pen stated that it has struggled to meet its fiscal obligations and agreed with most of our findings regarding its financial management system. In addition, La Pen indicated steps it has taken to adequately account for Federal funds.

In determining whether La Pen should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing La Pen's financial condition.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://oig.hhs.gov.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-02-09-02012 in all correspondence.

Attachment

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

RESULTS OF LIMITED SCOPE REVIEW AT LA PENINSULA COMMUNITY ORGANIZATION, INC., FOR THE PERIOD FEBRUARY 1, 2008, THROUGH JANUARY 31, 2009

Daniel R. Levinson
Inspector General

October 2009
A-02-09-02012

Office of Inspector General

http://oig.hhs.gov

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

Pursuant to Public Law 110-134, Improving Head Start for School Readiness Act of 2007, Head Start is a national program that promotes school readiness by enhancing the social and cognitive development of children through the provision of educational, health, nutritional, social and other services to enrolled children and families. Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF) administers the Head Start program. The Head Start program provides grants to local public and private non-profit and for-profit agencies to provide comprehensive child development services to economically disadvantaged children and families.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received $1 billion, including nearly $354 million to help improve staff compensation and training, upgrade Head Start centers and classrooms, increase hours of operation and enhance transportation services. An additional $356 million was allocated to award all Head Start grantees a nearly five percent cost-of-living increase and bolster training and technical assistance activities.

La Peninsula Community Organization, Inc. (La Pen), a non-profit agency, operates a Head Start program that provides education, health, and social services to low-income pre-school children and their families at locations throughout The Bronx, New York. La Pen also operates food and pre-kindergarten programs. La Pen is currently utilizing a new facility, for which it received a $3.2 million construction loan, and has applied to convert the loan to a $3.6 million mortgage.

La Pen is funded primarily through Federal and local government grants. During fiscal year (FY) 2009 (February 1, 2008, through January 31, 2009), ACF directly provided grant funds to La Pen totaling $1,363,946. La Pen also received ACF pass-through funding for its Head Start program from the New York City Administration for Children's Services totaling $4,926,968.

La Pen received Recovery Act grant funding for FY 2010 totaling $69,917 for cost-of-living increases and quality improvement.

OBJECTIVES

The objectives of our limited scope review were to determine whether: (1) La Pen is fiscally viable, (2) La Pen's financial management system adequately managed and accounted for Federal funds, and (3) La Pen fiscal personnel are bonded.

SUMMARY OF FINDINGS

Based on its current financial condition, La Pen can not ensure the continuing viability of the organization as a going concern unless it restructures its debt or receives additional funding. Also, La Pen's financial management system does not adequately manage and account for Federal funds. As a result, Federal Head Start funds were used to pay for nonfederal expenditures, accounting records were not properly maintained and reconciled, budget controls were lacking, and financial reports included inaccurate data. Lastly, La Pen's fiscal personnel are bonded.

RECOMMENDATION

In determining whether La Pen should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing La Pen's financial condition.

LA PENINSULA COMMUNITY ORGANIZATION, INC., COMMENTS

In written comments on our draft report, La Pen stated that it has struggled to meet its fiscal obligations and agreed with most of our findings regarding its financial management system. In addition, La Pen indicated steps it has taken to adequately account for Federal funds. La Pen's comments are included in their entirety as the appendix.

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INTRODUCTION

BACKGROUND

Head Start Program

Pursuant to Public Law 110-134, Improving Head Start for School Readiness Act of 2007, Head Start is a national program that promotes school readiness by enhancing the social and cognitive development of children through the provision of educational, health, nutritional, social and other services to enrolled children and families. Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF) administers the Head Start program.

The Head Start program provides grants to local public and private non-profit and for-profit agencies to provide comprehensive child development services to economically disadvantaged children and families, with a special focus on helping preschoolers develop the early reading and math skills needed to be successful in school. Head Start programs engage parents in their children's learning and emphasize parental involvement in the administration of local Head Start programs.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received $1 billion, including nearly $354 million to help improve staff compensation and training, upgrade Head Start centers and classrooms, increase hours of operation and enhance transportation services. An additional $356 million was allocated to award all Head Start grantees a nearly five percent cost-of-living increase and bolster training and technical assistance activities.

La Peninsula Community Organization, Inc.

La Peninsula Community Organization, Inc. (La Pen), a non-profit agency, operates a Head Start program that provides education, health, and social services to low-income pre-school children and their families at locations throughout The Bronx, New York. La Pen also operates food and pre-kindergarten programs. La Pen is currently utilizing a new facility, for which it received a $3.2 million construction loan, and has applied to convert the loan to a $3.6 million mortgage.

La Pen is funded primarily through Federal and local government grants. During fiscal year (FY) 2009 (February 1, 2008, through January 31, 2009), ACF directly provided grant funds to La Pen totaling $1,363,946. La Pen also received ACF pass-through funding for its Head Start program from the New York City Administration for Children's Services totaling $4,926,968.

La Pen received Recovery Act grant funding for FY 2010 totaling $69,917 for cost-of-living increases and quality improvement.

Requirements for Federal Grantees

Pursuant to 45 CFR § 74.21, grantees are required to maintain financial management systems that contain written procedures for determining the reasonableness, allocability, and allowability of costs. Grantees must maintain accounting records that are supported by source documentation and must maintain financial systems that provide for accurate and complete reporting of grant related financial data. Grantees are also required to compare outlays with budget amounts for each award and may use grant funds only for authorized purposes. In addition, pursuant to 45 CFR § 1301.11, Head Start agencies shall make arrangements for bonding officials and employees authorized to disburse program funds.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of our limited scope review were to determine whether: (1) La Pen is fiscally viable, (2) La Pen's financial management system adequately managed and accounted for Federal funds, and (3) La Pen fiscal personnel are bonded.

Scope

This review was performed based upon a limited scope request from ACF, dated April 13, 2009. Therefore, we did not perform an overall assessment of La Pen's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review period was FY 2009.

We performed our fieldwork at La Pen's administrative office in The Bronx, New York, during April and May 2009.

Methodology

To accomplish our objectives, we;

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed La Pen's fiscal procedures related to accounting documentation and preparation of financial reports;
- obtained Federal and local government grant award documentation to determine La Pen's Federal funding;
- reviewed La Pen's financial statements for FYs 2007 through 2009;[1]

[1]We reviewed La Pen's audited financial statements for FYs 2007 and 2008 as well as La Pen's FY 2009 financial statement, which had not been finalized during our fieldwork. La Pen's FY 2009 draft financial statement included a draft OMB Circular A-133 Single Audit Report.

- reviewed La Pen's expense accounts, monthly financial statements, and SF-269, Financial Status Reports, submitted to ACF;

- performed liquidity and stability analyses of La Pen's finances;

- interviewed officials at La Pen's bank to determine the status of La Pen's construction loan;

- obtained and reviewed La Pen's loan agreement and property appraisal report; and

- reviewed La Pen's bond coverage.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATION

Based on its current financial condition, La Pen can not ensure the continuing viability of the organization unless it restructures its debt or receives additional funding. Also, La Pen's financial management system does not adequately manage and account for Federal funds. As a result, Federal Head Start funds were used to pay for nonfederal expenditures, accounting records were not properly maintained and reconciled, budget controls were lacking, and financial reports included inaccurate data. Lastly, La Pen's fiscal personnel are bonded.

LA PENINSULA COMMUNITY ORGANIZATION, INC., IS NOT FINANCIALLY VIABLE

To determine whether La Pen is financially viable, we performed liquidity and stability analyses of La Pen's finances for FY 2009.

Short Term Liquidity

We performed a liquidity analysis–the relationship of current assets to current liabilities–to determine La Pen's ability to pay its current obligations. Generally, for an organization to be considered fiscally sound, its current assets should be valued more than its current liabilities. Our analysis indicated that La Pen's current liabilities exceeded its current assets (the current assets-to-liabilities ratio was 0.91). In addition, La Pen's working capital–current assets ($1,913,764) less current liabilities ($2,112,449)–was negative (-$198,685). Positive working capital is a common measure of an organization's liquidity, efficiency, and overall health. Negative working capital shows the inverse. It appears that, because of its inadequate short term liquidity, La Pen has been paying only the interest portion of its $3.2 million construction loan because it cannot afford to also pay the principal portion of the loan.

Long Term Stability

We performed a debt ratio analysis which is used to determine the overall financial risk of the organization. The debt ratio is an organization's total debt divided by total assets. This will tell you how much the company relies on debt to finance assets. When calculating this ratio, both current and non-current debt and assets are considered. In general, the lower the company's reliance on debt for asset formation, the less risky the company is since excessive debt can lead to a very heavy interest and principal repayment burden. La Pen's total debt (liabilities) was $5,323,783 and its total assets were $5,393,551. Thus, 99 percent of La Pen's assets were financed through debt.

To ensure the continuing viability of the organization as a going concern, La Pen must restructure its debt or seek additional funding from the Federal government or other sources.

INADEQUATE FINANCIAL MANAGEMENT SYSTEM

Unallowable Fund Transfer

La Pen improperly used Head Start funds to pay for expenditures not approved by ACF for Federal reimbursement. Specifically, La Pen transferred $351,853 from its Head Start account to pay off a lien applied to La Pen's new facility by a building subcontractor.

No Recognition of Accounts Payable for Unpaid Expenses

La Pen had outstanding obligations (e.g. telephone, utilities, and supplies) that were not recognized as accounts payable in its general ledger. As a result, La Pen's stated financial position was inaccurate.

Accounting Records Not Properly Reconciled

La Pen did not reconcile its payroll banking account to its general ledger. Also, La Pen did not reconcile its payroll tax liability, as reported on its Internal Revenue Service Form-941, Employer's Quarterly Federal Tax Return, to its general ledger. Finally, La Pen did not reconcile the supporting expenditure summary for each drawdown requested from the Department of Health and Human Services' electronic payment system to its general ledger. We attempted to reconcile the payroll account, payroll, taxes, and the expenditure summaries supporting the drawdowns to the general ledger but were not successful. Without a proper reconciliation, La Pen cannot ensure that correct information is reported on its financial status reports.

No Corrective Actions for Prior Year Findings

La Pen did not take appropriate action to correct two findings reported in its FY 2007 and FY 2008 financial statement audits.

The first finding related to La Pen not having paid its obligations within 90 days, as required by 45 CFR § 74.71(b). We determined that La Pen had not corrected this condition during FY 2009. For example, La Pen had an unpaid balance of $13,424 for legal services incurred during FYs 2008 and 2009.

The second finding related to La Pen not having appropriate budgetary control measures over its expenditures. We determined that La Pen had not corrected this condition during FY 2009, resulting in expenses that exceeded its FY 2009 budget by $47,742.

Inaccurate Financial Status Report

La Pen could not support the Federal share of net outlays, totaling $1,395,943, reported on its FY 2009 SF-269, Financial Status Report to ACF. This amount should represent expenditures in La Pen's general ledger. However, these expenditures could not be traced from the general ledger to the supporting documentation that La Pen provided ACF as the basis for its drawdowns. We also attempted to trace $67,000 in expenditures for which La Pen requested Federal funds in January 2008 to the actual vendor payments without success.

Fiscal Year 2009 Single Audit Findings

The independent public accountants which conducted La Pen's FY 2009 audit included a qualified opinion in its draft OMB Circular A-133 Single Audit Report. The accountants identified 13 significant deficiencies, 11 of which were determined to be material weaknesses. For example, the accountants reported that:

- cash transactions from the bank accounts were not completely recorded;
- La Pen issued checks written out for more than the actual balances that La Pen had in its bank account, putting the organization at risk of incurring penalties;
- cash transactions involving vendor payments through cash accounts were not recorded in La Pen's books;
- La Pen's books did not agree with its monthly expense reports;
- accounts payables were not properly monitored; and
- prior period findings, such as the organization not paying its vendors in a timely manner, were not corrected.

LA PENINSULA COMMUNITY ORGANIZATION, INC., FISCAL PERSONNEL ARE BONDED

Pursuant to 45 CFR § 1301.11, Head Start agencies shall make arrangements for bonding officials and employees authorized to disburse program funds. We determined that La Pen's fiscal personnel were bonded, effective November 2008. La Pen's policy covers the period November 25, 2008, through November 25, 2009.[2] Under the plan, fiscal personnel have the following coverage:

Employee Theft & Client Coverage	$100,000
ERISA Fidelity	$100,000
Forgery or Alteration	$50,000
Inside the Premises	$50,000
Computer Fraud & Funds Transfer Fraud	$50,000

CONCLUSION

Based on its current financial condition, La Pen can not ensure the continuing viability of the organization as a going concern unless it restructures its debt or receives additional funding. Also, La Pen's financial management system does not adequately manage and account for Federal funds. As a result, Federal Head Start funds were used to pay for nonfederal expenditures, accounting records were not properly maintained and reconciled, budget controls were lacking, and financial reports included inaccurate data. Lastly, La Pen's fiscal personnel are bonded.

RECOMMENDATION

In determining whether La Pen should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing La Pen's financial viability.

LA PENINSULA COMMUNITY ORGANIZATION, INC., COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, La Pen stated that it has struggled to meet its fiscal obligations and agreed with most of our findings regarding its financial management system. In addition, La Pen indicated steps it has taken to adequately account for Federal funds. La Pen's comments are included in their entirety as the appendix.

Financial Viability

La Peninsula Community Organization, Inc., Comments

Regarding its financial viability, La Pen stated that it will be able to carry its debt service upon conversion of its construction loan to a mortgage by charging rent to various programs. La Pen

[2]La Pen is covered through the Philadelphia Insurance Companies' "Crime Protection Plus" policy.

also stated that it was uncertain as to the validity of our information because our liquidity and stability analyses were based on figures from its draft financial statement.

Office of Inspector General Response

There is no data available to evaluate the financial impact of La Pen's proposal to convert its construction loan to mortgage or to charge rent to programs that utilize space at La Pen's new facility. Therefore, we could not verify whether La Pen will be able to carry its debt service upon conversion of its construction loan to a mortgage.

Financial Management System

La Peninsula Community Organization, Inc., Comments

La Pen agreed with our first four findings related to its financial management system and indicated that it had taken corrective actions, including the implementation of new fiscal procedures, to ensure that its financial management system adequately accounts for Federal funds.

La Pen disagreed with our finding that it submitted inaccurate financial status reports to ACF. In addition, La Pen stated that it could not locate payment records for drawdowns made in January 2008. La Pen indicated that the amount reported on its FY 2009 financial status report was taken from its profit and loss statement. Further, La Pen stated that it ascertained that Federal funds received were used to pay expenses earmarked in its drawdown requests.

In addition, La Pen disagreed with our finding concerning its FY 2009 OMB Circular A-133 Single Audit Report. La Pen stated that 9 of the 13 deficiencies noted in its draft Single Audit Report "will be deleted" from its accountants' final Single Audit Report and requested that our finding be removed from the report. La Pen stated that it will provide its accountants with appropriate documentation.

Office of Inspector General Response

We did not verify whether La Pen's new fiscal procedures will ensure that its financial management system adequately accounts for Federal funds.

Regarding La Pen's submission of inaccurate financial status reports to ACF, we note that our finding did not address the recording of drawdowns. Rather, our finding related to the support for the expenditures that were the basis of La Pen's drawdowns. La Pen's profit and loss statement was based on its general ledger. Therefore, its FY 2009 SF-269 did not accurately reflect all of its incurred expenses.

Regarding La Pen's Single Audit Report, we have no reason to believe that La Pen's final financial statement will be materially different from its draft financial statement, which we used to perform stability and liquidity analyses. Officials from La Pen's accounting firm indicated that, as of September 25, 2009, 5 findings in La Pen's draft FY 2009 Single Audit Report have been deleted.

APPENDIX

APPENDIX: LA PENINSULA COMMUNITY ORGANIZATION, INC. COMMENTS

La Peninsula Community Organization, Inc.
Head Start Program
Dennis Campbell, Sponsoring Board Chairperson
Renee Sutton, Executive Director
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September 15, 2009

Mr. James P. Edert
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
26 Federal Plaza – Room 3900
New York, New York 10278

Re: **Review of La Peninsula Community Organization**
Report Number: A-02-09-02012

Dear Mr. Edert:

In accordance with your request, La Peninsula's response to the results of limited scope review is as follow:

FINANCIAL MANAGEMENT SYSTEM

OBJECTIVE
To determine the adequacy of the financial management system

CONDITION

1. Fund Transfer

La Penn improperly used Head Start funds to pay non Federal expenditures. We found one fund transfer of $351,853 made from the Head Start account to pay off a lien applicable to the construction of a new Head Start facility. La Penn included this amount as part of the mortgage of $3.6 million acquired from the bank for the new Head Start facility. La Penn plans on billing rental costs to the Head Start program and other programs that utilize its classrooms to pay the mortgage.

Agency Response

The agency transferred the amount to settle an outstanding lien on the property finance with federal fund. The amount was disapproved by the NYC Agency for Children's Services. The amount has already been repaid through monthly reimbursement deduction.

2. No Recognition of Account Payable for Unpaid Expenses

La Pen had outstanding obligations indicated on its expense accounts (e.g. telephone, utilities, and supplies) that were not recognized as accounts payable in its general ledger. As a result, La Pen's stated financial position is inaccurate.
Our review of several expense accounts (e.g. telephone, utility, health supplies and rental equipment) showed that La Penn had outstanding obligations which were not recognized as an accounts payable in the general ledger.

Agency Response

The agency pays vendor's invoice as they become due. However, there were invoices for the fiscal year ended January 31, 2008 that were identified as accounts payable in the audit report but paid subsequently. The agency has implemented control procedures to identify end of the year accounts payable and record such payable in the general ledger.

3. Accounting Records Were Not Properly Reconciled

La Penn maintains a separate bank account for payroll but does not reconcile the account balance to its general ledger. Also, La Penn does not reconcile its payroll tax liability as reported on its quarterly 941 form to its general ledger. Finally, La Penn does not reconcile their drawdowns from the Department of Health and Human Services, Payment Management System to its general ledger. We attempted to reconcile the payroll account, payroll taxes and drawdowns to the general ledger without success.

Agency Response

The agency has been utilizing unstable fiscal consultants for the past two years until the new comptroller was hired recently. The bank account for payroll was not reconciled by these temporally fiscal consultants. The agency is now analyzing and reconciling the bank account for payroll.

The payroll tax liabilities as reported on the quarterly Form 941 were not reconciled to the general ledger due to unstable fiscal consultants. The agency has implemented control procedures for reconciling biweekly payroll to the general ledger and by reconciling the quarterly tax liabilities to the amount reported on the general ledger.

The agency recorded every drawdown received from the Department of Health and Human Services via the Payment Management System to its account receivable. The detailed transaction of recorded drawdown was provided to the auditor.

4. No Corrective Actions For Prior Year Findings

La Penn did not take appropriate action to correct a finding reported in the FY 2007 and FY 2008 financial statement reviews. The finding was that La Penn did not pay its obligations within 90 days as required by 45 CFR 74.71(b). We found that La Penn did not correct this issue during FY 2009. For example, La Penn still has an unpaid balance of $13,424 for the legal services incurred during September 2007 through Sept. 2008. The second finding was for La Penn to adopt the appropriate budgetary control measures over its expenditures. Again, this issue was not corrected during FY 2009. We prepared a budget vs. actual expenditure variance report for FY 2009 ACF fund and found that La Pen had incurred $47,742 in excess expenses over its FY 2009 budget.

Agency Response

The agency has maintained paying its obligations within 90 days except in one extenuating circumstances in which the grantor declined to use current PY 13 Federal fund to pay $13,424 of legal services from prior year. This amount was paid with sponsoring fund in 2009.

The agency has been utilizing unstable fiscal consultants for the past two years until the new comptroller was hired recently. The agency reported $47,741.62 in excess on the SF 269. However, $32,890.66 was reclassified to the UKP program. The agency is now preparing budget vs. actual expenses on a monthly basis as a measuring control over its expenses.

5. Inaccurate SF-269 Report

The Federal share of net outlays (drawdowns) reported on the FY 2009 SF-269 Financial Status Report ($1,395,943) could not be supported. We could not reconcile net outlays to the supporting documentation. Also, we could not verify whether Federal funds received were used to pay the expenses earmarked in the request for the Payment Management System (PMS) drawdowns. For example, we were unable to identify any payments for the expenses that La Penn earmarked for PMS drawdown on Jan. 29 and 31, 2008.

Agency Response

The amount reported on the cumulative column of the SF-269 reflected the amount from the agency Profit and Loss statement. This amount was accurately reported on the SF-269. The reference amount of $1,395,943 was the amount previously reported before the final SF-269 was submitted and was shown under the column for "Previously Reported."

The agency ascertained that Federal funds received were used to pay expenses earmarked in the request for the Payment Management System (PMS) drawdown. The agency was unable to identify any drawdown for Jan 29 and 31, 2008 as indicated.

6. Findings Reported on FY 2009 A-133 Single Audit[1]

The Public Accountants, who conducted La Penn's FY 2009 audit, provided a draft report with a qualified opinion on their OMB Circular A-133 Single Audit. According to the accountant's schedule of findings and questioned cost, they identified 13 significant deficiencies of which 11 are material weaknesses. For example, the accountants found:

- that cash transactions were not completely recorded;
- the organization issued checks more than the actual balances they have on the bank, putting the organization at risk of incurring penalties;
- cash transactions involving payments through cash accounts were not recorded in books of accounts;
- Accuracy of records, books of account should agree with monthly expense reports;
- Accounts payables were not properly monitored; and
- Prior period findings such as the organization paying its obligations in 90days were not implemented.

AGENCY RESPONSE

The agency request that this information should be deleted from your report. During the pre-exist conference, nine (9) of the thirteen (13) significant deficiencies will be deleted after the agency provided the appropriate documentation. Two additional documentations have been provided and the auditor has revisited the agency to complete the audit.

ABLITY TO CARRY MORTGAGE

OBJECTIVE
To determine if La Penn is able to carry the mortgage debt service upon conversion of their construction loan to a permanent mortgage.

CONDITION

1. Liquidity Analysis

We performed a liquidity analysis that reflects the relationship of current assets to current liabilities to determine La Pen's ability to pay its current obligations. To be fiscally sound, the rule of thumb for the current assets over current liability is 2 to 1. However, our analysis for FY 09 indicated that La Pen's current ratio is 0.91 and its working capital is negative (current assets of $1,913,764 were less than total current liabilities of $2,112,449). Consequently, it is our opinion that La Penn is in a difficult position of meeting its short-term debt.

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[1]We reviewed La Penn's audited financial statements for FYs 2007 and 2008; La Pen's FY 2009 financial statements were not finalized during our fieldwork. The FY 2009 draft financial statement included a draft OMB Circular A-133 Single Audit Report.

Agency Response

Although the agency has been struggling to meet its obligations for various reasons, we are uncertain as to the validity of the information used to obtain the ratio. We were told that the information came from the Public Accountant's Draft report which is still questionable and will be revised.

2. Stability Analysis

We performed the stability analysis that reflects the relationship of total debt and total assets to determine La Pen's financial strength. Generally, lower is safer. However, our analysis shows that for FY 09, 99 percent of La Pen's operation is financed through debt. La Pen's total debt was $5,323,783 as compared to total assets of $5,393,551. Consequently, it is our opinion that La Penn could not handle a long term debt based on its current financial position.

Agency Response

Although the agency has been struggling to meet its obligations for various reasons, we are uncertain as to the validity of the information used during the analysis. We were told that the information came from the Public Accountant's Draft report which is still questionable and will be revised.

3. Feasibility of La Penn's Carrying a Long-Term Mortgage Debt

One of the bank requirements to approve the mortgage is for La Pen to meet the Debt Service Coverage ratio (DSCR).[2] La Pen should maintain a minimum DSCR at all times of not less than 1.3 to 1. However, our overall analysis of La Penn supports our opinion that La Penn can not carry the debt service upon conversion of their construction loan to a permanent mortgage unless the Federal Government is willing to provide additional funding.

Agency Response

Although the agency has been struggling to meet its obligations for various reasons, we are uncertain as to the validity of the information used during the overall analysis. The

[2]The term "Debt Service Coverage Ratio" shall mean (a) the sum of Mortgagor's after-tax net income, depreciation and amortization, and any other cash expenses and non-cash expenses, and interest expense, divided by (b) the sum of Mortgagor's interest expenses and any scheduled principal amortization (the "Debt Service"), the calculation of which shall be determined in accordance with generally acceptable accounting principles, consistently applied.

agency will be able to carry the debt service upon conversion of the construction loan through rental charges to various programs.

LA PENN'S BOND INSURANCE

OBJECTIVE:

To determine if La Penn is properly bonded.

CONDITION:

La Penn submitted a bond application for coverage of fiscal personnel in November 2008. The coverage is called Crime Protection Plus Declarations through the Philadelphia Insurance Company and covers the period November 25, 2008 through November 25, 2009. Under this plan, La Penn fiscal personnel have the following coverage:

Employee Theft & Client Coverage	$100,000
ERISA Fidelity	100,000
Forgery or Alteration	50,000
Inside the Premises	50,000
Computer Fraud & Funds Transfer Fraud	50,000

La Pen will clarify with ACF if its bond policy has the right coverage as required.

Agency Response

The agency has no comment in regard to the information provided.

Please contact the undersigned for any concern.

Sincerely,

Muffy Oluwo, PhD, CPA
Controller

cc: Renee Sutton – Executive Director