Office of Inspector General
Corporation for National and Community Service

AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE GRANT AWARDED TO THE KENTUCKY DEPARTMENT FOR MENTAL HEALTH AND MENTAL RETARDATION SERVICES

OIG REPORT NUMBER 06-31

Prepared by:

COTTON and COMPANY, LLP
635 Slaters Lane
Alexandria, Virginia 22314

This report was issued to Corporation management on July 18, 2006. Under the laws and regulations governing audit follow-up, the Corporation is to make final management decisions on the report's findings and recommendations no later than January 18, 2007, and complete its corrective actions by July 18, 2007. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Corporation for NATIONAL & COMMUNITY SERVICE

OFFICE OF INSPECTOR GENERAL

Audit of Corporation for National and Community Service
Grant Awarded to the
Kentucky Department for Mental Health and Mental Retardation Services
Audit Report 06-31

OIG Summary

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), retained Cotton and Company LLP (Cotton) to perform an incurred-cost audit of a Senior Corps grant awarded to the Kentucky Department for Mental Health and Mental Retardation Services (the Department).

Federal costs claimed by the Department during the audit period totaled $1,118,639. Of this amount, the auditors questioned $276,238 of Federal costs. The auditors also identified eight instances of noncompliance with Federal laws and grant provisions, all of which are considered material weaknesses.

In its response to the draft audit report, the Department generally agreed with the findings related to questioned costs. However, it did not address any of the internal control and compliance findings, stating that those issues will be resolved with the Corporation after this report is issued.

The OIG reviewed Cotton's report and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the Department's financial statements, conclusions about the effectiveness of internal control or conclusions on compliance with laws and regulations. Cotton is responsible for the attached auditor's report dated January 13, 2006, and the conclusions expressed in the report. However, our review disclosed no instances where Cotton did not comply, in all material respects, with generally accepted government auditing standards.

The OIG provided officials of the Department and the Corporation with a draft of this report for review and comment. Their responses are included as Appendices A and B, respectively.

This report is a matter of public record and its distribution is not limited.

OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

AUDIT OF GRANT AWARDED TO
KENTUCKY DEPARTMENT FOR MENTAL HEALTH AND
MENTAL RETARDATION SERVICES

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A: The Department's Response to Draft Audit Report
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EXECUTIVE SUMMARY

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), contracted with Cotton & Company LLP to perform an incurred-cost audit of the following award to Kentucky Department for Mental Health and Mental Retardation Services (Department) for Program Years (PYs) 2003-2004 and 2004-2005. Our audit covered financial transactions, compliance and internal control testing of the following award funded by the Corporation:

Program	Award No.	Award Period	Audit Period
Senior Corps Foster Grandparent	03SFSKY037	07/01/03-06/30/06	07/01/03-06/30/05

Our audit objectives were to determine if:

- The Department's financial reports to the Corporation presented financial award results fairly, and costs claimed were allowable in accordance with award terms and conditions;
- The Department's internal controls were adequate to safeguard Federal funds;
- The Department had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations, and award conditions; and
- The Department had established adequate management oversight of its program sites and volunteer stations.

The Department claimed $1,118,639 under Award No. 03SFSKY037 in PYs 2003-2004 and 2004-2005. We questioned Federal costs of $276,238. A questioned cost is (1) an alleged violation or provision of law, regulation, contract, grant, or cooperative agreement or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost was not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose was unnecessary or unreasonable. Details of questioned costs are discussed below and in the Independent Auditor's Report (Schedule A).

Our audit expresses a qualified opinion on the Schedule of Claimed and Questioned Costs.

The Department claimed unallowable and unsupported costs as part of its matching requirements. We did not include these as questioned costs in Schedule A because the Department exceeded its minimum ten-percent match requirement.

We have also issued a report titled Independent Auditors' Report on Compliance and Internal Control on our consideration of the Department's internal control and compliance with laws and regulations. In that report, we identified eight findings that are required to be reported under generally accepted government auditing standards. These findings are as follows:

1. The Department claimed unallowable costs.

2. Some program management personnel were not Department employees.

3. The Department did not adequately record and account for labor costs.

4. The Department did not have adequate procedures to determine volunteer eligibility.

5. The Department did not adequately document the eligibility of all children served.

6. The project director did not have adequate procedures to manage Foster Grandparents Program (FGP) sites.

7. The Department did not adequately document volunteer orientation and training.

8. The Department did not comply with the grant's volunteer recruiting requirements.

BACKGROUND

Corporation for National and Community Service

The Corporation supports national and community service programs that provide full- and part-time service opportunities for individuals. It funds opportunities for Americans to engage in service that fosters civic responsibility, strengthens communities, and provides educational opportunities for those who make a substantial commitment to service. Corporation programs include AmeriCorps, Senior Corps, and Learn and Serve America. These programs annually engage more than two million Americans of all ages and backgrounds.

Senior Corps is a network of programs that taps the experience, skills and talents of older citizens to meet community challenges. Through its three programs, FGP, Senior Companions (SCP), and the Retired and Senior Volunteer Program (RSVP), more than half a million Americans age 55 and over assist local nonprofits, public agencies, and faith-based organizations in carrying out their missions.

FGP provides a way for persons age 60 and over with limited incomes to serve as extended family members to children and youth with exceptional needs. Volunteers serve between 15 and 40 hours a week in schools, hospitals, correctional institutions, daycare facilities, and Head Start Centers. They help children who have been abused or neglected, mentor troubled teenagers and young mothers and care for premature infants or children with physical disabilities.

Kentucky Department for Mental Health and Mental Retardation Services

FGP operates at several Department-operated inpatient facilities that provide psychiatric, rehabilitative and nursing-care services, and at volunteer stations. The inpatient facilities serve as three of the four sites where FGPs are based. In addition to the FGP program office located at the Hazelwood Center in Louisville, FGPs are located at the Oakwood facility in Summerset, Outwood facility in Dawsons Springs, and the Comprehend, Inc., site in Maysville. Each facility has a full- or part-time site supervisor responsible for supervising volunteers.

Volunteer stations are typically daycare centers and schools. Each station signs a memorandum of understanding with the Department outlining responsibilities of the site supervisor and the volunteer station.

Total Corporation funds awarded to the Department for FGP were $1,131,464. The ten-percent required matching contribution amounted to $113,146.

The Department is included in Kentucky's annual Single Audit in compliance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We reviewed the Single Audit for the fiscal year ended June 30, 2004. The Corporation grant was not selected as a major program.

EXIT CONFERENCE

An exit conference with Department and Corporation representatives was held on March 13, 2006. Department and Corporation responses to this report are included as Appendices A and B, respectively. In addition, we have included our summary of the Department's comments on the cost-related findings. The Department did not propose any actions to address the recommendations in the internal control and compliance findings.

The Corporation noted in its response that it will address all findings when the final audit report is issued, but specifically commented on one of the findings. In response to the finding on the Department's use of contracted employees, the Corporation stated that it will look more closely at these costs once this final report has been issued. The Corporation also stated that the additional review may result in the Corporation allowing these costs.

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January 13, 2006

Office of Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT

We have audited costs incurred by the Department for PYs 2003-2004 and 2004-2005 for the award listed below. These costs, as presented in the Schedule of Claimed and Questioned Costs (Schedule A), are the responsibility of Department management. Our responsibility is to express an opinion on the schedule of claimed and questioned costs based on our audit.

Program	Award No.	Award Period	Audit Period
Senior Corps Foster Grandparent	03SFSKY037	07/01/03-06/30/06	07/01/03-06/30/05

We conducted our audit in accordance with audit standards generally accepted in the United States of America and generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial schedule. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion on incurred costs.

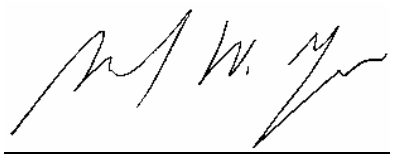
The Schedule of Claimed and Questioned Costs is intended to present allowable costs incurred under the award in accordance with OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, other applicable OMB circulars, and award terms and conditions. Therefore, the schedule is not intended to be complete presentations of the Department's revenues and expenses in conformity with generally accepted accounting principles.

In our opinion, except for questioned costs in the Schedule of Claimed and Questioned Costs, the financial schedules referred to above present fairly, in all material respects, costs claimed by the Department for PYs 2003-2004 and 2004-2005, in conformity with OMB Circular A-87, other applicable OMB circulars, and award terms and conditions.

In accordance with generally accepted government auditing standards, we have also issued a report dated January 13, 2006, on our consideration of the Department's internal control and compliance with laws and regulations. This report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering audit results.

This report is intended for the information and use of the Corporation, OIG, the Kentucky Department for Mental Health and Mental Retardation Services, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP



Michael W. Gillespie, CPA, CFE
Partner

SCHEDULE A

KENTUCKY DEPARTMENT FOR MENTAL HEALTH AND MENTAL RETARDATION SERVICES
SCHEDULE OF CLAIMED AND QUESTIONED COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AWARD NO. 03SFSKY037
SENIOR CORPS FOSTER GRANDPARENTS PROGRAM
JULY 1, 2003, TO JUNE 30, 2005

	Amount	Notes
Approved Budget (Federal Funds)	$1,131,464	
Claimed Federal Costs	$1,118,639	
Questioned Federal Costs:		
Contracted employee costs	$236,906	1
Prior-grant costs	23,850	2
Ineligible volunteer station	5,657	3
Volunteer income exceeded guidelines	4, 771	4
Underage volunteer	3,844	5
Non-stipend volunteer benefits	1,064	6
Unallocable cost	146	7
Total Questioned Federal Costs	$276,238	

1. The Department claimed Federal costs of $236,906 for expenses associated with three supervisors at the Hazelwood, Oakwood, and Comprehend sites. These individuals were not Department employees, but were employed by organizations under contract to the Department. These costs are unallowable in accordance with 45 CFR § 2552.22, which states that a sponsor is responsible for fulfilling all project management requirements necessary to accomplish FGP purposes and may not delegate or contract these responsibilities to another entity.

   In addition, the *Foster Grandparent Program Operations Handbook*, April 2000, Chapter 5, Section 17, states:

   > *Project staff are employees of the sponsor and are subject to its personnel policies and practices. Project staff cannot serve under contract to the sponsor.*

   As a result, we questioned these costs.
   Department Response: The Department stated it has not delegated responsibility or project management for the program to the contracted supervisors. While they are

supervisors in their regions, the contracted individuals carry out the directives of the Department. The State has followed this practice for many years and has been open with the Corporation about the arrangement.

Auditors' Comments: The Department's comments did not address the requirements of 45 CFR § 2552.20 or the FGP Handbook that project staff must be employees and cannot serve under contract to the sponsor.

2. The Department claimed $23,850 incurred under its predecessor FGP grant (No. 02SFSKY027), which ended on June 30, 2003, as follows:

- $15,506 for volunteer benefits (stipends and transportation) for the June 15 to June 30, 2003, pay period. We questioned these costs.

  Department Response: The Department stated it uses a cash basis of accounting. As such, when the June 15-June 30 payroll runs, it is posted in July to the next State fiscal year. It has been a long-standing practice, accepted by the Federal government and applied consistently from year to year for all grants.

  Auditors' Comments: The Department's practice may be acceptable between different program years within a single grant, but Federal regulations require that costs be charged to the grant to which they are allocable.

- $4,172 for the final payment to Comprehend, Inc., under its PY 2002-2003 contract. In addition, the Department erroneously claimed the same payment again later in the year. We questioned $8,344.

  Department Response: The Department stated it agrees that the duplicate payment resulted from an accounting error.

  Auditors' Comments: The Department's comments do not address that the costs were related to the predecessor FGP grant.

According to OMB Circular A-87, Attachment A, C. Basic Guidelines, a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with the relative benefits received.

3. The Department claimed $5,657 for benefits paid to a volunteer who served at a for-profit daycare center. For-profit daycare centers are ineligible to be volunteer stations in accordance with 45 CFR § 2552.12. We questioned these costs.

Department Response: The Department stated it does not dispute the finding.

4. The Department claimed $4,771 for benefits paid to a volunteer whose income exceeded amounts specified in income-eligibility guidelines contained in 45 CFR § 2552.42. We questioned these costs.

   Department Response: The Department stated it does not dispute the finding.

5. The Department claimed $3,844 for benefits paid to three volunteers under the age of 60. According to 45 CFR § 2552.41, volunteers must be 60 years of age or older to be eligible to serve in the program. We questioned these costs.

6. The Department claimed $1,064 for mileage costs reimbursed to four non-stipend volunteers who served at the Comprehend site. These costs are unallowable in accordance with 45 CFR § 2552.104 and the FGP Handbook. We questioned these costs.

7. The Department claimed $146 of costs that were erroneously charged to the FGP program. Financial personnel in the Department identified and corrected the accounting records in October 2005, but failed to correct expenditures reported on the Financial Status Reports (FSRs).

   According to 45 CFR § 2541.200, *g*rantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. We questioned these costs.

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January 13, 2006

Office of Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL

We have audited costs incurred by the Kentucky Department for Mental Health and Mental Retardation Services for the following award and have issued our report thereon dated January 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and generally accepted government auditing standards.

Program	Award No.	Award Period	Audit Period
Senior Corps Foster Grandparent	03SFSKY037	07/01/03-06/30/06	07/01/03-06/30/05

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Department's internal control over financial reporting to determine our audit procedures for the purpose of expressing our opinion on the financial schedule and not to provide an opinion on internal control over financial reporting. We noted certain matters involving the internal control over financial reporting and its operation, however, that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial schedule. Reportable conditions are described in the accompanying schedule of findings and questioned costs (Finding Numbers 1 through 8).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all

reportable conditions that are also considered to be material weaknesses. We consider all of the reportable conditions described above to be material weaknesses.

COMPLIANCE WITH LAWS AND REGULATIONS

As part of obtaining reasonable assurance about whether the financial schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. Providing an opinion on compliance with those provisions was not, however, an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under generally accepted government auditing standards and that are described in the accompanying schedule of findings and questioned costs (Finding Numbers 1 through 8).

FINDINGS

1. The Department claimed unallowable costs.

The notes in Schedule A describe questioned costs of $276,238 that are unallowable in accordance with OMB Circular A-87, 45 CFR § 2552, and 45 CFR § 2541. These consist of costs claimed by the Department for which there was documentation that claimed costs were expended in violation of laws, regulations, or specific conditions of awards, or costs that required interpretation of allowability by the Corporation. Some of these unallowable costs are discussed in Finding Number 2.

In addition, the Department claimed unallowable and unsupported costs as part of its matching requirements. We did not question these costs in the schedule because the Department exceeded its overall match requirements.

Recommendation: We recommend that the Corporation require the Department to revise its policies and procedures and provided specific training to its employees to ensure that it claims only allowable costs.

2. Some program management personnel were not Department employees.

Three site supervisors at the Hazelwood, Oakwood, and Comprehend sites were employed by organizations under contract to the Department to manage those facilities. In accordance with 45 CFR § 2552.22, a sponsor is responsible for fulfilling all project management requirements necessary to accomplish the purposes of the FGP as specified in the regulation. A sponsor may not delegate or contract these responsibilities to another entity.

In addition, the FGP Handbook, Chapter 5, Section 17, states:

> *Project staff are employees of the sponsor and are subject to its personnel policies and practices. Project staff cannot serve under contract to the sponsor.*

Department personnel stated that they were not aware of the requirement that all project personnel must be employees. We questioned labor, fringe benefit, and travel costs associated with these individuals (see Schedule A, Note 1, of the Independent Auditor's Report).

Recommendation: We recommend that the Corporation require the Department to immediately comply with the employment requirements of the award.

3. The Department did not adequately record and account for labor costs.

The Department did not maintain adequate support for salaries and wages charged to the FGP program, as follows:

- The project director's time sheets did not support her actual effort. According to the project director, she spent approximately five percent of her time supervising non-FGP staff. Her time sheets, however, indicated that she spent all of her time working on the FGP program. The project director was not aware that she had to account for all of her activities on her time sheets.

- The Hazelwood site supervisor in PY 2004-2005, a contracted employee through a non-profit corporation, completed time-and-attendance records that reflected the number of hours worked each day, but the records did not identify actual activities.

- The Oakwood site supervisor was removed from the program at the end of February 2004 but remained a Department employee until her retirement in August 2004. The Department, however, continued to allocate her labor costs to the grant as match costs, because the payroll department was not notified of her change in duties. All of her labor costs were allocated to the program as match costs.

According to OMB Circulars A-87 and A-122, the distribution of employee salaries or wages must be supported by personnel activity reports that reflect an after-the-fact distribution of the actual activity of each employee, and account for the total activity for which each employee is compensated.

Recommendation: We recommend that the Corporation require the Department to maintain personnel activity records that support labor costs in accordance with applicable OMB circulars and grant regulations.

4. The Department did not have adequate procedures to determine volunteer eligibility.

The Department had weak procedures for obtaining physical examinations and income reviews.

Physical Examinations. The Department uses a standard form on which a doctor certifies that the volunteer is capable of serving children. This form was not on file in four of eight volunteer files sampled at the Oakwood site and three of thirteen sampled files at the Hazelwood site. Some files included other documentation from doctors, but it did not state that individuals were physically capable of serving in the program. Other files had no documentation that any physical examination was performed. Department representatives informed us that some doctors refused to sign the standard form.

According to 45 CFR § 2552.41, a volunteer must be determined by a physical examination to be capable, with or without reasonable accommodation, of serving children with exceptional or special needs without detriment to either the member or the children served. Failure to obtain the required physical examination could result in volunteers who are unfit to serve in the program or are incapable of serving children.

Income Reviews. We tested a sample of 67 volunteer Income Review Forms. Social Security income for nine of the volunteers was not included on the forms. According to 45 CFR § 2552.42, volunteers must include income from all sources. Program representatives stated that some Income Review Forms were not completed because volunteers had only Social Security income, and the representatives did not think that Income Review Forms were required in such cases.

Of the nine forms lacking Social Security income information, annual income was not projected on three forms for first-time applicants who applied to become stipend volunteers. According to 45 CFR § 2552.42(b), applicants must project annual income for 12 months into the future to become eligible to be a stipend volunteer. Department personnel stated that they were unaware that applicants were required to project their income.

In addition, we tested a sample of Income Review Forms for all four sites. While occurrences were limited, some forms lacked signatures for both the volunteer and the program official, and some files contained no supporting documentation for annual income.

Recommendation: We recommend that the Corporation:

- Require the Department to ensure that all volunteers receive required annual physical examinations and report and completely document income in the volunteer's file; and

- Consider issuing guidance detailing how volunteer income should be documented.

5. The Department did not adequately document the eligibility of all children served.

The Department's Assignment and Care Form did not provide enough information to determine eligibility, and written procedures regarding child eligibility were incomplete and inaccurate.

Assignment and Care Form. The Department used an Assignment and Care Form to document the eligibility of children served by the program. The form included a section that allowed staff to indicate special or exceptional needs, such as tutoring and preschool, and included the following definitions:

> *(f) Children having exceptional needs. Children who are developmentally disabled, such as those who are autistic, have cerebral palsy or epilepsy, are visually impaired, speech impaired, hearing impaired, orthopedically impaired, are emotionally disturbed or have a language disorder, specific learning disability, have multiple disabilities, other significant health impairment or have literacy needs.*
>
> *(g) Children having special needs. Children who are abused or neglected; in need of foster care; adjudicated youth; homeless youths; teen-age parents; and children in need of protective intervention in their homes.*

According to 45 CFR § 2552.12:

> *(f) Existence of a child's exceptional need shall be verified by an appropriate professional, such as a physician, psychiatrist, psychologist, registered nurse or licensed practical nurse, speech therapist or educator before a Foster Grandparent is assigned to the child.*
>
> *(g) Existence of a child's special need shall be verified by an appropriate professional before a Foster Grandparent is assigned to the child.*

The Department's policy is to have a station representative sign the Assignment and Care Form verifying a child's eligibility. The form did not, however, provide any indication that persons signing the forms were qualified to verify the eligibility of children. The Assignment and Care Form, which the Department uses to document an assignment plan, did not identify the period of time each child should receive services. According to 45 CFR § 2552.72(4), the assignment plan must address the period each child receives service.

According to the project director, the assignment and care forms for the children being served at inpatient facilities are updated annually, thus the service periods can be inferred. Department personnel stated that Assignment and Care Forms for children in schools and daycare centers were not updated because the child turnover rate was high and volunteers were frequently changed. When Assignment and Care Forms do not specifically address the period of time each child receives services and does not identify volunteers, it is difficult to determine if volunteers were actually providing services.
In addition, some volunteer files were missing child Assignment and Care Forms. These forms are required by 45 CFR § 2552.72. Oakwood site personnel could not explain why the files did not contain the forms. Without an Assignment and Care Form in the volunteer file, we could not determine if volunteers were assigned specific children.

The project director considered the Assignment and Care Form adequate, and stated that volunteer stations would not likely complete a more complicated form. Without adequate documentation of a child's eligibility and verification of eligibility by an appropriate professional, the Department cannot prove that children are eligible for the program.

Written Procedures. The Department's written procedures for child eligibility were incomplete and inaccurate, as follows:

- Procedures did not specifically state that a child must be special and/or exceptional to be served in the program and did not define what qualifies a child as special or exceptional.

- Written instructions incorrectly stated that assignments may continue past the age of 21 if the child has special or exceptional needs. According to 45 CFR § 2552.82, assignments can only continue if:

    - The child is mentally retarded;
    - The child started receiving the services prior to the age of 21; and
    - The continuation of services is in the best interest of both the child and the volunteer.

Recommendation: We recommend that the Corporation require the Department to revise its Assignment and Care Form and written policies and procedures to comply with all program requirements.

6. The project director did not have adequate procedures to manage program sites.

The project director did not have adequate policies and procedures over site and fiscal monitoring, volunteer station eligibility, and record retention.

Site Monitoring. The project director stated that it was her policy to visit each site at least quarterly to ensure that sites obtained and maintained critical FGP documentation (i.e. application, physical exam, income review). She did not, however, have a written policy that outlined visit frequency and the documentation to be reviewed. In addition, she maintained no documentation of FGP files reviewed or exceptions noted.

Fiscal Monitoring. The project director did not have access to or review accounting reports detailing charges to the program. She stated that software problems on her computer have prevented her from accessing financial information from the Department. Without access to accounting reports, the project director is unable to review charges to the project and identify unallocable or unallowable costs charged to the grant.

Volunteer Station Eligibility. The project director relied on site supervisors to obtain and maintain documentation that verified daycare center eligibility. She did not verify that the site supervisors obtained and maintained required documentation requiring a center's non-profit status.

In addition, written procedures for verifying the eligibility of volunteer stations did not exist. A for-profit daycare center served as a volunteer station through the Oakwood site until December 2004. The site supervisor had no documentation regarding center eligibility. For-profit daycare centers are ineligible in accordance with 45 CFR § 2552.12, which states that a volunteer station can be a public agency, private non-profit organization, or proprietary health care agency or organization that accepts the responsibility for assignment and supervision of volunteers in health, education, social service, or related settings, such as hospitals, homes for dependent and neglected children, or similar establishments. We questioned the benefits (stipend, mileage) earned by the volunteer that served at the ineligible volunteer station in Schedule A of the Independent Auditor's Report.

Record Retention. The project director had not informed sites of the requirement to maintain program records for a period of three years after submission, and was unaware of record-retention requirements in accordance with 45 CFR § 2541.420. In addition, the Department was unable to provide a written policy for retaining program records.

Recommendation: We recommend that the Corporation require the Department to ensure that:

- Site visits follow specific procedures and are documented;
- The project director has access to accounting records and is required to review all charges;
- The project director establishes procedures for reviewing and approving volunteer stations that include retention of supporting documentation; and
- Sites are provided with a written policy for retaining program records.

7. The Department did not adequately document orientation and training.

The Department did not adequately document that it provided orientation and training to volunteers, as follows:

- **Oakwood Site.** No supporting documentation was available for orientation and training provided to volunteers.
- **Comprehend Site**. An orientation training schedule indicating that volunteers attended 40 hours of orientation was available. We could not, however, determine from the schedule if 20 hours of the orientation were the required pre-service training hours. In addition, the Department did not provide documentation to show that volunteers received required monthly in-service training.
- **Hazelwood and Outwood Sites.** These sites provided certifications that volunteers had completed the required 40 hours of training and orientation, but the sites did not track orientation and training separately. We could not

distinguish between orientation hours and training hours. In addition, we could not determine if 20 hours of the orientation was pre-service.

According to 45 CFR § 2552.23(f), volunteers must be provided with not less than 40 hours of orientation, of which 20 hours must be pre-service. The volunteers must receive an average of four hours of monthly in-service training.

The project director was not aware that it was necessary to have documentation in volunteer files to support their orientation and training. She considered a certificate of completion to be adequate support. Without adequate documentation, we are unable to determine if volunteers actually received the required orientation and training.

Recommendation: We recommend that the Corporation require that the Department adequately document orientation and training provided to volunteers as required by the regulation.

8. The Department did not comply with the grant's volunteer recruiting requirements.

The Department did not use the Corporation's web-based recruitment system, Join Senior Service Now (JASON). The project director did not consider the use of JASON to be a program priority. Accordingly, she did not access JASON to determine if potential volunteers generated messages, and she did not encourage site supervisors to check JASON.

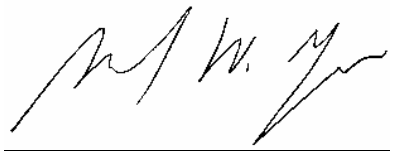
Grant Terms and Conditions state that grantees must use JASON to post opportunities for volunteers. The grantee must also respond to JASON-generated messages of volunteer interest and placement using the JASON response system.

Not using JASON could result in the loss of potential program volunteers.

Recommendation: We recommend that the Corporation instruct the Department to use JASON as required by grant terms and conditions.

This report is intended for the information and use of the Corporation, OIG, the Kentucky Department for Mental Health and Mental Retardation Services, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP



Michael W. Gillespie, CPA, CFE
Partner

APPENDIX A

THE DEPARTMENT'S RESPONSE TO DRAFT AUDIT REPORT

ERNIE FLETCHER
GOVERNOR

CABINET FOR HEALTH AND FAMILY SERVICES
DEPARTMENT FOR MENTAL HEALTH
AND MENTAL RETARDATION SERVICES
100 FAIR OAKS LANE 4E-B
FRANKFORT, KENTUCKY 40621-0001
(502) 564-4527
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MARK D. BIRDWHISTELL
SECRETARY

RECEIVED
OFFICE OF THE
INSPECTOR GENERAL

June 7, 2006

Carol Bates
Acting Inspector General
Corporation for National and Community Services
1201 New York Avenue NW
Suite 830
Washington, D.C. 20525

Dear Ms. Bates:

Thank you for the opportunity to review the draft audit. We are very proud of our Foster Grandparent program (FGP) and its positive impact on the lives of our most vulnerable children. The dedicated volunteers who work in the program are invaluable. We want to ensure you we will work with the Corporation to address all findings and continue to operate a high quality program.

The primary issue identified in the audit relates to the interpretation of the Corporation's regulations related to project management which state "a sponsor is responsible for fulfilling all project management requirements necessary to accomplish FGP purposes and *may not delegate or contract these* <u>*responsibilities*</u> to another entity." The Department has not delegated responsibility or project management for the program to the contract supervisors. While they are supervisory in their regions, the contracted individuals carry out the directives of the Department rather than setting policy of their own. The state has followed this practice for many years and has been very open with the Corporation about the arrangement. It is a practice far different than contracting with an entity to provide a program. That stated, the Department fully intends to implement all policies and procedures required by the Corporation.

Also, we need to stress that while these supervisors' payroll and fringe benefits are paid through contract agencies, travel reimbursement is not. Reimbursement of supervisors travel is paid by state check directly to the supervisors upon receipt of travel vouchers approved by the project director.

The auditors questioned $15,506 for volunteer benefits claimed under Grant # 03SFSKY037, but incurred under its previous FGP Grant #02SFSKY027, which ended on June 30, 2003. These were for volunteer benefits (stipends and transportation) for the June 15 to June 30, 2003, pay period. Kentucky uses a cash basis of accounting. With this basis of accounting, when the June 15 to June 30 payroll runs it is posted in July to the next state fiscal year. As such it has been a long standing practice, accepted by the federal government, to charge to each grant 24 equal payrolls based on when the expenditure is paid (cash basis) not when the expenditure is incurred (accrual basis). This is applied consistently from year to year and for all grants in which the state participates.

The auditors also identified a duplicate payment to Comprehend, Inc that we agree results from an accounting error. We are eliminating these expenses from the Foster Grandparent charges within Kentucky's accounting system which will be reflected on revised Financial Status Reports.

The auditors also identified $5,657 claimed for benefits paid to a volunteer who served at a for-profit daycare center. For-profit daycare centers are ineligible in accordance with 45 CFR § 2552.12. The Department discovered this incident and brought it to the attention of the auditors. While state funds were used for stipend money during 03-04 and for payment of transportation, the costs remained charged to the program. We do not dispute this finding and are eliminating these expenses from the Foster Grandparent charges within Kentucky's accounting system which will be reflected on revised Financial Status Reports.

The auditors also noted the Department claimed $4,771 for benefits paid to a volunteer whose income exceeded amounts specified in income-eligibility guidelines contained in 45 CFR § 2552.42. We do not dispute this finding. The individual was terminated and any state and federal costs recognized have been eliminated from the Foster Grandparent charges within Kentucky's accounting system which will be reflected on revised Financial Status Reports.

The report contained a few other findings that we will resolve with the Corporation when the audit is final. If you have any questioned regarding this response, please feel free to contact me at 502-564-4527.

Sincerely,

John M. Burt, Ed.D.
Commissioner

JMB:lgr

APPENDIX B

CORPORATION'S RESPONSE TO DRAFT AUDIT REPORT

Corporation for
NATIONAL & COMMUNITY SERVICE

To: Carol Bates, Acting Inspector General

From: Veda Williams, Service Center Director, Southern Cluster

Cc: Margaret Rosenberry, Director of Grants Management
Tess Scannell, Direcot, Senior Corps programs
Tory Willson, Audit Resolution Coordinator, Office of the CFO

Date: June 1, 2006

Subject: Response to OIG Draft Audit Report: Audit of Corporation for National and Community Service Grants Awarded to the Kentucky Department for Mental Health and Mental Retardation Services

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Thank you for the opportunity to review the draft audit report of the Corporation's grants awarded to the Kentucky Department for Mental Health and Mental Retardation Services (Department). We are addressing only one finding at this time. We will respond to all findings and recommendations in our management decision when the final audit is issued, we have reviewed the findings in detail and worked with the Department to resolve the audit.

As noted in the draft summary, the auditors questioned $236,906 in claimed grant expenses associated with the contracting of supervisors at three project sites. The Corporation will look more closely at these costs once the final audit report has been issued. Our Kentucky State Office is working to gather additional information as we continue to review this issue. The additional review may result in the Corporation allowing these costs.

The Corporation will address the remaining questioned costs and other findings during audit resolution after the audit is issued as final.