STATE OF NORTH CAROLINA

Office of the State Auditor

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January 8, 2009

Dr. Delma Blinson, Board President
Ms. Lee Ann Hanson-Niver, Executive Director
Options to Domestic Violence and Sexual Assault, Inc.
804 N. Market Street; P.O. Box 1387
Washington, NC 27889

RE: State Grants from:

Department of Administration--	FYE 6/30/07	$328,739
	FYE 6/30/08	$125,085
Department of Health and Human Resources--		
	FYE 6/30/07	$ 81,447
	FYE 6/30/08	$ 44,862
Governor's Crime Commission--	FYE 6/30/07	$ 94,424
	FYE 6/30/08	$365,548
	FYE 6/30/09	$ 1,656 (through 11/30/08)
Department of Agriculture and Consumer Services—		
	FYE 6/30/07	$ 596 (food only)

Dear Dr. Blinson and Ms. Hanson-Niver:

We have completed a special review at Options to Domestic Violence and Sexual Assault, Inc. related to its management of state grant funds.[1]

Our objective was to identify whether there were any instances of noncompliance with laws, regulations, and provisions of contracts or grants agreements; deficiencies in internal control; and/or deficiencies in the management of financial resources based on the performance of the procedures described below.

Procedures included, but were not limited to, interviewing personnel; examining accounting and other grant records for the purpose of identifying state grant transactions; and reviewing available policies and procedures.

The results of the examination conducted during November and December 2008 disclosed internal control deficiencies, instances of noncompliance and/or other

[1] This special review did not address the issue of percentage for matching funds. See discussion on pages 4 and 5.

matters of concern that are described in the attached findings and recommendations.

This letter, including your written response to the draft findings, will be published on our Electronic Publication System (EPS) at www.ncauditor.net. You and others who are interested in the publication should register on the web site to receive an email notification and a link to the publication as soon as it is available.

Sincerely,

Leslie Merritt

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

LWMjr/jhp

CC: Secretary Britt Cobb
Department of Administration
Ms. Mel Chilton, Executive Director
Council for Women
Secretary Bryan E. Beatty
Department of Crime Control and Public Safety
Mr. David Jones, Executive Director
Governor's Crime Commission
Secretary Dempsey Benton
Department of Health and HumanServices
Ms. Laketha Miller, Controller,
Department of Health and Human
Commissioner Steve Troxler
Department of Agriculture and Consumer Services

<u>Options to Domestic Violence and Sexual Assault, Inc.</u>
FINDINGS AND RECOMMENDATIONS

Grant Overview:

Department of Administration: (Note: Domestic Violence and Sexual Assault grants are for FY2007 only.)

<u>Marriage License Fee Grant</u>--The grant is to assist domestic violence victims by providing counseling and shelter as needed, paying for the salary of a Court Advocate and Shelter Manager.

<u>Divorced Filing Fees Grant</u>--A grant for serving displaced homemaker clients and to provide other services as required by the NC Dept. of Administration.

<u>Sexual Assault Grant</u>--A grant for serving victims of sexual assault, providing salaries, travel, and materials.

<u>Domestic Violence Grant</u>--The grant provides funds for shelter expenses for victims of domestic violence and some operational costs.

<u>Displaced Homemaker Grant</u>--A grant for serving displaced homemaker clients to be used to provide employment services for displaced homemakers to enable them to maintain themselves in the workforce. Additionally, the grants were to assist the development of community partnerships to enhance actual employment opportunities for the displaced homemakers.

Department of Health and Human Services:

<u>Family Violence Prevention Grant</u>--The program's purpose is to provide family-violence prevention services to Hispanics and Latino's in all five counties.

<u>Emergency Shelter Grant</u>--The grant provides overnight accommodations or day services to homeless families/individuals through emergency shelter for the victims of domestic violence.

<u>CD & SA Grant</u>--Special Assistance to the Certain Disabled (SCD) is a program that provides a limited monetary payment each month to recipients who meet the program's eligibility requirements. SCD recipients are not eligible to receive Medicaid. County participation in this program is voluntary.

Department of Agriculture and Consumer Services: (Note: Food Commodity Grant was for FY2007 only.)

<u>Food Commodity Grant</u>--The grant awards to the grantee authority to supervise and control the storage, handling and use of all USDA donated commodities in quantities that can be stored and fully utilized for the benefit of the participants served in the program.

Department of Crime Control and Public Safety: (Note: Domestic Violence and Sexual Assault grants are for FY2008 only.)

<u>Victims of Crime Act (VOCA)</u>--The grant funding is to be used to speed the recovery of victims by providing comprehensive services. These services can include shelter, legal counsel, court appearance assistance and support groups. The grants provide staff for the emergency shelter and training and education of the victims. All funds budgeted were for salary related expenditures.

<u>Sexual Assault Grant</u>--A grant for serving victims of sexual assault, providing salaries, travel, and materials.

<u>Domestic Violence Grant</u>--The grant provides funds for shelter expenses for victims of domestic violence and some operational costs.

1. Options to Domestic Violence and Sexual Assault (Options) has not consistently exercised good internal controls over the use of grant funds.

As part of the grant investigation, we reviewed Options' internal control policies and procedures and then tested the controls by selecting a judgmental sample of 36 expenditures. Table 1, page 6, contains the detailed results from the sample, showing:

- 22 (61.1%) items had not been approved for payment,
- 12 (33.3%) did not have adequate supporting documentation,
- 15 (41.7%) had not been canceled to prevent duplicate payment, and
- 18 (50.0%) did not appear reasonable to the grants.

As shown in Table 1, the expenditures review revealed that management has used grant funds to pay veterinary bills, purchase cat food and cat supplies, flowers for relatives of staff, food for summer parties, charitable solicitation license, and paid $250 for a late fee for the charitable solicitation license, all of which are not allowed by the grants. In addition, management purchased store gift cards where the use of these cards could not be documented as legitimate grant purchases. These problems were blamed on the previous management but have continued under the new management.

While the written internal controls appeared adequate, the lack of consistent application creates a possibility of errors or abuse occurring. Using grant funds to purchase non-legitimate items takes away from the intended purpose of helping those individuals who have been battered or abused and violates the terms of the grant contracts.

Recommendation

Options' management should consistently apply adequate internal controls as identified in its internal policies and procedures. Supporting documentation should be required before approval for all expenditures. All payments should be approved by a supervisor as reasonable and legitimate. The Executive Director's expenses should be approved by someone on the Board of Directors. Invoices should be canceled to prevent duplication of payments. Lastly, all payments charged to grants should be allowable and reasonable to the grants and meet the terms of the grant contracts.

The funding agencies should carefully review the findings in Table 1 to determine whether any of the questioned expenditures have been reimbursed to Options and whether they should be recouped by the funding agency.

2. Expenditures are being charged inappropriately to the grant that has funds available.

The distribution of the domestic violence state grant funds was transferred from the North Carolina Council for Women to the Governor's Crime

Options to Domestic Violence and Sexual Assault, Inc.
FINDINGS AND RECOMMENDATIONS

Commission for State fiscal year 2008.[2] The grant requires a 20% match of grant funds. The Governor's Crime Commission is withholding funding due to a dispute on how the grantee's match of funding was calculated.[3] While this issue needs to be resolved with the funding agency, the withholding of funds has affected Options cash flow. As a result, Options' management has resorted to paying expenses from any grant for which money is available.

Each grant is approved by the funding agency with a budget of how the funds will be spent to fulfill the purpose of the grant. Review of charges shows that the expenses are being charged to grants that have available funds regardless of the nature or purpose of the expense. For example, Options paid for a store gift card of $500 which was expensed to the Domestic Violence grant for Tyrrell County. The accounting entry indicated it was for ceiling fans for the shelter in Beaufort County; however, no supporting documentation was provided to confirm the purchase of ceiling fans. The shelter is funded through the Emergency Shelter Grant Program through the Department of Health and Human Services. We also found that Options had expensed Governor's Crime Commission "grant training" to the Department of Administration's Divorced Filing Fees grant funds. Not expending funds in accordance with the approved grant budget is a violation of the grant contracts.

Recommendation

The Board of Directors should require the Executive Director to charge expenditures in accordance with grant requirements. In addition, the Board should take a more active role in monitoring grant activity to ensure that expenditures are charged appropriately. The North Carolina Council for Women and the Governor's Crime Commission need to closely review reimbursements to ensure that all expenditures are charged to the appropriate grant prior to reimbursing grant expenditures or to releasing future funding.

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[2] The domestic violence program funds have been transferred back to the North Carolina Council for Women for State fiscal year 2009.
[3] The Office of the State Auditor is in the process of examining grant oversight and monitoring procedures at the Governor's Crime Commission and the North Carolina Council for Women. As part of these examinations, we are reviewing the matching issue.

Options to Domestic Violence and Sexual Assault, Inc.
FINDINGS AND RECOMMENDATIONS

Table 1
OPTIONS TO DOMESTIC VIOLENCE, INC.
Questioned Costs
FY 2007 and 2008

Questioned Amount	For	Issues
$ 1,000.00	Utilities	Lacks supporting documentation; a significant overpayment of the original billed amount. Invoice: $219.74; Payment: $1,000.00
369.62	Mileage and conference fee	Lack of adequate supporting documentation for travel and lodging expenses.
1,515.76	Phones	Lack supporting documentation; a significant overpayment of original billed amount. Invoice: $1,386.15; Payment: $1,515.76
1,400.00	For a computer charged to equipment	Lacks approval and supporting documentation. Copy of personal credit card statement shows receipt amount $1,384.39; Payment: $1,400.00
683.88	Shelter equipment /Office supplies	Lack supporting documentation; overpayment of original billed amount. Invoice: $636.12; Payment: $683.88
985.96	Utilities	Lacks approval and supporting documentation.
399.26	ADVOS training	Lacks approval, supporting documentation, and was never canceled to prevent duplicate payment. Excessive meal expenditures included.
117.70	Travel	Lacks approval.
361.38	Travel and supplies	Lacks supporting documentation
566.32	Installation of fridge	Lacks approval.
220.00	Supplies	Lacks supporting documentation; a significant overpayment of the original billed amount. Invoice: $179.32; Payment: $220.00 (Note: excess payment charged to General Fund, not grant.)
70.74	Office supplies	Lacks approval.
28.76	Meal	Lacks approval; excessive meal expenditure.
793.14	Equipment and travel	Lacks approval; excessive meal expenditure.
118.63	Expenses reimbursement	Lacks approval and cancellation; excessive meal expenditures.
182.85	Expenses reimbursement-food for summer party	Lacks approval and cancellation; not allowed by grant.
484.73	Expenses reimbursement	Lacks cancellation; excessive meal expenditures.
83.46	Natural gas	Lacks approval and cancellation; included $0.67 late fee charged to grant.
200.00	Legal matter with DSS	Lacks cancellation; not allowed by grant: paid from Domestic Violence funds, not general funds.
158.73	Office supplies	Lacks approval and cancellation. Included charges not allowed by grant—food and cat food.
100.00	Auto insurance	Lacks approval and cancellation. Also questioned because it was insurance for staffs' vehicles to transport clients.
54.80	Legislative Committee lunch	Lacks approval and cancellation; not allowed by grant.
30.00	GCC training	Lacks approval and cancellation; charged to Divorce Filing Fees grant, not GCC grant.

<u>Options to Domestic Violence and Sexual Assault, Inc.</u>
FINDINGS AND RECOMMENDATIONS

Table 1 (continued) OPTIONS TO DOMESTIC VIOLENCE, INC. Questioned Costs FY 2007 and 2008		
$ 524.52	Gift card and cart	Lacks approval; not allowed by grant; posted to Domestic Violence Grant, Tyrrell County as "ceiling fans for shelter".
23.14	Dinner	Lacks approval and cancellation; no evidence expenditure related to grant to which it was charged.
80.06	Flowers	Lacks approval and cancellation; not allowed by grant.
250.00	Late filing fee	Lacks approval and cancellation; not allowed by grant.
343.50	Vet bill	Lacks approval and cancellation; not allowed by grant.
478.34	Supplies	Lacks approval and cancellation; includes veterinary bill for $253.80; not allowed by grant.
981.24	Supplies	Lacks approval; includes gift card; no supporting documentation for expenditures made on gift card.
75.00	Charitable license	Not allowed by grant; charged to Divorce Filing Fees grant.
$ 12,681.52	**TOTAL QUESTIONED COSTS**	

Options to Domestic Violence and Sexual Assault, Inc.

GRANTEE'S RESPONSE

RESPONSE TO THE OFFICE OF THE STATE AUDITOR'S DRAFT REPORT DATED DECEMBER 8, 2008 BY OPTIONS TO DOMESTIC VIOLENCE AND SEXUAL ASSAULT, INC.

Options to Domestic Violence and Sexual Assault, Inc. (Options) Management Team and Board of Directors (Board) have reviewed the draft report of the Office of the State Auditor (Auditor) dated December 8, 2008, for the FY 07-08 period up until the time of the audit in December of 2008.

This audit was requested by our Management Team and Board as result of deficiencies Management discovered in the summer of 2008. At that time, the Board directed Management to review the External Audit reports from the CPA firm that had conducted Options' audit, and the President discussed the results of the external audit for 2007 with auditor Kenneth Chilcoat. It should be noted that Mr. Chilcoat's audit revealed no material exceptions. The Board, however, was not satisfied that the existing Finance Director was performing satisfactorily and procured the services of a volunteer "internal auditor," and at the same time requested that the State Auditor conduct an investigation. We appreciate the Auditor doing so.

The initial draft report referenced herein comes as no surprise to Management and the Board, and in fact comes as a significant relief.

It is not surprising that instances of inadequate recordkeeping were discovered during the tenure of the previous Finance Director, who has since been terminated. Management has also not been satisfied with the performance of the Interim Finance Director, and that person has been suspended. The filling of that position awaits assurance of continued funding.

Based on this report, it is Management's and the Board's perception that:

1) There is no evidence of illegal activity (e.g., fraud, embezzlement, etc.) that would constitute criminal culpability.
2) There is no instance of any misappropriation of funds for uses for which they were not intended in support of Options' mission.
3) There is no illegitimate use of funds cited; only accounting irregularities.

The audit specifically finds that the "…written internal controls appeared adequate, the lack of consistent application creates a *'possibility'* (emphasis added) of errors or abuse occurring."

Management and the Board do contest some of the "Findings" and interpretations, but not the recommendations.
Appendix A is a detailed response to some of the findings, as examples, with which we disagree.

Response to Recommendation #1
We completely agree that adequate internal controls should be consistently applied. Management has begun implementation of a QuickBooks-based accrual accounting system that allows for the use of Accounts Payable, using both income and expense accounts tagged to the individual grants. The current (and past) grant reporting did not provide for this practice.

We do not find the recommended specific internal control procedures required in any of the grant guidelines-- but we agreed they are needed. Appendix C speaks to this in more detail. Suffice it to say here, **we agree with Recommendation #1 and have already implemented it.**

The response from the grantee has been reformatted to conform with the style and format of the rest of the report. However, no data has been changed.

Options to Domestic Violence and Sexual Assault, Inc.

GRANTEE'S RESPONSE

> **Auditor's Note***: While QuickBooks will achieve the needed accounting, the chart of accounts in use at the time of the grant investigation could effectively account for expenditures and revenues by grant by county if it had been used consistently. The choice to go to QuickBooks is the grantee's.*

#2. "Expenditures are being charged inappropriately to the grant that has funds available."
This is not true. No grant funds (with a limited exception) for FY 09 have been made available since the suspension of funding by GCC on July 30. None of the items cited in Table 1 are applicable to this recommendation.

When GCC suspended funding on July 30, 2008, Options began operating on local funds. The intent was to continue operations while an appeal of the suspension was made. The assumption was that once funding was resumed, we would then submit cost reports for the expenditures from July 30 forward and use those expenditures to apply as "allowable costs" to the specific grants applicable. Since no such grant funding has been released, at this date all of those expenditures are local funds and are therefore not misapplied to ***any grant,*** until such time as the expenditures are reviewed and allowed by the Council For Women (presumably them, since the funding has been switched back to the CFW).

As to the suspension of funding, the Board did "require the Executive Director to charge expenditures in accordance with grant requirements" and we find no indication in this audit or the External Audits or in the Cost Reports from GCC to indicate otherwise. **Simply stated, we do not see how Options can be in noncompliance for grants that it has not yet received when the expenditures were from its local funds.**

> **Auditor's Note:** ***We do not dispute that Options used local or reserve funds to initially pay for the questioned expenditures. However, as noted in Options' response, the intent was to request grant reimbursement for these expenditures. Thus, all the questioned expenditures should have met the terms of each grant contract to which it was charged to be eligible for reimbursement. Many of the expenditures questioned were not included in the approved budget for the specific grant to which they were charged. While Options' management may feel these were "allowable" expenditures, they did not conform to the approved grant budget uses. Additionally, a number of the questioned expenditures did not show approval or cancellation—both accepted standard accounting practices used to ensure that the expenditures is legitimate and paid only once. Finally, the questioned expenditures spanned the time period July 2007 through October 2008 which covers both the former and current Executive Directors' tenures.***

Finally, Options' funding was suspended by the Governor's Crime Commission in July of 2008 without any prior notice or warning. This suspension was invoked prior to the year-end cost reports being due and based on an assumption that an abnormal reversion would be required. Subsequently, GCC made an assessment for reversion of approximately $52,000. Options contends that the assessment was inaccurately computed under the *Memorandum of Understanding*, which let GCC manage the grants for the Council for Women in 2008. Options appealed the computation of the assessment and the process used in the suspension. GCC did not respond to the appeal. Options appealed to the Secretary of Crime Control and Public Safety and the Secretary's designate indicted that the proper course of appeal was to the Office of Administrative Hearings. Options filed such an appeal within the timeline required by OAH. That appeal is pending. Nonetheless, GCC continued the suspension. In order to expedite a ruling on

Options to Domestic Violence and Sexual Assault, Inc.

GRANTEE'S RESPONSE

the accuracy of the reversion assessment, Options requested a review by the Office of State Auditor. That led to this OSA report.

The report acknowledges that there is a dispute between Options and GCC over the computation of the assessment. It notes in Footnote #3 that his issue is being considered by the OSA in its review of GCC and CFW's oversight and monitoring procedures of local service agencies.

CFW then refused to release Options' FY 09 funding under existing contracts "because Options is being audited the funds cannot be released." Options appealed this ruling but received no response from CFW. Thus Options has been without state funding from either GCC or CFW since July. During this time period, Options has continued to provide the services under its contracts with the State by using local funds. That has created an anomalistic financial situation with regard to fiscal management. It is the opinion of Options' Management and Board that this issue was not properly addressed or acknowledged in the Auditor's findings, as detailed in Appendices A and C.

> **Auditor's Note*: The Office of the State Auditor is addressing this issue on a state-wide basis since it affected all grantees receiving the same type of grant from the Governor's Crime Commission. Reports will be issued once all work is competed on the audits of the grant programs for the Governor's Crime Commission and the North Carolina Council on Women.***

APPENDIX A – SPECIFC FINDINGS WITH WHICH WE DISAGREE

The report states: "expenditures review(ed) reveal that management has used grant funds to pay veterinary bills, purchase cat food and cat supplies, flowers for relatives of staff, food for summer parties, charitable solicitation license and paid $250 for a late fee for the charitable solicitation license, all of which are not allowed by the grants. (emphasis added)."

Response: Management and the Board believe strongly that Pet Therapy is a legitimate expenditure of a shelter operation, particularly in consideration that usually children are included in the client base. Pet Therapy is a legitimate and growing field, subscribed to now in some medical institutions and in a growing number of residential treatment facilities. There is a growing body of research to support the concept that pets help traumatized victims cope in the short term. Our staff can document the positive outcomes experienced with Options' clients from the application of Pet Therapy at the shelter. See: http://www.americanhumane.org/human-animal-bond/programs/pets-and-womens-shelters/ and http://mysistershousenc.org

Nonetheless, the expenditures should have been budgeted if the expenditures were going to be submitted in a cost report. But it should be noted that these particular expenditures cited on the audit report were made before the FY 09 budgets were approved. Options believes expenses for Shelter pets is an allowable cost under OMB Circular A-87, A-122 and N. C. G. S. 143-6.2 at best, and at worst simply illustrates the deficiencies in the "allowable costs system" currently in use. There is a need for reform here, and this item perfectly illustrates that need. The current system provokes arbitrary decisions by individuals too far removed from the practical application of those decisions.

The "flowers for relatives of staff" is a deceptive description. It implies that grant/tax funds were used for this. They were not. That expenditure was for flowers upon the death of the son of the Interim Finance Director. We think that is a legitimate expenditure, if not of grant funds, then certainly from the local general fund. This "Finding" illustrates what we view as a serious flaw in

Options to Domestic Violence and Sexual Assault, Inc.

GRANTEE'S RESPONSE

the "cost accounting" system used by state grants, which we address in Appendix B and in the Audit findings applicable since July 2008. All these expenditures were made from local funds, not grant funds. Programs must have some flexibility, and it is sound public policy to prescribe that local funds be used for such flexibility if tight constraints are place on grant funds. But to restrict local funds to the same constraints as grant funds is simply not practical and is not sound public policy.

The expenditure for "food for summer parties" is also deceptive in its description. Once a year an appreciation function is held for staff. We believe a limited number of staff appreciation functions is not only an appropriate organizational function, but is sound personnel management. An award (plaque) was given for the Most Outstanding Employee at this function, and we feel such recognitions are not only legitimate but a worthwhile effort to motivate staff. Options does much less of this than do many other organizations. Here again, Options believes these expenses to be an allowable cost under OMB Circular A-87, A-122 and N. C. G. S. 143-6.2, at best, and at worst simply illustrate the deficiencies in the "allowable costs system" currently in use. There is a need for reform here, and this item perfectly illustrates that need. One has to wonder if the expenditure had simply been called something different, such as "staff development expenses," if it would have been flagged. For example, if properly budgeted, cost of food and refreshments for meetings that have extended through the lunch hour, providing coffee for early morning meetings, etc. have, in the past, been deemed allowable; as we feel they certainly should be. Sometimes it makes more sense to bring in pizza or sandwiches than to break for lunch. That is done in state government, the university system, and the public school systems all the time. Thus, it would appear to be another illustration of arbitrary judgments to deem such expenditures unallowable.

The "charitable solicitation license" is an essential "cost of doing business" for a non-profit, and it is required by necessity or regulations to raise eleemosynary funds. We do not defend the late fee, but that was but one illustration of the inadequacy of the former Finance Director, to which we referred to, and the allowability of both expenses under the grants is another example of those discussed in Appendix B.

The "store gift cards" are a unique expenditure. Options received a grant ($25,000) from Lowes to renovate the Shelter kitchen and other areas. The manager of Lowes suggested the purchase of gift cards from Lowes and the use of those cards to purchase material for the renovation project. The gift cards themselves were not intended to be allowable from grants, although it was intended that we show those expenditures of matching local funds. In that sense, we believe the expenditures for the renovation of the Shelter were legitimate expenses, from which all of the counties benefitted. Once Options was told by grant administrators that gift cards should not be used, that practice was stopped. We do concede that some purchases on the gift card were not properly documented, but we have no reason to believe that the materials bought were not used for legitimate purposes (shelter renovation).

(Note: The accountability for the purchases made by the gift cards was one of the reasons Management and the Board requested the State Audit. Had the Audit found illegitimate expenditures on the cards, we were prepared to seek recovery. Based on the Audit findings, we see no such indication. The statement "these problems were blamed on the previous management but have continued under the new management" is not supported by the specific examples reported in Table 1. In fact, we can find no supporting documentation for that statement in the Audit Report. Once the Lowes project was completed, the use of the gift cards were stopped, and once GCC grants administration indicated the actual purchase of the cards was not an allowable expense, none were subsequently submitted.)

The response from the grantee has been reformatted to conform with the style and format of the rest of the report. However, no data has been changed.

Options to Domestic Violence and Sexual Assault, Inc.

GRANTEE'S RESPONSE

Because all expenditures made since July, 2008, have been from local funds and not from grant funds, we take exception to the Audit findings that suggest those funds were not spent for the intended grant purposes when they have not been reviewed at this writing. Likewise, we take strong exception to the statement on Page 4: "These problems (gift cards) were blamed on the previous management but have continued under the new management." As explained above, we do not agree, absent documented evidence to the contrary, that this is a true statement.

While we respect the quality of the work done by the Audit Team, we do not believe they are accurate in their distinguishing between grant expenditures and local funds expenditures since the prior Finance Director was terminated.

APPENDIX B – ISSUES RELATED TO DOCUMENTING EXPENDITURES

Several entries in Table 1 of "Questioned costs" are based, apparently on statements that the expenditure(s) "lacks approval." We think this is a mischaracterization of the transaction. A review of OMB Circulars A-87, A-122 and N. C. G. S. 143-6.2 shows that there is no specific "prior approval" process mandated for "allowable costs." We concur that certainly such expenditures should be approved, but we cannot find any prescribed methodology for such prior approval of the expenditure or the approval of payment. There is no "pre-audit" requirement as there is for public schools spending state funds (see N. C. G. S. 115-c). Purchase orders for expense items are not required by grant guidelines. There is approval required for the reimbursement of staff for travel, but that does not speak to who actually approves the expenditure. We would contend that the submission of the expenditures themselves constitutes approval (by the signatories on the Cost Reports) and the approval of the allowability of those expenditures under the specific grants constitutes both review and "final" approval by yet a third party. Thus, to indicate that "lacks approval" is misleading at best, and at worst the *ex post facto* application of grant administration standards.

We do not contend that expenditures should not be approved, and we have implemented internal rules to strengthen approval procedures. We are only contesting the form and format that is indicated in the Audit as being insufficient. If insufficient (which we deem them to be), it is the guidelines that are not sufficient in their specificity. Perhaps we have overlooked the specific requirements, but we cannot find a prescription for how the approval should have been achieved. Options does use dual-check signatories, one of which is a board member (Treasurer). The approval of the submission of Cost Reports is also accomplished by dual signatures. And again, approval of all expenditures as to allowability to a specific grant is provided by Grant Administration. *De minimus*, "lacks approval" is a misleading characterization without specific citation of the standard violated.

Notwithstanding the above, Management's and the Board's review of Options operations for FY 07 and FY 08 confirms that the recommendation related to initial authorization of expenditures and the approval of the expenditures themselves needs to be better managed. We only argue here that such was not required in any of the grant guidelines we have reviewed that we could decipher. While we believe those controls to be essential, we do not believe an Audit exception should be taken to that which was not required explicitly in the guidelines (OMB A-87, A-122 or N.C.G.S 143-6.2 or in the grant contracts).

For example, the Audit produced a finding that some expenditures were not "cancelled." But we find no specific stipulation that a particular process be used to "cancel" an expenditure. It would

Options to Domestic Violence and Sexual Assault, Inc.

GRANTEE'S RESPONSE

seem to us that some form of Accounts Payable system would have to mandate that a specific expenditure (check) track to the specific purchase order, bill (as used in *QuickBooks*), or some other form of expenditure authorization. That system would also necessitate the partial payment of invoices in those cases where a single payment does not cancel a payable. Such a system has never been required of Options, and to our knowledge, few other local service providers operate an accrual system of pre-auditing of expenditures and the use of an accounts-payable system.

Nonetheless, as previously stated, we believe this to be good practice and have already implemented such a system based on *QuickBooks* and its Accounts Payable feature. We are simply contending that the Findings of the Audit which fault Options for not having pre-audited/approved expenditures and cancelling them when checks are written is essentially blaming Options for violating a standard that does not exist in the grant guidelines.

Again, we agree that such controls are needed. We are simply suggesting that to our knowledge, they have never been required, and we suspect most local agencies don't have such systems in place. We could find no such models.

The issue of documenting expenditures since July 2008 cannot be separated from the issue of GCC's computation of the reversion assessment. That is true simply because it was on the basis of the reversion that both GCC and CFW withheld FY 2009 funding following July 2008. Options has submitted documentation that we feel conclusively shows the fallacy of GCC's computation. Simply stated, they used a different numerator when multiplying the prescribed 20% "local match" denominator. Moreover, they applied allowable costs to the local match. Both of these steps were different from what CFW had done for years in the past. The net effect of the difference increase the local match to 25% and a $52K reversion assessment against Options under the GCC method, while the CFW method would have resulted in no reversion.

Again, all of this has been documented and supplied to the OSA. Options is distressed that the OSA chose to do an audit of its operations without considering **the effect** of this action. At very least, it could have offered an opinion on the correct computation. Had the computation been done correctly and funding provided as per the contracts Options has with the state, then none of the "findings" applicable to the allocation of allowable cost under the FY 09 funding would have been relevant. It is analogous to a bank failing to make a payment when an automatic bank draft had been established because the bank made a mistake and failed to credit all your deposits, and then blamed you for not making the payment as required.

APPENDIX C – ISSUES RELATED TO ALLOWABLE COSTS AND ALLOCATION OF ALLOWED COSTS vs. LOCAL MATCHING AND NON-MATCHING LOCAL FUNDS

The Audit speaks to the allocation of allowable costs among multiple grants. We concur that this is a major problem; one that lacks clarity and specificity. Perhaps that is of necessity, but we feel, since the Audit made a specific charge that expenditures were being inappropriately assigned to specific grants, that it should be addressed here.

We have already addressed the specific expenditures listed in the Audit (i.e., those since funding was suspended in July, 2008). We believe those expenditures were legitimate and were made from local funds until such time as they are reported on Cost Reports ascribed to a specific grant. Since there were no such grants (funding) during the time period in question, we think those Audit findings to be incorrect in this regard.

Options to Domestic Violence and Sexual Assault, Inc.

GRANTEE'S RESPONSE

Nonetheless, the Audit does properly raise the issue of allocation of allowable costs among the grants.

Options has, and will continue, to comply with N. C. G. S. 143-6.2, OMB Circular A-87 and A-122. We have no quarrel with these guidelines/requirements. What we do have an issue with is how a local service provider can procure technical assistance and review of specific expenditures prior to them being submitted on a Cost Report. Currently there is no such system except a non-systematic "ask a question and get an answer." But that does not provide a systematic review process, and thus leads to arbitrary and capricious decisions and unnecessary confrontation. Our email examples support that conclusion.

In practice, the way the system has operated in the past and to a great extent still does, is that it requires the Finance Director to review the monthly expenditures and allocate them to the appropriate grant Cost Report. That is easier said than done in many instances, and in almost all cases is a matter of both knowledge of the extant programs and judgment of how each expenditures are allocated among the various grants. We will defer a recitation of examples, but suffice it to say here that there is no systematic process for determining allocation of expenditures (costs) via-a-vis a specific grant other than simply submitting it for review and approval. Sometimes that requires a budget amendment. At other times it requires a revision of the Cost Report, per directions of the Grant Administrator. While that usually works, it is a constant routine. The standards are nebulous and vague.

A better system is needed. But above all, simply because a local service agency submits an expenditure (cost) on a cost report that is ultimately reviewed by a state official and then judged allowable or not, should not "be held against" the local agency for submitting it for review and determination.

The Audit urges "consistency" in allocating costs among various grants. If the state's policy is for "accountable determination" of allocations to be made by each local agency, then consistency is going to be difficult if not impossible to achieve. By allowing a local agency to submit expenditures for review and determination by one grant administrator, at least then a higher level of consistency will be more likely.

But, the problem with this accountable determination being made "in Raleigh" is that the person making the determination does not know the program operational specifics or the actual use of the items purchased. Numerous examples come to mind. Many of those are those items that "cross" grants or service functions. To fail to recognize and accommodate such "allocatables" results in another set of problems and the "cure becomes as bad as the disease."

Audit Recommendation #2 takes a very strict interpretation of such allocation specifics, and it applies that interpretation to grants, local match and local non-match as all the same. In the real world, it is not a black and white issue. That is especially true when there are so many different grants (generated typically by source of revenue) that are mostly intended to accomplish a single systemic mission. The same is true of the geographical allocation of resources. A grant for one county may have residual impact on other counties or on all of the counties. On the other hand, some services not explicitly funded to a particular county may have residual benefit to a county not specifically funded for that service.

And rudimentary economics tells us that if strict dichotomies are maintained between grants, then

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Options to Domestic Violence and Sexual Assault, Inc.

GRANTEE'S RESPONSE

economies of scale and efficiency are lost.

It should be noted that none of Options' grants allow for indirect costs. Yet the concept of indirect costs is a time-honored feature of legitimate grant administration. Indirect costs are not only legitimate expenses of grants, they are essential to a well-maintained grant administration system for the very reason of preventing specifications from becoming so rigid that the "tail ends up wagging the dog" otherwise. Either indirect costs are necessary, or some greater flexibility in allocation among multiple grants (counties) for multiple services to achieve a common mission is absolutely essential.

The same is true of local funds. Most DV/SA programs received money from multiple sources other than the State and Federal grants. Profits from the second-hand operation (Annie's Attic), and charitable donations are but two examples. The Lowes grant was yet another. Those funds can be viewed as a dichotomy of local match and local funds not used as match. But when an audit fails to distinguish between these various funds, it distorts the picture of how a local agency really operates. Thus, you are back to either greater flexibility or indirect costs, or a combination. This audit fails to recognize this sufficiently when it talks about a strict allocation of costs being consistently applied. It's easy to say, but not practical in the real world.

However this issue is addressed, it is not the purview of the local agency. The state needs to resolve the issue, and until and unless it does, the local agencies should not be held accountable to an inflexible allocation system. Options is simply appealing for an effective resolution of the issue.

This report has been reviewed and approved by the Options Management Team and Board of Directors.
Submitted: December 29, 2008

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