Office of the Inspector General
Corporation for National and Community Service

Evaluation of the Corporation's Oversight and Monitoring of the Cooperative Agreement with the National Association of Child Care Resource Referral Associations

OIG Audit Report Number 00-04
October 28, 1999

Prepared by:
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This report was issued to Corporation management on December 14, 1999. 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 June 11, 2000, and complete its corrective actions by December 14, 2000. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

CORPORATION
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Office of the Inspector General
Corporation for National and Community Service

Evaluation of the Corporation's Oversight and Monitoring of the Cooperative Agreement with the National Association of Child Care Resource Referral Associations (OIG Audit Report Number 00-04)

The Office of the Inspector General engaged Ernst & Young, LLP to evaluate and report on the Corporation's oversight and monitoring of its child care benefits program, which is administered by the National Association of Child Care Resource Referral Associations under a cooperative agreement (CA94TTPDC001). The review covered the Corporation's oversight and monitoring practices during the period June 1994 through September 1999. We have reviewed the report and work papers supporting its conclusions and agree with the findings and recommendations presented.

The auditors concluded that the Corporation must strengthen the oversight and monitoring of the child care benefits program. The conditions leading to this conclusion included:

- the Corporation has not established comprehensive policies or performed sufficient procedures necessary to oversee and monitor its cooperative agreement with NACCRRA;
- the Corporation does not obtain and maintain sufficient information to analyze the costs of child care; and
- the Corporation has not required NACCRRA to provide all financial and performance reports required by the cooperative agreement.

The report discusses these conditions in detail and provides other information related to the child care benefits program. In responding to a draft of this report, the Corporation stated that it had reviewed the draft but did not have specific comments. The Corporation's response is included as Appendix II.

Inspector General
1201 New York Avenue, NW
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TABLE OF CONTENTS

	Page
Results in Brief	**1**
Background	**1**
Methodology and Scope	**2**
Observations and Recommendations	**3**
Key Procedures Performed	**Appendix I**
Corporation Response	**Appendix II**

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October 28, 1999

Inspector General
Corporation for National and Community Service

Ernst & Young, LLP, was engaged by the Office of the Inspector General, Corporation for National and Community Service, to evaluate and report on the adequacy of the Corporation's procedures to oversee and monitor the cooperative agreement that provides child care benefits for eligible participants in certain Corporation programs.

To assess the Corporation's oversight of the National Association of Child Care and Resource Referral Association's adherence to the cooperative agreement and meeting the intended objectives of the program, we reviewed the cooperative agreement between the Corporation and NACCRRA, as well as reports prepared in accordance with the agreement, and interviewed Corporation and NACCRRA staff to assess the Corporation's oversight of NACCRRA's performance. Based on the procedures performed, we believe that the Corporation must strengthen the oversight and monitoring of its cooperative agreement. Specifically, we found that the Corporation:

- has not established comprehensive policies or performed sufficient procedures necessary to oversee and monitor its cooperative agreement with NACCRRA;
- does not obtain and maintain sufficient information to analyze costs of child care; and
- has not required NACCRRA to provide all financial and performance reports required under the cooperative agreement.

We recommend that the Corporation strengthen its oversight of the cooperative agreement by establishing policies and implementing procedures to effectively monitor NACCRRA's costs and performance. Specific recommendations are discussed in detail in this report.

BACKGROUND

The Corporation awards grants to organizations to assist in the creation of full and part time national and community service programs. Participants in these programs perform services to meet educational, human, environmental, and public safety needs throughout the nation. In return for this service, participants receive, if eligible, a living allowance, post service education benefits, and child care benefits.

Child care benefits have been administered by NACCRRA under a cooperative agreement with the Corporation since June 1, 1994. Under the cooperative agreement, NACCRRA is responsible for planning, operating, and managing training and technical assistance for child care needs within the AmeriCorps State/National and VISTA programs. The agreement also empowers NACCRRA to make monthly payments, on behalf of the Corporation, to child care providers for eligible participants.

Management of the Corporation has reported that, during the period of June 1, 1994 through December 31, 1998, the Corporation authorized funding for NACCRRA of $29.0 million, of which $25.9 million was for provider payments and $3.1 million for training and technical assistance. NACCRRA reported expenditures of $9.8 million in 1998 for provider payments and training and technical assistance.

Under Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, NACCRRA is required to have an annual audit. The Circular A-133 audits of NACCRRA's financial statements and activities have indicated numerous internal control weaknesses at NACCRRA. Specifically, the audit reports for the years ending 1995 through 1998 documented a variety of issues at NACCRRA including, but not limited to:

- financial reports that could not be traced to supporting documentation and/or the general ledger;
- subsidiary ledgers that did not agree to the general ledger;
- failure to perform key reconciliations;
- deficiencies in payment documentation; and
- numerous internal control weaknesses related to payroll, including unauthorized payments.

METHODOLOGY AND SCOPE

In planning and performing our evaluation, we reviewed the cooperative agreement between the Corporation and NACCRRA, reviewed reports prepared under the agreement, interviewed Corporation and NACCRRA personnel, and performed such tests as deemed necessary, to assess whether the Corporation had a process which effectively monitored and measured NACCRRA's performance in accordance with the terms and conditions of the cooperative agreement.

Our work was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and consulting standards of the American Institute of Certified Public Accountants and did not constitute an audit or any other form of assurance on any financial information. Additional information on our methodology can be found in Appendix I.

We provided a draft of this report to the Corporation for comment. The Corporation stated that it reviewed the draft report but did not have specific comments at this time. The Corporation's response is included as Appendix II to this report.

OBSERVATIONS AND RECOMMENDATIONS

Based on the weaknesses identified at NACCRRA and our evaluation of the Corporation's oversight, we believe that the Corporation has not established comprehensive policies, nor performed sufficient procedures necessary to oversee and monitor its cooperative agreement with NACCRRA; does not obtain and maintain sufficient information to analyze costs of the child care program; and has not required NACCRRA to provide all financial and performance reports required under the cooperative agreement. Specific observations and recommendations of steps the Corporation should take to strengthen its management of the cooperative agreement in several key areas are described below.

I. The Corporation has not established comprehensive policies nor performed sufficient procedures necessary to oversee and monitor its cooperative agreement with NACCRRA.

OMB Circular A-123, *Management Accountability and Control Policies*, requires Federal agencies to establish policies and procedures to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making.

Corporation Guidelines Do Not Adequately Address Oversight of Cooperative Agreement

The Corporation has issued formal guidelines for grants management and assigned responsibility for fiscal management of the NACCRRA cooperative agreement to a specific grants officer. However, the guidelines are general in nature and do not address the activities unique to the cooperative agreement between the Corporation and NACCRRA.

The Corporation has not developed written guidance, specific to this cooperative agreement, which addresses both financial and program oversight issues; and the Corporation has not clearly assigned the responsibility for programmatic oversight. The responsibility for oversight should be clearly defined and specific guidance for overseeing the child care program and cooperative agreement should be available for adequate program oversight to be performed. Otherwise key oversight functions may not be performed or corporate knowledge may be lost in the event of employee turnover.

VISTA CARE Reports Not Reviewed

We also found that the Corporation has not established written procedures for reviewing the VISTA CARE Monthly Reports received from NACCRRA. NACCRRA prepares VISTA CARE Monthly Reports which present a detailed listing of payments made to child care providers on behalf of eligible volunteers. Our review of these reports revealed payments made to child care providers that are in excess of the $300/month limit stipulated for VISTA members. In an average month, we found that 10-15 payments (out of approximately 450) were for $1.00 - $50.00 more than the $300 limit. The Corporation has not consistently reviewed these payment amounts and Corporation personnel could not provide an adequate explanation for why these overpayments occurred.

In addition, certain VISTA members received child care benefits after they were no longer eligible. A review of the VISTA CARE Monthly Reports from December 1998 through April 1999 revealed provider payments for six volunteers for child care services provided after they terminated their participation in the program. AmeriCorps Provisions stipulate that it is the responsibility of the Program Director[1] to notify NACCRRA immediately (in writing) when a member is no longer eligible for child care benefits. In the cases cited, Program Directors may not have notified NACCRRA of change in status in a timely manner or NACCRRA failed to make the eligibility change in its system.

Even when the Corporation detects overpayments, as noted above, it does not have written follow-up procedures in place. As a result, payments have been erroneously made to providers for child care services when members were not eligible for benefits, and neither NACCRA or the Corporation has made any attempt to recover these funds.

[1] The reference is to the Program Director at a Corporation grantee.

FSRs Not Reconciled

NACCRRA uses Financial Status Reports (FSRs) to report to the Corporation financial information related to the cooperative agreement. However, the Corporation does not reconcile funding information on the FSRs to amendments to the cooperative agreement or to the Health & Human Services Payment Management System (PMS) on a consistent basis. Likewise, there is no evidence to indicate that drawdown information reported on the FSRs is reconciled to PMS on a consistent basis. The cooperative agreement requires NACCRRA to submit FSRs to the Corporation on a quarterly basis and the Corporation Grant Management Guidelines require grants management staff to perform a review of drawdowns. Failure to reconcile these documents impairs the Corporation's ability to effectively monitor funding status and costs. This is especially important in light of Circular A-133 audits of NACCRRA that have reported that FSR's were prepared which did not agree to accounting records, resulting in inaccurate cost information reported to the Corporation.

Reasonableness of Payments Not Determined

In addition, the Corporation does not perform procedures to assess the reasonableness of provider payments. Corporation personnel stated that they rely on Circular A-133 audits of NACCRRA to assess whether funds drawn are spent appropriately and the amounts reported to the Corporation are accurate; however, NACCRRA did not submit a Circular A-133 audit to the Corporation until March 1998, almost four years after NACCRRA began administering the child care program under the cooperative agreement. This lack of controls over child care related payments exposes the Corporation to a greater risk of loss due to waste, fraud and abuse.

NACCRRA Performance Not Monitored

We also noted that the Corporation does not independently verify NACCRRA's performance in managing the child care program. For example, NACCRRA, under the contractual obligations stated in the cooperative agreement, is responsible for:

- providing information to all programs funded under AmeriCorps on determining participant eligibility for child care;

- providing information to all programs and their participants on finding affordable, high quality child care; and

- ensuring that NACCRRA makes payments directly to qualified child care providers under Child Care Development Block Grant provisions.

However, the Corporation has no reporting or testing procedures in place to determine if these services were actually provided as required. Through a combination of training, handbooks, and application documents, the Corporation informs State Commissions and programs of the child care benefits available through NACCRRA and their responsibility for assisting participants in obtaining child care benefits. The Corporation then relies on the State Commissions, programs, and individuals to fulfill their responsibilities for obtaining these services, but does not perform its own procedures to determine if these services were actually provided.

Recommendations

We recommend that the Corporation:

- develop and document specific policies and procedures for performing financial and program oversight of the child care benefits program for AmeriCorps*State/National and AmeriCorps*VISTA;

- assign responsibility for programmatic oversight of the child care cooperative agreement to a member of the Corporation staff;

- establish specific procedures to review monthly payments for VISTA members and contact NACCRRA to verify the validity of, or obtain explanations for, payments over the $300 limit;

- re-emphasize to program managers and NACCRRA the requirement for timely updates of changes in eligibility status;

- reconcile grant and drawdown information in the quarterly FSRs to PMS and the amendments to the cooperative agreement (grant information only) each quarter;

- implement review procedures that include obtaining detail payment records reconciled to drawdowns by NACCRRA, reviewing the records for mathematical accuracy and any unusual payments/activity, and selectively testing transactions; and

- periodically perform programmatic reviews of NACCRRA's performance under the cooperative agreement to determine if it is operating as intended.

II. The Corporation does not obtain and maintain sufficient information to analyze costs of the child care program.

To achieve the accountability objectives of OMB Circular A-123, the Corporation must obtain and maintain sufficient information to analyze costs of the child care benefits as part of its internal controls.

Information to Independently Evaluate Costs Not Obtained

We found that the Corporation does not have sufficient information to independently evaluate funding requests from NACCRRA. For example, the Corporation does not maintain a database of members eligible for, and receiving, child care benefits. According to the contractual obligations stated in the cooperative agreement, NACCRRA is to develop and coordinate an AmeriCorps*CARE database with the Corporation's Trust Fund database (used for education benefits). A link between the AmeriCorps*CARE database and the Trust Fund database would provide the Corporation with information related to the number of participants eligible for, and receiving, child care benefits. To date, the link has not been established and therefore the Corporation must rely on NACCRRA for this information.[2] However, NACCRRA's computer system cannot provide summary reporting and, as a result, the Corporation cannot readily determine how many members are eligible for, and receiving, child care. Therefore, the Corporation cannot independently evaluate whether NACCRRA's funding requests are reasonable.

The lack of information was apparent when, as part of our evaluation, we attempted to compare the amounts paid by the Corporation for child care benefits to reasonable standards for child care benefit payments. Monthly enrollment information is needed to determine the amount of service provided for the costs incurred. Since the Corporation does not maintain child care benefit enrollment information, and, as noted above, NACCRRA's computer system cannot readily provide this information, we were unable to perform this comparison. Without monthly enrollment information it is not possible to compare the Corporation's child care costs to other similar programs.

[2] In May 1995, OIG first reported that NACCRRA had not established a link with the Trust Fund data base as required under the cooperative agreement (OIG Audit Report 95-01, *Initial Year Review of National Association of Child Care and Resource Referral Agencies*).

Official Grant Files Not Properly Maintained

In addition, our review of the cooperative agreement file documentation for the period of June 1, 1994 through December 31, 1998 indicated that one of seventeen fund certifications issued during this time frame was missing from the cooperative agreement file. Furthermore, one of nineteen amendments to the cooperative agreement was not signed by NACCRRA. The Corporation's grant management guidelines state that each official grant file should have a checklist which is updated with each award or amendment. We noted that no checklist of required documents/approvals is maintained for amendments to the cooperative agreement with NACCRRA. Failure to maintain a checklist of required documents and approvals may lead to delays in detecting missing and incomplete information. In the event of misunderstandings, disputes, litigation or claims, the Corporation may not be able to defend its position without the proper documentary support.

Our review of the cooperative agreement file documentation for June 1, 1994 through December 31, 1998 also revealed that 10 of the 18 required quarterly FSRs prepared by NACCRRA were missing. The cooperative agreement requires NACCRRA to submit FSRs to the Corporation on a quarterly basis and the Corporation Grant Management Guidelines require grants management staff to perform a review of drawdowns. Failure to obtain and/or maintain these documents impairs the Corporation's ability to effectively monitor cost and funding status of the program.

Furthermore, we noted that two 1997 and four 1996 VISTA CARE Monthly Reports were missing from the VISTA file. Each month a Corporation Member Support Specialist compares eligibility records to bill dates on the VISTA CARE Monthly Reports. If volunteers were not eligible for child care benefits for the month billed, the amount should be refunded. Without these reports, the verification cannot be performed.

Indirect Cost Rate Proposals Not Reviewed and Approved as Required

Finally, the cooperative agreement requires NACCRRA to annually submit an indirect rate proposal to the Corporation for review and approval. We requested copies of approved indirect rate plans for 1994 through 1998; however the Corporation was only able to provide a copy of the indirect rate proposal for 1998. In addition, the Corporation's financial management consultant responsible for the rate agreement approved the 1998 rate (which has within it language to extend it through 1999) but then left the organization before documenting his approval in a formal indirect rate agreement. Without approved indirect cost agreements, the Corporation does not have an appropriate basis for evaluating amounts budgeted and claimed for expenditures.

Recommendations

We recommend that the Corporation:

- work with NACCRRA to update/develop computer software and related procedures that allow NACCRRA and the Corporation to maintain and report information on participant eligibility and use of child care benefits and to reconcile the two databases;

- prepare and follow a checklist to determine that documents required in the cooperative agreement file are complete and proper approval has been obtained for all contract actions;

- obtain, review, and maintain copies of all quarterly FSRs in the cooperative agreement file;

- follow up with NACCRRA representatives to facilitate timely receipt, retention, and review of VISTA CARE Monthly Reports;

- obtain indirect rate proposals from NACCRRA and prepare formal rate agreements on a timely basis; and

- complete and document its approval of the 1998 and 1999 indirect cost rates as soon as possible.

III. The Corporation has not required NACCRRA to provide all financial and performance reports required under the cooperative agreement.

The cooperative agreement between the Corporation and NACCRRA requires NACCRRA to submit certain financial and performance related reports. Enforcement of NACCRRA's requirements under the terms of the cooperative agreement is consistent with the following Corporation responsibilities as specified in OMB Circular A-133:

> "Advise recipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts;
>
> Ensure that audits are completed and reports are received in a timely manner and in accordance with the requirements of this part;
>
> Provide technical advice and counsel to auditees and auditors as requested; and
>
> Issue a management decision on audit findings within six months after receipt of the audit report and ensure that the recipient takes appropriate and timely corrective action."

During our testing, we noted that the Corporation has not consistently obtained these documents from NACCRAA. For example, the Corporation has not obtained annual financial plans comparing budgeted to actual expenditures from NACCRRA. According to the cooperative agreement, NACCRRA must submit an annual financial plan showing amounts budgeted and expended. The Corporation does obtain this type of information from other programs that report to it using the Corporation's Web Based Reporting System; however, NACCRRA is not required to use this system at the present time. The Corporation believes that it should rely on FSRs for data; however, these forms do not provide the level of detailed information that would normally be provided in an annual financial plan. This limits the information the Corporation has available to evaluate NACCRRA's costs/projections for administering the child care benefit program which, as discussed earlier, the Corporation currently does not evaluate. Failure to monitor expenditures may result in unallowable costs being recovered by NACCRRA.

In addition, due to ambiguities in the wording of the cooperative agreement, the Corporation has not obtained Annual Reports from NACCRRA for the years ending December 31, 1996, 1997, and 1998. Corporation personnel believe the intent was to have NACCRRA submit an annual report each year; however, the original agreement specified only that an annual report be delivered by January 1, 1996, and a subsequent amendment to the agreement required only a report delivered by February 1998. NACCRRA delivered the first report January 31, 1996 and formally requested an extension for preparing the second report. As of July 1999, NACCRRA still had not submitted the second report. Consequently, the Corporation lacks key information on overall program results for the years ending December 31, 1996, 1997, and 1998. Failure

to obtain this information impairs the Corporation's ability to evaluate program progress and accomplishments.

Financial statement and OMB A-133 audit reports for NACCRRA have not consistently been issued on a timely basis throughout the life of the cooperative agreement. The 1995 and 1996 Reports (issued jointly) were initially issued as disclaimers in March, 1998 and subsequently revised and re-issued in July, 1998. The 1997 reports were not issued until at least November, 1998. The 1998 reports were released in July, 1999. OMB A-133 guidelines for these time periods allow for 13 months for issuance of the audit reports, thus, only the last two years of audit reports have been issued in a timely manner. Delays in obtaining these audit reports limited the information available to the Corporation for assessing NACCRRA's performance.

Recommendations

We recommend that the Corporation:

- require NACCRRA to submit annual financial plans and/or budget submissions that include budgeted to actual expenditures comparisons and related explanations for significant fluctuations;

- include NACCRRA in the Web Based Reporting System it is implementing in order to increase the amount of information provided by NACCRRA;

- revise language in the cooperative agreement to require preparation of an Annual Report by NACCRRA and that the Corporation obtain and review these reports on a timely basis; and

- require NACCRRA to submit audited annual financial statements and OMB A-133 reports on a timely basis.

This report is intended for the use of the management of the Corporation for National and Community Service and the Office of the Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

Appendix I

Key Procedures Performed

KEY PROCEDURES PERFORMED **APPENDIX I**

Our objective in this engagement was to evaluate and report on the adequacy of the Corporation's procedures to oversee and monitor the cooperative agreement for its child care program. To meet this objective we performed the following:

- Obtained an understanding of key Corporation/NACCRRA personnel and their responsibilities through reviewing documentation on program background and provisions, organization charts for the Corporation and NACCRRA, and job descriptions for key personnel. We also interviewed key Corporation and NACCRRA personnel.

- Obtained and reviewed Corporation guidance, such as Grant Management Guidelines, to determine whether effective policies and procedural guidance is available to those involved in monitoring and overseeing the program. We also assessed whether staff are required to document agreement actions and provided specific guidance and direction to carry out these responsibilities.

- Obtained and reviewed Grants Management Guidelines for Staff Training and Development to determine whether adequate training and enhancement for skills, knowledge, and abilities needed to perform grant management job functions is available.

- Obtained and reviewed the cooperative agreement between the Corporation and NACCRRA as well as subsequent modifications/amendments, and reports prepared/submitted under the cooperative agreement, including: VISTA CARE Monthly Reports, Quarterly FSR's, Annual Budgets/Financial Plans, Annual Reports, and Indirect Rate Proposals.

- Determined the extent of performance of cooperative agreement obligations through inquiry of client personnel and corroborated through review of available documentation, reports, and correspondence maintained in cooperative agreement file.

- Obtained and reviewed the OMB A-133 audit reports of NACCRRA's independent auditors for 1995 through 1998.

- Reviewed the OMB A-133 audit workpapers of NACCRRA's independent auditors for 1996 through 1998.

- Identified benchmarks through review of other reasonable standards for child care payments.

Appendix II

Corporation Response

CORPORATION
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MEMORANDUM

DATE: December 6, 1999

TO: Luise Jordan, OIG

FROM: Bruce Cline, Director Grants Management

cc: Wendy Zenker, COO
Wilsie Minor, Assistant General Counsel

SUBJECT: Request for comments on Draft Report 00-04, Evaluation of the Corporation's oversight and monitoring of its' cooperative agreement with for National Association of Child Care Resource Referral Association

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We have reviewed the draft report pertaining to the performance of the Corporation's oversight and monitoring of the National Association of Child Care Resource Referral Association (NACCRRA) under cooperative agreement 94TTPDC001. Our review was limited to information contained in the report.

We will do so during the audit resolution process and will address the findings and recommendations in the final management decision. Therefore, we are not providing detailed comments at this time.