ATTACHMENT A

ABRAHAM LINCOLN CENTRE
RESPONSE TO DRAFT REPORT

Abraham Lincoln Centre
3858 S. Cottage Grove Ave.
Chicago, IL 60653
TEL 773.373.6600
FAX 773.373.6612
TDDY 773.373.6168
www.abrahamlincolncentre.org

November 27, 2002

Mr. Anthony Johnson
U. S. Department of Labor
Office of Inspector General
230 South Dearborn Street
Suite 744
Chicago, IL 60604

Dear Mr. Johnson:

Please find enclosed our response to the DOL Audit dated October 28, 2002. Should you have any questions, please feel free to contact me or Ms. Valerie Wright, CFO, at your earliest convenience.

Sincerely,

Carl A. Murrain

Carl A. Murrain
President and CEO

EXECUTIVE SUMMARY

In 1998, the Abraham Lincoln Centre (ALC) established the Bridge-to-Work Program to provide comprehensive employment assistance to low-income families throughout Chicago's South side and South Suburban communities. ALC's 97-year track record makes it one of the oldest community-based organizations in Chicago. Our mission of helping people to help themselves has made the Bridge to Work employment model one of the most successful in the area as it relates to job preparation, training and placement of the hard-to-employ TANF recipient.

Through a U.S. Department of Labor Welfare to Work grant, ALC received a $5,000,000 WtW Competitive Grant in 1999. The service strategy utilized by ALC to meet the objectives of the WtW Competitive Grant focused on non-custodial parents and hard-to-employ TANF recipients residing on the south side of Chicago and southern suburbs of Cook County. ALC agreed to provide a minimum of 650 participants with job readiness and job placement activities, post-employment training, job retention services, and case management/support services. The WtW Competitive Grant called for the unsubsidized placement of 450 participants, at a rate of $11,976 per placement, into employment by September 2004. To date ALC has placed 275 of the 450 WtW Competitive Grant participants into employment.

ALC focused its service strategy on building bridges to employment for non-custodial parents by encouraging lifelong learning, providing job readiness, job placement, job retention, post-employment case management and support services. In addition, ALC placed a strong emphasis on providing support services to the family unit as the participant engaged in job employment activities. This, we felt distinguished the ALC concept of an employment and training model from others.

Since the grant was awarded in 1999, the Bridge to Work program has undergone three Executive Director leadership changes. Under the new leadership that began in July of 2001, the entire Bridge to Work program has undergone a restructuring of staff that is performance driven and results oriented. The new leadership has improved retention strategies and post employment support for each participant entering our program. Two key strategies implemented under the leadership of this directorship involved 1) the addition of a recruitment team to partner with organizations in providing on-site services for participants who have difficulty in accessing our service sites. And 2) increased job-training strategies to include the concept of "transferable skills" for participants who have one or more severe barriers to employment. The ability of participants to have a certifiable skill prior to placement increases their chances for employment and retention. ALC has dedicated a significant amount of additional job training costs to ensure that these training activities are available for the participant until some level of certification occurs.

The successes of this new leadership team can be measured in its results, As of September 30, 2002, ALC has enrolled 609 participants. Of these 609 participants, ALC has placed 276 participants into a job. This equates to a 45% placement rate.

In March of 2002, the U.S. Department of Labors' Office of Inspector General (OIG) concluded an audit of the ALC's WtW Competitive Grant. The objective of this performance audit was to determine the validity of allegations made against ALC's WtW Competitive Grant Program of falsifying or altering time records, and whether the ALC was in compliance with the WtW grant agreement and applicable laws and regulations. OIG found no instances of noncompliance or material weaknesses in this audit as it related to the falsification or altering of time records. However, the auditors had findings and recommendations as a result of their audit. A summary to each finding is listed below.

DOL Recommendation 1A.

Implement a time distribution system in accordance with OMB Circular 122

- ***<u>ALC Response to Finding 1A</u>***

We disagree that staff costs were shifted from other ALC funding sources to the WtW Competitive Grant. Abraham Lincoln Centre incurred costs to operate the DOL WtW Competitive grants which were fairly presented in accordance with Generally Accepted Accounting Principles (GAAP) and audited in accordance with Generally Accepted Auditing Standards (GAAS) and Governmental Auditing Standards (GAS).

ALC recognizes that we can continue to improve our systems. However, ALC has never had a finding from either our external auditors or governmental auditors stating that shortcomings in administrative controls rose to the level of a material weakness or a reportable condition. In all cases, these audits were conducted in accordance with generally accepted auditing standards and/or governmental auditing standards. Further, at no time during the four month audit period, or in subsequent reports, were unallowable costs specifically identified. ALC believes that all costs charged to DOL are allowable under the terms of the grant and were expended to support the goals and objectives of the program.

ALC will design and implement a time distribution system in accordance with OMB Circular A-122 and 29 CFR 95. The implementation date is January 2003.

DOL Recommendation 1B

Provide a full accounting of all payroll charged to major ALC funding including other DOL funding sources, and complete appropriate adjustments.

- **<u>ALC Response to Finding 1B</u>**

ALC will provide a full accounting of all payroll charged to major funding sources and complete appropriate adjustment. Additional cost to the Department of Labor may occur as a result of this process.

DOL Recommendation 2A

Recover $1,187,372 of questioned costs resulting from:

1) an over reporting of expenditures on the QFSR of $315,677
2) inadequately supported and unallowable costs found in the audit sample of ALC financial transactions charged to the grant ($817,677) and
3) transportation cost in support of eight (8) ineligible participants ($428) as presented

- **<u>ALC Response to Recommendation 2A</u>**

1. **ALC did not over report expenditures of $315,677 on the QFSR. Documentation is included in the body of this report as the response to Finding 2A that demonstrates that total expenditures of $2,741,253 reported in the QFSR are in agreement with expenditures per the general ledger.**
2. **We strongly disagree with DOL's recommendation to recover costs of $871,677 related to personnel and other expenditures. All costs were incurred to support the operation of the program. Costs incurred were valid and properly charged to the grant. We are dismayed that DOL contemplates the disallowance of these costs. Prior audits by, City, State, and other independent auditors validate our costs.**
3. **Transportation costs of $428 were incurred for clients who were later deemed to in-eligible.**

DOL Recommendation 2B

Review the remaining $1,544,982 (costs not tested) to ensure these costs have been incurred in accordance with the terms of the grant agreement.

DOL Recommendation 3A

Restrict further cash drawdowns until ALC properly accounts for the WtW grant expenditures.

- **ALC Response to Recommendation 3A**

DOL's audit of the programmatic component, at no time questioned the effectiveness of the program service delivery system; furthermore the achievements of service objectives were obtained at a cost consistent with the average placement cost of $11,976. DOL has recognized the program's accomplishment by extending the grant through September 30, 2004.

Further restrictions of cash draw downs would severely hamper the delivery of services. ALC fully plans to continue to properly account for WtW grant expenditures and we do not believe that cash draw downs should be suspended. This program cannot continue without reimbursement for expenses.

DOL Recommendation 3B

Direct ALC to maintain and report accurate participant and financial data on the QFSR, and correct MIS inaccuracies.

- **ALC Response to Recommendation 3B**

ALC conducted an internal audit review of 50 client files in response to the OIG's audit. To ensure that participant financial data is correct ALC will document and implement procedures for QFSR reporting.

DOL Recommendation 4A

Develop a CAP and obtain the approval of DOL's OASAM-OCD to ensure that ALC can properly report expenditures in accordance with the QFSR line item requirements

- **<u>ALC Response to Recommendation 4A</u>**

  ALC contacted and met with the Department's Regional Cost Negotiator, on November 22 to review its Cost Allocation Plan. ALC will incorporate all recommendations and submit the Cost Allocation Plan to the Department of Labor's Office of Cost Determination for approval.

DOL Recommendation 4B

Adjust previously applied shared costs charged to the WtW program code to all funding sources which also benefited from the expenditure

- **<u>ALC Response to Recommendation 4B</u>**

  ALC's CAP defines the allocation methodology for shared costs. ALC will review all previously applied shared costs charged to the WtW program and reallocate costs to all funding sources. Adjustments identified in this reallocation process may result in additional costs to the WtW Competitive grant.

DOL Recommendation 5A

Maintain source documentation for all accounting transactions

- **<u>ALC Response to Recommendation 5A</u>**

  ALC's Accounting Policies and Procedures manual requires that source documentation shall be maintained for all transactions. It is our policy to maintain source documentation for all transactions. ALC shall ensure compliance with its own procedure manual.

DOL Recommendation 5B

Obtain appropriate programmatic and financial approval prior to processing check requests.

- **<u>ALC Response to Recommendation 5B</u>**

  ALC has an effective system of internal controls in place. It is our policy to have appropriate programmatic and financial approval prior to the processing of checks

and the organizational hierarchy has built in system checks. We will continue to monitor implementation of our internal controls.

DOL Recommendation 5C

Formalize QFSR reporting policies to ensure that adequate financial and programmatic information is maintained and QFSRs are reviewed prior to submission to ETA.

- **ALC Response to Recommendation 5C**

ALC will develop a formal policy for QSFR reporting by January 30, 2003. Time sheets will be utilized to track staff hours worked in support of the QFSR line item categories.

DOL Recommendation 5D

Ensure salaries charged to the grant are supported by employees time worked.

- **ALC Response to Recommendation 5D**

ALC will implement a revised time distribution system for staff time by the end of January 2003. Direct labor personnel will be required to complete time sheets by activity, and ALC will seek consultation on the development of an indirect costs rate. The indirect cost rate will be utilized to allocate salaries for administrative staff.

DOL Recommendation 5E

Post grant drawdowns in the appropriate accounting system program accounts to promptly and accurately maintain an audit trail of grant assets.

- **ALC Response to Recommendation 5E**

Our accounting system allows us to maintain an audit trail of grant funds and related expenses to the appropriate program code. The general ledger is used as a mechanism to track all grant drawdowns. Program codes are established for all funding sources which are used to record all funds and disbursements.

DOL Recommendation 6A

Transfer $437 from the 70 percent to the 30 percent category expenditure accounts for the six misclassified participants

- **ALC Response to Recommendation 6A**

A total of 6 participants (12%) were fully eligible however, were misclassified. All participants have been reclassified appropriately from 70% eligibility to 30% and support dollars of $437.00 will be moved in the expense reporting.

DOL Recommendation 6B

Correct their MIS and QFSR to reflect the eight ineligible participants and the six misclassified participants

- **ALC Response to Recommendation 6B**

An audit was conducted on 50 files from the adjusted universe of 589 program participants. Eligibility testing revealed eight (8) ineligible and six (6) misclassified clients. Of the eight (8) ineligible files, direct transportation support totaling $428 was distributed. ALC was able to obtain documentation from the Non-Custodial parent unit and IDHS system to render one (1) client fully eligible at time of enrollment. Transportation for one day given to this client totaled $5 This reduces total questioned cost to $423

DOL Recommendation 6C

Implement procedures to ensure evidence of public assistance and/or insufficient income prior to servicing clients

- **ALC Response to Recommendation 6C**

Prior to delivery of the DOL audit report, ALC implemented recommendations of several program enhancements to ensure all clients are eligible and appropriately classified before they are serviced: ALC ensures that eligibility screening and review of all intake documents is conducted during the initial client in-take sessions. Clients without necessary documentation are asked to return the following day with requested documents. ALC also requests a completed 2151 form from IDHS verifying length of time on TANF prior to enrollment. Non-Custodial parent

applicants are sent to the NCP unit for verification of responsible relative (RR) or alleged father (AF) status prior to enrollment. Simultaneously, ALC staff verifies evidence of public assistance for the dependent child through the IDHS system and the report is kept in the client's folder.

Conclusion

After reviewing our response taken as a whole, we believe that DOL will conclude that no material internal accounting control weaknesses exist, which would cause a high level of risk of material misstatement to the financial statements. We acknowledge that continuous improvements in administrative controls and in the application of OMB A-122 and 29 CFR 95 is necessary. However, any findings detected by the DOL auditors do not rise to the level of material weaknesses in internal accounting controls. Our accounting system allows us to account for the source and use of DOL funding. The Centre has never had a finding from either our external auditors or governmental auditors stating that our shortcomings in administrative controls rose to the level of a material weakness or a reportable condition. In all cases, these audits were conducted in accordance with generally accepted auditing standards and/or governmental auditing standards.

DOL's audit of the programmatic component did not question the effectiveness of service delivery. Furthermore, the achievement of service objectives is validated at a cost consistent with the average cost per placement of $11,976 as found on the grant program Synopsis Form of our approved grant. As of November 27, 2002, we are on schedule to fulfill the requisite number of placements and meet the goals and objectives of the grant.

Furthermore, expenses incurred on behalf of the BTW program exceeded reimbursements from DOL and other sources for fiscal years 2000, 2001 and 2002. We believe that review of these costs could result in additional expenditures being charged to DOL.

Our complete detailed responses to DOL's recommendations are incorporated in the remainder of this report.

1. Staff Costs Were Shifted From Other ALC Funding Sources to the WtW Competitive Grant

In July 2001, ETA formally notified the OIG of an allegation from an anonymous source that ALC staff time was being incorrectly reported, recorded, allocated, and shifted to the WtW Competitive Grant through falsification or alteration of time records. We performed fieldwork to determine the merits of the allegation. We were unable to conclude that the time records were falsified or altered as alleged. However, we found grant payroll costs included more employees than authorized, were not properly supported by source documentation in accordance with OMB Circular A-I22, and, in some cases, were initially accumulated in other programs and then reallocated to the grant.

OMB Circular A-I22, Attachment A requires allowable costs to be reasonable for the performance of the award, be allocable in accordance with the relative benefits received, and be adequately documented. Any cost allocable to a particular award may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or terms of the award. Attachment B. 7.m (1) and (2) further defines adequate support of salaries and wages:

... The distribution of salaries and wages to awards must be supported be personnel activity reports ...Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards... The reports must reflect an after-the-fact determination of the actual activity of each employee.

Budget estimates (i.e. estimates determined before the services are performed) do not qualify as support for charges to awards. Each report must account for the total activity for which employees are compensated... The reports must be prepared at least monthly and must coincide with one or more pay periods….

Recommendation

We recommend that the Assistant Secretary for Employment and Training instruct the ALC to:

a. Implement a time distribution system in accordance with OMB Circular A-122
b. Provide a full accounting of all payroll charged to major ALC funding sources (including two other DOL funding sources) and complete appropriate adjustments

ALC Response to DOL Finding 1

Payroll

The OIG selected seven payrolls for pay periods which spanned two fiscal years. Audit results indicated that 92% of payroll costs were charged to the WtW grant. However, the audit findings were extracted prior to our final adjustments at the end of the fiscal year. At the end of the fiscal years ending June 30, 2001and 2002, corrective journal entries were made to re-allocate personnel costs to accurately report total costs for all grants. Therefore the sample results reported by the OIG are not reflective of the actual percentage of program costs charged to the WtW grant on an annual basis. See Exhibit 1. for salaries analysis for all fiscal years.

Payroll costs were questioned because we did not provide detailed time sheets for employees working on the WtW Competitive Grant as required by an approved DOL CAP. In order to reallocate staff cost, ALC will utilize payroll registers, organization charts and participant data to reconstruct staff time spent in accordance with our new time distribution system. The appropriate time distribution system was established January 2002. Given the programmatic performance of the grant, it is not practical to assume that all payroll costs should be recovered as suggested by the audit.

ALC deployed additional personnel resources to fully service clients enrolled in this program and we are able to document and fully support staffing levels based on services delivered.

Even though there were questioned costs, ALC incurred costs which were fairly presented in accordance with Generally Accepted Accounting Principles and audited in accordance with Government Auditing Standards. Audit results from external audits performed by other funding sources and the organization's independent auditors substantiated this fact.

Reallocation of Expenditures

The OIG indicated that for five reallocations of expenditures there was no supporting documentation. ALC fully understands that an effective system of internal controls provides the mechanism to validate the accuracy of transactions, which includes maintaining adequate supporting documentation. Proper supporting documentation was not maintained. Under new leadership as of March 2002, several changes have been made to improve and strengthen internal controls. A myriad of controls have been put in place. One significant change is the stratification of approval levels before journal entries can be recorded. Additional improvements in controls are: first, all journal entries below $10,000 must be supported by documentation and approved by the Director of Finance before posting. Second, the accounting staff is required to provide support documentation at the time the journal entry is presented to the Director of Finance for approval. Finally, the

Chief Financial Officer reviews the general journal on monthly journal entries with the Director of Finance. If there is a disagreement with a record entry, that entry is reversed and the correct entry added before monthly financial statements are issued.

The OIG questioned the reallocation of a legal settlement. The legal settlement expense in question resulted from a wrongful discharge claim filed by two former employees of the Employment, Training and Education Department (Bridge to Work). The settlement was paid by Abraham Lincoln Centre's liability insurance; however, the insurance retention fee of $7,500 was a cost the Centre had to absorb. The cost of this retention fee was divided between programs to cover both employees involved in this legal settlement.

Originally, the fee was charged to the WtW Competitive Grant (50%) and both IDHS program codes (25% each) because one employee's salary was allocated to these programs at said percentage rate. Subsequently, a review of our records determined that the other employee's salary involved in this legal settlement was charged to the Illinois Department of Human Services TANF program, and at which time one half of the retention fee was reallocated to this program.

<u>Expenditure Reduction Credits</u>

The credit transactions selected for audit are examples of reclassifying journal entries which were made as a part of the reconciliation process to fairly state costs for the organization's awards.

DOL RECOMMENDATIONS add

<u>ALC Response to Recommendation</u>

> **a. ALC will design and implement a time distribution system in accordance with OMB Circular A-122 and 29CFR 95. The projected implementation date is January 2003.**
>
> **b. ALC will provide a full accounting of all payroll charged to major funding sources and complete appropriate adjustments. Additional costs to other Department of Labor as a result of this process will be reflected.**

2. Questioned Costs

We question $1,187,372, or 43 percent of the $2,741,253 claimed by ALC. The questioned costs include an over-reporting of expenditures on the QFSR ($315,267); unsupported, inadequately supported, and unallowable costs ($871,677); and costs associated with ineligible participants ($428) as documented in Finding No.6.

A. QFSR Expenditures Overstated

The ALC submitted a QFSR, dated February 25,2002, claiming $2,741,253 of grant expenditures through December 31,2001. For the same period, ALC's general ledger documented cumulative grant expenditures of $2,425,986. Consequently, the QFSR expenditures were overstated by $315,267 ($2,741,253 less $2,425,986).

29 CFR Part 95.21(b)(1) states:

Recipients' financial management systems shall provide... Accurate, current and complete disclosure of financial results of each federally-sponsored project or program in accordance with the reporting requirements ...; and (7) adds: *Accounting records including cost accounting records that are supported by source documentation.*

ALC officials were unable to provide the cause of this excessive claim, but did indicate that they do not have a complete understanding of ALC's automated accounting system due to recent staff turnover. The over-reporting of expenditures circumvents ETA's ability to prevent excessive cash drawdowns.

B. Audit Results of Financial Sample

We selected 120 transactions for audit totaling $879,142, or 36 percent of cumulative grant expenditures ($2,425,986) as documented in the ALC general ledger. Our audit disclosed that 95 percent of the sampled transactions (114 of 120) resulted in inadequately supported and/or unallowable costs totaling $869,815, or 99 percent of sampled costs. We also question an additional $1,862 related to a personnel transaction in our sample for total questioned costs of $871,677. Based upon this high percentage of questioned costs, we believe that ETA should review the remaining costs not tested to ensure these costs have been incurred in accordance with the terms of the grant agreement.

The results of our audit are presented in the Table 2a on the next page:

We determined that 114 transactions were not in compliance with 29 CFR Part 95, OMB Circular A-122, or ALC's accounting policies and procedures (see Exhibit A for details). Therefore, we question $871,677.

C. Ineligible Participants

We question $428 of direct transportation costs associated with servicing eight participants considered ineligible in Finding No; 6. ALC's participant MIS indicated that $428 of transportation costs were provided on behalf of the eight participants. However, it was not possible to trace the transportation costs by participant through the ALC accounting system.

<u>Recommendation</u>

We recommend that the Assistant Secretary for Employment and Training:

a. recover $1,187,372 of questioned costs resulting from:

    - an over-reporting of expenditures on the QFSR ($315,267),
    - inadequately supported and unallowable costs found in the audit sample of the ALC financial transactions charged to the grant ($871,677), and
    - transportation costs in support of 8 ineligible participants ($428) as presented in Finding No. 6, and

b. review the remaining $1,544,982 (costs not tested) to ensure these costs have been incurred in accordance with the terms of the grant agreement.

ALC Response to DOL Finding 2A

1) ALC did not over-report expenditures of $315,267 on the QFSR. Expenditures reported on the QFSR are based on a summary of the following:

Expenditure Item	Time Period	Costs
General Ledger	**Three months ending 12/31/01**	**$698,533**
General Ledger	**Three months ending 9/30/01**	**$315,957**
Independent Financial Audit	**Year ending 6/30/01**	**$910,685**
Independent Financial Audit	**Year ending 6/30/00**	**$816,207**
Total		***$2,741,253***

The QFSR information listed on the table above was based on interim quarterly financial statements for the period ending December 31, 2001 and September 30, 2001, as well as audited financial statements for fiscal years 2000 and 2001. Included in the exhibits is the source documentation which was used to complete the QFSR report. It appears that the DOL's auditors may have excluded the quarterly interim statement as of September 30, 2001 in their computation.

Based on this information, the general ledger and the QFSR are in agreement and ALC did not over report expenditures. Documentation to support this illustration can be found in Exhibit 2.1 through Exhibit 2.5.

2) **We strongly disagree with DOL's recommendation to recover $871,677 in costs related to personnel and other expenditures. All costs were incurred to support the operations of the program. While a DOL approved CAP was not in place, costs incurred were valid and applied according to our existing cost allocation plan. We are dismayed that DOL contemplates the disallowance of these costs. Prior audits by City, State, and independent auditors validate our costs. In our research, we found no unallowable costs.**

Approximately, 41% ($361,086) of the questioned costs were related to personnel and were questioned because of improper preparation of time sheets. These costs were incurred for valid employees who worked on the WtW grant. The remaining questioned costs of $510,591 related to inadequate documentation for non-personnel expenditures incurred for the program over a three year period. It appears that DOL's

position is that it will not pay for any costs. We are dismayed that DOL questions 99% of all costs audited three years after the award of the grant. According to this recommendation DOL is suggesting that they do not want to reimburse us for any of the staff costs related to this grant over the last three years. Nor do they want pay for occupancy, utilities and supplies incurred to recruit, place and employ over 500 participants. We strongly disagree with DOL's recommendations.

3) Transportation costs of $428 are costs incurred for participants who were later deemed in-eligible. Therefore, we agree these costs should not be charged to DOL.

ALC Response to Findings and Recommendation 2B

The remaining $1,154,982 costs should not be tested. ALC has been audited by its external auditors as well as auditors from various City and State funding sources. In all cases, expenditures were recorded in accordance with GAAP and audited in accordance with GAAS and GAS. There were no questioned costs, there were no compliance issues and there were no audit reports that cited material internal control weaknesses that present a high level of risk of misstatements in amounts that would be material in relation to the financial statements. It is ALC's position that the conclusions reached by DOL's audit are unwarranted and excessive in their application to the entire grant. It is also ALC's position that all costs incurred were fairly presented and properly charged to the WtW grant.

By recommending that DOL recover every dollar spent on this program including all personnel, all occupancy, all training costs and all supply costs does not acknowledge the 589 individuals who came to our program and received services over a three year period of the WtW Competitive grant. So, we therefore strongly disagree with the recommendation of the auditors.

DOL's audit of the programmatic component did not question the effectiveness of service delivery. Furthermore, the achievement of service objectives was obtained at a cost consistent with the average cost per placement of $11,976 as found on the Program Synopsis Form of our approved grant. As of November 27, 2002, we are on schedule to fulfill the requisite number of placements and meet the goals and objectives of the grant.

3. Non-compliance with Grant Requirements

ALC did not always comply with grant requirements regarding cash management and QFSR reporting.

A. Cash Management Procedures Are Not Adequate

ALC obtained $237,902 of excess cash from the grant

ALC obtained excessive cash from the grant as compared to booked expenditures. As of December 31, 2001, ALC's QFSR reported expenditures were $2,741,253 while ALC's general ledger documented cumulative grant expenditures of $2,425,986. ALC had accumulated cash draw downs of $2,663,888 from the grant through December 31, 2001. We concluded that ALC had obtained at least $237,902 ($2,663,888 less $2,425,986) of excess cash as of December 31,2001.

29 CFR 95.22 (a) states:

> *Payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks... by the recipients* (b)(2) states ... *Cash advances to the recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.*

ALC obtained the excess cash prior to an existing bona fide need to meet grant related disbursements. We found a general pattern that ALC would transfer cash from the bank account established for BTW to the ALC operating and payroll accounts of another bank. We also determined that all BTW revenues, in addition to the WtW Competitive Grant, were processed through the bank account established for WtW. Therefore, the individual cash balances of each BTW funding source lose their identity through the process of transferring funds to ALC's operations and payroll accounts of the other ALC bank.

B. <u>QFSR Detail Line Items Are Not Supported</u>

QFSR detail line items do not reconcile to general ledger or MIS

We were unable to reconcile WtW expenditure line item categories as reported on the December 31,2001 QFSR to ALC's financial records. These line items included 70 percent and 30 percent expenditures, and administrative versus program expenditures.

20 CFR 645.211 states:

. . . may spend not more than 30 percent of the Wt W funds allotted to or awarded to the operating entity to assist individuals who meet the "other eligibles" eligibility requirements. . . The remaining funds allotted to or awarded to the operating entity are to be spent to benefit individuals who meet the "general eligibility" and/or "noncustodial parents" eligibility requirements. . .

20 CFR 645.235(a)(2) states:

> *. . . The limitation on expenditures for administrative purposes under WtW competitive grants will be specified in the grant agreement but in no case shall the limitation be more than fifteen percent* (15%) *of the grant award.*

The ALC accounting system never incorporated the QFSR expenditure reporting requirements and ALC staff did not maintain an audit trail from reported line items to source documentation. The ALC staff could not document which expenditures in the general ledger were associated with 70 percent and 30 percent expenditures, or with administrative versus program expenditures. As a result, it was not possible to reconcile any QFSR detail line item expenditures to the financial records. The breakdown of expenditures is important because of regulatory limitations on costs.

It should be disclosed that the ALC staff began utilizing a time sheet to track hours worked in support of the QFSR line item categories immediately after our audit period.

The reporting of participants served on the QFSR was also incorrect.

20 CFR 645.240(d) *Participant reports*, states:

> *Each grant recipient must submit participant reports to the Department. Participant data must be aggregate data, and, for most data elements, must be cumulative. . . .*

The ALC reported 800 participants served on the December 31, 2001 QFSR (567 as 70 percent and 233 as 30 percent). The ALC's MIS included 800 participants that applied for the WtW program through December 31,2001. Initial testing revealed that some of these did not meet the ETA definition of "participant served." The ALC officials subsequently confirmed that 211 of the reported 800 did not meet ETA's definition. Of the remaining 589 (800 less 211) "participants served," 397 were designated as 70 percent, and 192 were designated as 30 percent.

Inaccurate programmatic reporting affects ALC's ability to accurately track QFSR line item category costs in accordance with a CAP and affects ETA's ability to properly exercise its stewardship responsibility over the WtW program.

Recommendation

We recommend that the Assistant Secretary for Employment and Training:

a. restrict further cash drawdowns until ALC properly accounts for the WtW grant expenditures, and

b. direct ALC to maintain and report accurate participant and financial data on the QFSR, and correct MIS inaccuracies.

ALC Response to DOL Finding 3A – Restriction of Further Cash Drawdowns

We disagree with DOL's recommendation to restrict further cash drawdowns. The program is meeting our job placement benchmarks in accordance the competitive grant, and WtW grant expenditures are identifiable in our accounting records.

ALC had no excess cash compared to booked expenditures (*Exhibit 3.1*). As of December 31, 2001, ALC's general ledger documented cumulative grant expenditures of $2,741,253. ALC accumulated cash drawdowns of $2,663,888 through December 31, 2001. ALC's program support outlay's exceeded cash draw downs by $77,365 ($2,741,253 less $2,663,888).

ALC obtained cash as needed to meet grant related disbursements. ALC utilizes two main bank accounts; one is used for operating expenses and the other for payroll expenses. Because ALC receives several grants from various funding sources it is not practical to establish a bank account for each grant. Instead, the agency utilizes these two bank accounts for all organization expenditures.

ALC's general ledger is used as a control mechanism to account for each grant, all revenue and expenditures are tracked through the use of program and account codes. Therefore the balance of an individual program or funding source does not lose its identity in the accounting process.

ALC Response to DOL Finding 3B – Maintenance of Participant and Financial Data on the QFSR and MIS Inaccuracies

The audit trail for ALC's QSFR submitted on February 25, 2002, can be traced back to ALC's audited financial statements for FY 2000 ($816,207) and FY 2001 ($910,556), the remaining period for the QSFR report July 2001 thru December 2001 ($1,014,490) equals a combined total ($2,741,253) which corresponds to ALC's general ledger for that period. (See *Exhibit 3.2*).

ALC began utilizing time sheets to track billable staff hours in support of the QSFR line item categories in January 2002. This allows ALC to charge the actual hours staff accumulated servicing DOL/WtW clients. Furthermore, ALC maintains monthly statistics on its clients by program and category (70%/30%).

ALC's grant program synopsis form indicates an average service cost of $11,976 per client. ALC's finance department will utilize individual client data to calculate overhead cost allocations consistent with its cost allocation plan.

4. Incomplete Cost Allocation Plan

The ALC is composed of several operating components including Administration, Child Development Services, Special Education and Mental Health, Residential Services, Social Work, Economic Development, and Employment and Training. The ALC Employment and Training component is commonly known as BTW. During our audit period, BTW was funded by several agencies in addition to the WtW Competitive Grant.

The Grant Agreement, Part IV, Special Clause No. 2 requires all awardees receiving funds from multiple funding sources to complete this section requiring the inclusion of an approved CAP and/or an Indirect Cost Rate. ALC did not maintain an approved CAP or obtain an indirect cost rate.

29 CFR 95.21(b)(6) states:

> Recipients' financial management systems stall provide... written procedures for determining the reasonableness, allocability and allowability of costs in accordance with...Federal cost principles and the terms and conditions of the award.

Because ALC did not maintain an approved CAP, we identified 21 transactions in our sample that were unallowable as a result of ALC:

- direct charging the WtW program code for shared ALC agency costs,
- direct charging the WtW program code for costs benefiting all BTW programs, or
- allocating costs to multiple ALC funding sources but only to the WtW program code within BTW.

As of March 28, 2002, ALC officials provided the OIG with a "draft" CAP. However, the CAP had not been submitted to or approved by DOL's OCD.

<u>Recommendation</u>

We recommend that the Assistant Secretary for Employment and Training ensures that ALC:

a. develops a CAP and obtains the approval of DOL's OASAM-OCD to ensure that ALC can properly report expenditures in accordance with the QFSR line item requirements, and

b. adjusts previously applied shared costs charged to the WtW funding sources which also benefited from the expenditure.

ALC Response to DOL Finding 4 - Incomplete Cost Allocation Plan

ALC operates multiple programs at various locations. The organization provides child development and welfare, employment training, economic development, social work, special education, mental health, developmental training and residential services. These services are offered through programs at five divisions – Residential Services, Social Work Services, Special Education, Child Welfare, and Employment and Training. The organization accumulates management and general expenses in the Administration cost center. A CAP policy statement was issued on June 14, 2000 by the former President and CEO (See Exhibit 4.1).

We developed a detailed Cost Allocation Plan which was reviewed and accepted by other funding sources. The present administration could not locate documents indicating that ALC was not in compliance in receiving approval for its CAP from the Department of Labor's Office of Cost Determination. Since DOL fieldwork, ALC has:

a. **ALC contacted and met with a DOL Regional Cost Negotiator to review our current Cost Allocation Plan. The DOL staff person recommended changes to our CAP. Accordingly, ALC will to incorporate those recommendations and submit the Cost Allocation Plan to the Department of Labor's Office of Cost Determination for approval. See a draft Cost Allocation Plan with DOL staff review comments at Exhibit 4.2.**

b. **ALC will review all previously applied shared costs charged to the WtW program. Adjustments identified may result in additional costs to the WtW grant.**

Abraham Lincoln Centre Response to DOL Welfare-to-Work Competitive Grant Audit

5. Internal Controls Need To Be Strengthened

Internal control weakness in ALC's accounting, payroll and reporting systems

Several internal control weaknesses were discovered during audit that may have contributed to and compounded other findings. A sound system of internal control includes complete documentation, policies and procedures, segregation of duties, as well as supervisory review and approval.

29 CFR Part 95.21 (b)(2)(3) and (7) state:

> Recipients' financial management systems shall provide... Records that identify adequately the source and application of funds for federally sponsored activities. These records shall contain information pertaining to Federal awards, ...assets, outlays….; Effective control over and accountability for all funds, property, and other assets. Recipients shall adequately safeguard all such assets and assure that they are used solely for authorized purposes….; and Accounting records including cost accounting records that are supported by source documentation.

We found that ALC did not maintain source documentation to support accounting entries, processed check requests directly through accounting staff, had no QFSR reporting system, did not maintain time sheets for every employee, paid employees for non-work periods, and did not properly account for grant drawdowns.

<u>Missing source documentation</u>

ALC could not provide source documentation for 58 of 120 transactions (48 percent of sample) that represents $403,240 of questioned costs. The high error rate establishes an increased risk of the ALC accounting system being unreliable.

<u>Check requests processed directly through or not documented by accounting staff</u>

ALC provided documentation to support 62 of 120 transactions. Nine of the 62 transactions were payroll-related and did not involve check requests. Of the 53 transactions involving check requests, we determined 29 of 53 (55 percent) lacked acceptable segregation of duties (see Exhibit A). In most cases, the check requests were simply processed by the accounting clerk without any documented oversight/approval of BTW officials or other ALC Finance staff. We also found three check requests even lacked the initials of the accounting clerk who processed the request. The high error rate establishes an increased risk of the ALC accounting system being undeniable.

No QFSR reporting system

ALC had not established a formal system for the preparation and subsequent documentation of the QFSR submitted to ETA for this grant. Instead, the ALC Finance official responsible for obtaining and submitting the QFSR data to ETA informed us that programmatic data is obtained from BTW and current quarter expenditures are added to the previous QFSR's line item totals for preparation of the current QFSR.

Salaries paid do not reconcile with employees time worked

For the pay period ending April 15, 2001, we found three employees' payroll time sheets did not reconcile to paid salary. One employee's time sheet documented one workday as leave without pay. Another employee's time sheet documented two workdays as suspension. The third employee's time sheet documented two workdays as leave without pay. However, all three employees received full pay. For the pay period ending July 31, 2001, we found another employee's time sheet did not reconcile to the paid salary. The employee's time sheet documented three workdays with no activity but the employee received full pay. We question the associated payroll costs for these staff in Finding No. 2.

Grant drawdowns cannot be traced to ALC's accounting records

We were unable to trace 29 of 37 tested grant drawdowns (78 percent) to the appropriate cash account in the ALC books of record for the grant. Further, we were unable to trace five drawdowns (14 percent) to the revenue account established for the WtW Competitive Grant. As a result, the grant's cash loses its identity within the BTW component of ALC and becomes co-mingled with BTW's other funding source revenue.

Recommendation

We recommend that the Assistant Secretary for Employment and Training require ALC to strengthen financial management internal controls by:

a. maintaining source documentation for all accounting transactions,
b. obtaining appropriate programmatic and financial approval prior to processing check requests,

c. formalizing QFSR reporting policies to ensure that adequate financial and programmatic information is maintained and QFSRs are reviewed prior to submission to ETA,
d. ensuring salaries charged to the grant are supported by employees' time worked, and
e. posting grant drawdowns in the appropriate accounting system promptly and accurately maintain an audit trail of grant assets.

ALC Response to DOL Finding 5 – Inadequate Internal Controls

The Abraham Lincoln Centre possesses an effective system of internal control. (See policy statement issued by the administration at Exhibit 5.1). Our administrative and accounting controls are designed to validate transactions, determine the accuracy of recorded amounts, insures the completeness of transactions, monitor accounting records for accuracy and completeness, and safe guard assets. These five basic objectives are part of our document policies and procedures. It is our policy that all accounting transactions are supported by authoritative documentation before processing. The organizational hierarchy of the accounting department, divisional heads and the chief executive officer provides for segregation of duties and supports multiple layers of supervisory review and approval.

Since DOL field work, we have stabilized our accounting managerial and clerical staff and have noticed the continuous improvement in adhering to company policies and procedures. At the time of DOL fieldwork, there were no accounts payable staff members who had been with the organization more than a month. The timing of the audit combined with the staff changes taking place in the accounting department unfortunately caused misleading results. Documentation retrieved during our investigation refutes the reports findings and conclusions. Our response to specific internal control weaknesses in our accounting, payroll, and reporting system follows:

5a. Missing source documents

Changes in key accounting personnel contributed to the difficulty in retrieving the source documentation requested by DOL auditors. The use of temporary help in our accounts payable department during administrative transition contributed to our inability to identify and retrieve requested source documentation during DOL audit field work.

Accordingly, current staff was successful in finding source documentation for 24 of the 58 missing items (See Exhibits 2.7 to 2.33). Substitute documentation was located for

three other. Had this documentation been made available during field work, we believe DOL auditors would not have concluded our accounting system is unreliable.

5b. Check request processed directly through or not documented by accounting staff

We disagree with this audit finding that duties are not adequately segregated because check requests lacked signatures of BTW officials nor were initialed by the accounts payable clerk who processes the check. One should not conclude that our accounting system possesses an increased risk of unreliability due to the absence of signatures or initials on administrative control documents.

Exhibit 5.2 represents the Cash Disbursements and Bank Transfer Processing policies established by the former President and CEO dated April 25, 1999. This policy predates the DOL competitive grant. Exhibit 5.3 is the Accounts Payable-Open Invoice and Payment Processing policy revised on February 1, 2000 and Exhibit 5.4 represents the purchasing policies revised June 14, 2000 and effective July 1, 2000. These policies were also approved and issued by the former President and CEO of ALC.

The Executive Director of the Employment and Training division forwards invoices to our accounts payable staff for payment. The accounts payable staff must review the invoice, check our accounts payable module for possible duplication, and enter the open invoice in the accounting system in order to process the check. All disbursements require two signatures. Both signatures can not be facsimiles. A voucher consisting of the check request and the attached invoice are presented to the Chief Financial Officer for her signature. The live signature is almost always our Chief Financial Officer. In those rare instances where she has not been available, the other live signature is usually our Chief Operating Officer. Therefore, in all cases, no funds are disbursed without proper review and authorization, even if check requests have not been properly initialized by accounts payable clerks. It is our policy that all check request and supporting documentation are verified by an accounts payable clerk and reviewed by the accounts payable supervisor.

5c. No QFSR reporting system

A formal system for the preparation and subsequent documentation of the QFSR submitted to ETA was established. Reported financial data is taken from our general ledger and ALC began utilizing time sheets to track staff hours worked in support of the QSFR line item categories in January 2002. This allows ALC to determine actual

hours that shared staff have serviced DOL/WtW clients. ALC maintains monthly statistics on its clients by fund and category (70%/30%).

ALC has received technical assistance from DOL's systems accountant, and has implemented procedures for reporting the 70/30 split appropriately to these line items.

5d. Salaries paid do not reconcile with employees time worked

It is not the policy of Abraham Lincoln Centre to pay employees for non-work periods. The Centre maintains time and attendance sheets for all employees. These time and attendance sheets are completed semi-monthly by employees and signed by supervisory personnel to substantiate accuracy of time worked. The time and attendance sheets are submitted to the payroll coordinator whose responsibility is to prepare the semi-monthly payroll checks based on the information obtained from said time and attendance sheets.

The employees paid for hours not worked at the end of the April 15, 2001 pay period was an error. One employee was paid $126.40 for a day of leave without pay; one employee was paid $230.30 for two days of suspension and one employee was paid $322.40 for two days of leave without pay. The total improper payment for all three employees amounted to $679.10. This error in payment, fully, was a result of a newly hired payroll coordinator that was not properly trained to process the payroll. The payroll coordinator was hired in this position on April l, 2001.

The payment given to the employee for pay period ending July 31, 2001 for unsubstantiated days of work was due to an oversight of an incomplete time and attendance sheet. The employee received payment for two days in the amount of $322.40.

The Centre currently employs a full time Human Resources Director that has the responsibility of reviewing the time and attendance sheets, comparing same against the check register, identifying any unsubstantiated payments and take necessary action to avoid payment for non-work hours/days.

5e. Grant drawdowns cannot be traced to ALC's accounting records

ALC draws DOL funding on a reimbursement basis. Once the monthly closing takes place for DOL costs, the total costs for the month are recorded as a receivable for that month.

Funds drawn from DOL are wired into a special account at Seaway Bank in Chicago. Funds are then transferred to our operating account to reimburse ALC for expenses incurred. Both transactions are easily identifiable in our accounting records through the use of general ledger codes, program codes, and account codes. Therefore, the balance of an individual program or funding source does not lose its identity in the accounting process.

DOL's audit of the programmatic component did not question the effectiveness of service delivery. Furthermore, the achievement of service objectives were obtained at a cost consistent with the average costs per placement of $11,976 as found on the Grant Program Synopsis Form of our approved grant. As of November 27, 2002, we are on schedule to fulfill the requisite number of placements and meet the goals and objectives of the grant.

6. Inadequate Participant Eligibility and Documentation

We judgmentally selected a sample of 50 participants from the adjusted universe of 589 participants served for participant eligibility testing. The sample was divided into two groups based upon the eligibility determination date. We determined that 5 of the sampled participants enrolled before January 1, 2000, and the remaining 45 enrolled from January 1, 2000 through December 31, 2001. This was necessary because WtW eligibility requirements changed as of January 1,2000. Our eligibility testing revealed eight ineligible and six misclassified participants were served in BTW's WtW program.

A. Ineligible Participants

8 ineligible participants resulted in questioned costs of $428

Of the 50 participants in our sample, 8 were considered ineligible for WtW based on insufficient, incomplete, or undocumented public assistance information and/or undocumented participant income as of the eligibility determination date.

20 CFR 645.212(a) and (b) (dated November 18, 1997) state:

An individual is eligible to be served under the 70 percent provision if…, The individual is receiving TANF assistance; and" ,Has received assistance under the State TANF program, and/or its predecessor program, for at least 30 months .,.A noncustodial parent of a minor is eligible to participate under the 70 percent provision if the custodial parent meets the eligibility requirements ...

20 CFR Part 645.212(c) (dated January 11, 2001) states:

An individual may be served under this provision if,. (S) he is a noncustodial parent of a minor child if., ,At least one of the fallowing applies: (i) The minor child, or the custodial parent of the minor child, meets the long-term recipient of TANF requirements ".(ii) The minor child is receiving or is eligible for TANF benefits and services; (iii) The minor child received TANF benefits and services during the preceding year; or (iv) The minor child is receiving or is eligible for assistance under the Food Stamp program, the Supplemental Security Income program, Medicaid, or the Children's Health Insurance Program,..

20 CFR 645.213 (a) and (c) (dated January 11, 2001) state:

> Any individual may be served under this provision if (s)he...Is currently receiving TANF assistance.. .Is a custodial parent with income below 100 percent of the poverty line...

Of the eight considered ineligible, seven were enrolled in WtW as noncustodial parents. However, the participants' files did not have the proper documentation verifying the custodial parent's or their child(ren)'s public assistance eligibility. The noncustodial parents also did not meet the requirements for other WtW eligibility categories.

The remaining ineligible was enrolled in WtW as a custodial parent with income below the poverty line. However, the participant's file did not provide proof of income or TANF eligibility.

Since ALC did not have necessary documentation in all participants' files, we consider the eight participants to be ineligible. ALC's MIS indicates $428 of direct transportation services were provided on behalf of the participants considered ineligible. We question the $428 of direct transportation services in Finding No. 2.

B. Misclassified Participants

6 misclassified participants

Our eligibility testing also disclosed six participants who were considered improperly classified in the WTW program. One participant was classified as hard-to-employ noncustodial (70%) enrolled before January 1, 2000; and five participants were classified as primary eligibles (70%) enrolled after January 1, 2000. The misclassified hard-to-employ participant file did not include evidence that the custodial parent had received TANF and/or Aid to Families with Dependent Children (AFDC) for 30 months or more at the time of WtW enrollment. The misclassified primary eligibles included four custodial parent files that did not include evidence that they had received TANF and/or AFDC for 30 months or more at the time of WTW enrollment. The remaining primary eligible was listed as a primary noncustodial but the file included evidence of custodial parent with income below the poverty line. We determined that all six participants met the respective 30 percent criteria and should have been classified accordingly.

The misclassifications by ALC overstated the 70 percent category and understated the 30 percent category. The improper classification of participants also can affect the QFSR reporting process when reporting the QFSR individual line item expenditures. We believe the misclassifications occurred because the ALC staff did not obtain documentation of public assistance prior to servicing clients. ALC's MIS indicates $437 of direct transportation services were provided on behalf of the participants considered misclassified. We consider these costs as misclassified because it was not possible to trace the transportation costs by participant through the ALC accounting system.

Recommendation:

We recommend that the Assistant Secretary for Employment and Training direct the ALC to:

a. transfer $437 from the 70 percent to the 30 percent category expenditure accounts for the six misclassified participants,
b. correct their MIS and QFSR to reflect the eight ineligible participants and the six misclassified participants, and
c. implement procedures to ensure evidence of public assistance and/or insufficient income prior to servicing clients.

ALC Response to DOL Finding 6a – Transfer of $437

A total of 6 participants (12%) were fully eligible however, were misclassified. All participants have been reclassified appropriately from 70% eligibility to 30% and support dollars of $437.00 will be moved in the expense reporting. (See spreadsheet)

ALC Response to DOL Finding 6b – Correction of MIS System Documentation

The audit was conducted on 50 files from the adjusted universe of 589 program participants. Eligibility testing revealed 8 ineligible and 6 misclassified clients. Of the 8 ineligible files, direct transportation support totaling $428.00 was distributed. (Also shown in finding #2) ALC was able to obtain documentation from the Non-Custodial parent unit and the IDHS system to render one (1) client fully eligible at time of enrollment. Transportation for one day given to this client totaled $5.00. This reduces total questioned cost to $423.00 (See attached chart for breakdown).

ALC Response to DOL Finding 6c – Implementation of Procedures

Prior to delivery of the draft audit, ALC implemented recommendations of several internal program controls to ensure all clients are eligible and appropriately classified before serving them:

- **Eligibility screening of all documents is conducted upfront during weekly client in-take sessions. Clients without necessary documentation are asked to return the following with requested documents.**
- **ALC request a completed 2151 form from IDHS verifying length of time on TANF prior to enrolling.**
- **Non-Custodial parent applicants are sent to the NCP unit for verification of responsible relative (RR) or alleged father (AF) status prior to enrollment. Simultaneously, ALC staff verifies evidence of public assistance for the dependent child via access of the IDHS system and the printout is kept in the clients' folder.**

Table 6a - Eight Participants Considered Ineligible

#	Name	SSN	WtW Eligibility Date	Audit Response	ALC Response	Amount Spent
1	Omitted (by OIG)	Omitted	22-Jun-00	Ineligible	Ineligible	$83.00
2	Omitted (by OIG)	Omitted	15-Nov-01	Ineligible	Ineligible	$0.00
3	Omitted (by OIG)	Omitted	5-Feb-00	Ineligible	Ineligible	$200.00
4	Omitted (by OIG)	Omitted	29-Nov-01	Ineligible	Ineligible	$0.00
5	Omitted (by OIG)	Omitted	22-Nov-99	Ineligible	Ineligible	$120.00
6	Omitted (by OIG)	Omitted	27-Jun-00	Ineligible	Ineligible	$20.00
7	Omitted (by OIG)	Omitted	20-Mar-00	Ineligible	Ineligible	$0.00
8	Omitted (by OIG)	Omitted	29-Aug-01	Ineligible - 30%	reclassified to 70%	-$5.00
	TOTAL					$423.00

#	Name	WtW Eligibility Date	Audit Response	ALC Response
1	Omitted (by OIG)	22-Nov-99	Misclassified as 70%	Reclassified to 30% in 2/2002
2	Omitted (by OIG)	7-Jun-01	Misclassified as 70%	Reclassified to 30% on 2/11/2002
3	Omitted (by OIG)	3-May-01	Misclassified as 70%	Reclassified to 30% on 2/11/2002
4	Omitted (by OIG)	23-Oct-00	Misclassified as 70%	Reclassified to 30% on 2/11/2002
5	Omitted (by OIG)	28-Aug-00	Misclassified as 70%	Reclassified to 30% on 2/11/2002
6	Omitted (by OIG)	29-Nov-01	Misclassified as 70%	Reclassified to 30% on 3/25/2002