



July 11, 2016

TO: Jeffrey Page
Chief Operating Officer and Chief Financial Officer

FROM: Stuart Axenfeld /s/
Assistant Inspector General for Audit

SUBJECT: Management Alert: Weaknesses in Seniors Council's Financial Management Practices Warrant Immediate Action

Background

During fieldwork for an audit of Seniors Council, a Corporation for National and Community Service (Corporation or CNCS) Senior Corps grantee located in Santa Cruz, California, we developed serious concerns regarding its current ability to manage and account for Federal funds responsibly. The current grants award Seniors Council \$1,002,980 per year. We noted commingling of funds from multiple grants and grant years, improper drawdowns and misapplication of Federal funds, and failure to reconcile the Federal Financial Reports (FFRs) submitted to the Corporation to its accounting system.

Though our audit work is not yet concluded, these discoveries are serious enough to warrant immediate intervention by CNCS to require corrective action, including placing a manual hold on Seniors Council's Payment Management System (PMS) account for additional drawdowns.

Observations

1. Commingling of Funds

Although Seniors Council has multiple CNCS grants¹, its financial records do not segregate funds and costs by grant number and grant year, but only by program (SCP vs. FGP). That is, Seniors Council has commingled in a single account funds and expenses from two concurrent SCP grants and from successive SCP grants (awarded in 2011 and 2014). In another account, they have likewise commingled FGP funds and expenses. The grantee's accounting system, QuickBooks, has full capability to segregate funds, but Seniors Council does not use it. The commingling of funds prevents auditors from matching revenue and expenditures year by year, raising the possibility that funds have been misapplied. Further, it contributed to the drawdown and reconciliation problems discussed below.

¹ Seniors Council received two Foster Grandparents Program (FGP) grant awards of \$844,681 (awarded on 06/17/2013 and 06/19/2014, with a grant year starting July 1st), and two Senior Companion Program (SCP) grant awards of \$158,299 (awarded on 06/10/2013 and 06/18/2014, with a grant year starting July 1st).

2. Drawdown/Misapplication of Funds

To date, we have identified two instances where Seniors Council drew funding from one CNCS grant and posted those funds on its general ledger to a CNCS grant in another program. In the first instance, the grantee drew \$5,699 from the SCP grant and \$900 from the FGP grant, but recorded the entire amount in its general ledger under the SCP grant account. In the second instance, Seniors Council drew \$13,000 from the SCP grant, but applied \$1,101 of that sum to FGP expenses.

Seniors Council also drew large sums of money very early in the grant terms. The grantee drew 15 percent of its \$844,681 FGP grant (\$125,000) on July 2, 2013, the second day of the grant year. The same thing occurred the following year, when the grantee drew more than one-quarter of its \$844,681 FGP grant (\$220,000) and more than one-quarter of its \$158,299 SCP grant (\$40,200) on the grant's second day. The grantee acknowledges that this reflected a serious cash management issue.

Finally, the grantee has no drawdown policies and procedures.

3. Reconciliation of Funds

Senior Council did not reconcile the FFRs that it submitted to the Corporation for the SCP and FGP grants to its internal records. For three of the FFRs, the grantee overstated its grant expenditures by a total of \$51,820; the remaining FFR understated the expenditures by \$9,497 for the remaining FFR. Without timely reconciliations, the grantee had no way to ensure the accuracy of the costs claimed or detect these errors.

We note that, as a result of the drawdown irregularities, misapplication of funds and commingling that we have identified, the disparity between the FFRs and the properly incurred expenses could be even greater.

Recommendations

Based on our observations to date, we recommend that the Corporation:

- Place a manual hold on further drawdowns until Seniors Council completes appropriate corrective actions to ensure proper use of and accounting for Federal funds;
- Require that Seniors Council develop and implement appropriate policies and procedures for draw downs and reconciliation of drawdowns and costs;
- Require that Seniors Council implements financial management systems and practices to properly segregate costs for each grant and grant year;
- Require that Seniors Council's accounting personnel receive sufficient training to enable them to manage and account for Federal grant funds, including appropriate internal controls and procedures and practices; and
- Ensure that Seniors Council performs timely reconciliations of its general ledger to the FFRs and drawdowns, and that supervisory reviews of the reconciliations are conducted periodically.

Please provide us your response to this Management Alert as soon as possible, but not later than August 11, 2016. If you have any questions pertaining to this letter, please contact Thomas Chin, Audit Manager, at (202) 606-9362 or t.chin@cncsoig.gov; or me at (202) 606-9360 or s.axenfeld@cncsoig.gov.

Cc: Dana Bourne, Chief Grants Officer
Jeremy Joseph, General Counsel
Kim Mansaray, Chief of Program Operations
Lori Giblin, Chief Risk Officer
Joseph Liciardello, Director of Field Finance and Grants Management
Mikel Herrington, Acting Director of Senior Corps