

## **CAREER YOUTH DEVELOPMENT**

Career Youth Development (CYD) is a nonprofit agency that operates more than 30 social service programs, which are primarily funded by federal, state, and local grants. Programs operate at two locations and provide a variety of services to underprivileged youth and adjudicated juvenile delinquents in Milwaukee County, including substance abuse treatment, alternative schooling, and drug prevention programs. CYD is licensed by the State to operate a residential treatment center for youth and an outpatient treatment center for youth and others who abuse alcohol, tobacco, or other drugs, and it is also licensed to provide mental health services. In 1997, CYD was governed by an eight-member board and employed in excess of 160 staff, many of whom worked part-time. The number of full-time equivalent staff was 86.9.

Two audits that were conducted within the past year by Milwaukee County and Milwaukee Public Schools concluded CYD could not adequately document how federal and local grant funds were spent and raised questions about the appropriateness of some expenditures, such as a cultural exchange trip to Jamaica for youth and staff, salaries and fringe benefits charged to several grants without documentation, and the allocation of administrative charges. After these problems were publicly reported, some legislators questioned whether state funds were used appropriately. Therefore, at the direction of the Joint Legislative Audit Committee, we conducted a review of CYD, which included:

- examining whether funds were spent appropriately and supported by proper documentation;
- determining whether accounting and financial management changes made by CYD in response to recent audits are likely to provide adequate assurance that funds will be spent appropriately in the future; and
- identifying additional measures that are needed to ensure any future funds awarded to CYD are spent appropriately.

In conducting this review, we examined CYD's financial reporting system, accounting records, grant files, and board minutes. We reviewed reports issued by the independent auditor responsible for evaluating the agency's annual financial statements, as well as reports released by other auditors who examined specific grants. We also interviewed board members, senior management, program supervisors, and accounting and other support staff. We coordinated our work with other auditors to minimize any duplication of effort and to gain audit efficiencies. Our review concentrated primarily on agencywide cost allocation, documentation procedures, and purchasing practices for 1997 and the first six months of 1998. We did not attempt to evaluate the effectiveness of CYD programs. The Milwaukee County Department of Audit is completing additional audit procedures in the areas of fraud detection and financial transactions related to specific grants and will issue its own report later this year.

## Program Funding and Expenditures

CYD spent almost \$3.5 million providing services to youth in 1997. As shown in Table 1, the agency's primary funding source was grant revenue, which provided nearly 94 percent of funding. Grant revenues included approximately \$2 million in federal funding, \$644,100 in state funding, \$597,400 in local funding, and \$30,000 from a financial institution to fund a program for first-time home buyers. More than \$185,000 of funding was provided by contributions, of which \$120,400 was raised in years prior to 1997. Most of the program revenue shown in Table 1 represents federal reimbursement of some costs associated with treating clients at the agency's mental health and substance abuse outpatient clinic.

Table 1

### Career Youth Development Estimated Expenditures, by Funding Source

<u>Funding Source</u>	<u>1997</u>	<u>Percentage of Total Funding</u>
Grant Revenue	\$3,263,000	93.8%
Contributions, Prior Years	120,400	3.5
Contributions, Current Year	64,700	1.9
Program Revenue	27,200	0.8
Rental Income	1,700	<0.1
Interest Income	<u>700</u>	<u>&lt;0.1</u>
Total	\$3,477,700	100.0%

As shown in Table 2, 15 granting agencies awarded 31 grants to CYD in 1997. Most of the grants can be categorized as either educational programming, substance abuse or mental health treatment, crime or substance abuse prevention, or skills development. In many cases, CYD combines grants to provide an array of services to meet the multiple needs of youth served. For example, a day treatment program funded by grants from Milwaukee Public Schools and Milwaukee County Human Services Department provides educational programming, counseling, and other social services to youth.

Table 2

**Career Youth Development Estimated Expenditures**

<u>Granting Agency</u>	<u>Purpose of Grants and Other Programs</u>	<u>Funding Source</u>	<u>1997 Expenditures</u>
State Department of Corrections	Residential Treatment	Federal	\$ 368,400
	Ethan Allen – Substance Abuse Counseling	Federal	59,400
State Dept. of Health and Family Services	Substance Abuse Treatment	State	80,000
	Substance Abuse Prevention Through Athletics	State	30,000
State Department of Administration	First-Time Home Buyers Counseling	State	11,200
Milwaukee County	Day Treatment for Adjudicated Youth	Federal	479,000
	Case Management for Youth and Their Families	Federal	258,900
	Monitoring First-Time Juvenile Offenders	State	242,300
	Recruiting Foster Care Parents	Federal	132,900
	Early Intervention Substance Abuse Treatment	Federal	111,900
	Peer Counseling and Mentoring	State	59,400
	Facility Improvements	Federal	27,900
City of Milwaukee	First-Time Home Buyers Counseling	Federal	15,000
	Crime Prevention and Neighborhood Renewal	Federal	12,200
Milwaukee Public Schools	Alternative Schools	Local	406,200
	Day Treatment for Adjudicated Youth	Local	45,400
Milwaukee Area Technical College	Work Skills Development	Federal	66,000
	Basic Education Skills Development	State	54,500
Social Development Commission	Meals and Activities for Young Children	Federal	42,600
	Diverting Youth from Gang Activity	State	42,600
	Diverting Youth from Substance Abuse	State	41,100
	Substance Abuse Prevention	Federal	29,200
	Counseling Victims of Crime	Federal	22,800
Private Industry Council	Providing Information on the W-2 Program	Federal	45,300
	Occupational Skills Training	Federal	38,100
Opportunities Industrialization Center	Job Training Program	Federal	31,000
First Bank	First-Time Home Buyers Counseling	Private	30,000
Community Advocates	Child Abuse Prevention	Local	27,700
New Concepts Self Development Center	Second Chance Program: Monitoring Repeat Juvenile Offenders	Federal	20,200
Neighborhood Improvement Corp.	Facility Improvements	Federal	20,000
Milwaukee Employment And Training, Inc.	Funding for Several Positions Held by Youth	Federal	12,700
Career Youth Development	Counseling Provided at the Outpatient Clinic	Various*	221,800
	Annual Cultural Exchange Trip to Jamaica	Contributions	18,000
	Distribute Toys to Children at Christmas	Contributions	10,000
	Unallocated Costs	Unknown	<u>364,000</u>
			<u>\$3,477,700</u>

\* Program revenue, contributions, and grant funds were used to fund clinic operations.

In addition to grant programs, CYD operated three other programs in 1997: a \$221,800 mental health and substance abuse outpatient clinic, an \$18,000 cultural exchange trip, and a \$10,000 campaign to provide toys for children at Christmas. The agency incurred some minimal expenses, primarily space and utilities costs, for various other services provided periodically to the community, including:

- allowing the University of Wisconsin-Milwaukee to offer criminal justice, social welfare, and community education courses at CYD;
- providing sensitivity training to new police recruits twice each year for two days;
- allowing attorneys to offer an eight-week seminar once each year, emphasizing individual rights within the judicial system;
- monitoring the work of a few youth and adults who are involved in a program that credits the value of volunteer work as a means of repaying court-ordered restitution;
- allowing a food pantry to operate in one of the agency's buildings; and
- maintaining the Victory Over Violence park, which is located adjacent to one of the agency's buildings.

More significantly, 1997 expenditures of \$364,000 were not charged to any grant or identified with any other program or community service, as was shown in Table 2. Because of the condition of the financial records, it cannot be determined whether these expenditures were actually related to individual grants but miscoded, whether they were indirect administrative costs that were not allocated to grants, or whether they were made for other programs.

### **Problems with Financial Reporting**

Three agencies granting funds to CYD identified financial reporting problems in recently completed audits of expenditures charged to five of their grants.

- In October 1997, the Milwaukee County Department of Audit released a report on day treatment programs, which included a review of CYD's day treatment program for 1995.
- In June 1998, Milwaukee Public Schools Audit Services released a report on CYD's two alternative school programs for 1997 and the first six months of 1998.
- In September 1998, the state Department of Health and Family Services released a report on CYD's substance abuse treatment grant and substance abuse prevention through athletics grant for 1997 and the first six months of 1998.

CYD is also required, as a condition of receiving its grants, to have its overall financial statements audited each year by an independent accounting firm. These annual audits in 1995 and 1996 noted concerns similar to those found in the audits performed by the three granting agencies, including:

- a general lack of documentation for salary and other costs charged to individual grants;
- methods used to allocate administrative and other costs benefiting more than one program not treating all grants equitably; and
- some charges being made to individual grants that were not allowed by contract terms.

Because grant files did not contain documentation for many of the costs charged to the grants, auditors questioned whether claimed costs actually benefited the grants. After questioning \$374,500 and \$212,400 in costs, Milwaukee County and Milwaukee Public Schools auditors provided CYD an opportunity to research its records for supporting documentation. The agency could document some of the expenditures; however, CYD ultimately agreed to repay approximately \$170,000 to Milwaukee Public Schools and \$150,000 to Milwaukee County over a five-year period. A repayment amount to the Department of Health and Family Services has not been finalized, but it could be as much as \$41,000.

To determine whether the lack of documentation for the five grants audited was unique to those grants or reflected more widespread problems, we conducted a review of CYD's financial system to examine issues that involve all agency grants and other programs. As part of the review, we examined payroll transactions charged to all grants received by CYD for 1997 and for the first six months of 1998. We examined purchases of supplies and other services for the same periods. We analyzed the methods used by the agency to charge costs directly to grants and to allocate administrative or indirect costs among all grants.

Our review of salaries and fringe benefits and a sample of other expenditures found no instances of double-billing, whereby the same expenditure was charged to more than one grant. However, inadequate documentation and the lack of appropriate internal controls leaves CYD susceptible to fraud. We conclude that the problems identified in the earlier audits were also found in most, if not all, of the agency's grants for the period we reviewed:

- detailed time records do not exist to support the portions of staff salaries charged to specific grants;
- documentation did not exist to support the appropriateness of charges to grants for supplies and services;
- many grants were not assessed any portion of administrative and other shared costs; and
- some costs charged to grants were not allowed by contract provisions.

We also found:

- CYD staff could not locate files for approximately half of the grants it received in 1997 and 1998. Therefore, we had to contact the agencies that provided funding to obtain grant contracts or expenditure reports;
- CYD receives grant money from agencies by demonstrating it has incurred costs for providing services. However, reimbursement reports submitted by CYD to granting agencies cannot be traced directly into the accounting system. In 1997, reimbursement requests for 14 of the 31 grants were either higher or lower than the corresponding amounts recorded in the agency's accounting system. Overall, CYD spent \$103,400 more on grant programs than was recorded in its accounting system; and
- the financial statements and grant schedules for 1997 had not been finalized as of October 1, 1998. It should be noted that CYD is in the process of changing its fiscal year from January 1–December 31 to July 1–June 30, and for 1997 it will have an 18-month year. Therefore, the conclusions of any review completed before fiscal year 1997 records are closed must be considered tentative, because account balances may change after final adjustments are made.

While our review of the records that were available and our discussions with agency program staff do show that many services are provided to youth, CYD will continue to find it difficult or impossible to demonstrate that funds received from different grants are spent only for approved purposes until it develops a system capable of accurately accounting for expenditures. CYD officials have engaged an accounting firm to develop and implement improvements to the financial system that can eliminate these accounting problems. Initially, CYD indicated the accounting firm would provide recommendations for system improvements by August 31, 1998, and they would be implemented in September 1998. However, the agency now indicates that because of the magnitude of necessary changes, improvements may not be developed and fully implemented until January 1999 at the earliest. To ensure the new system being developed enables the agency to comply with state grant requirements, we have identified fundamental changes that are needed in how financial activities are performed by staff.

### **Improving Financial Systems**

We identified two major areas in which immediate improvements to CYD's financial system are needed: allocation of costs to the appropriate grants, and purchasing. While many of our recommended improvements will result in a more appropriate charging of costs to grants and in better financial reporting, some of the other recommendations will also result in savings that could fund additional services to youth.

## **Cost Allocation Practices**

When expenditures are charged to funding sources, which at CYD are typically various grants, adequate documentation is needed so that accounting staff can appropriately assign costs to the grants they benefited. At CYD, many incurred costs benefit more than one grant program. These costs should therefore be distributed among the programs receiving benefit, and when possible, the distribution of costs should directly reflect benefits received. For example, if 30 percent of an individual's time is dedicated to a particular grant, 30 percent of that person's salary should be charged to the grant. Other costs, such as administration, which benefit all programs indirectly and cannot easily be assigned, should be pooled and allocated among the grants.

Our review of direct and indirect charges to all grants confirmed the findings of the previous audits. For the period of our audit, we conclude that CYD followed no systematic approach to charging direct costs, such as salaries and program supplies, and followed no formal allocation plan to distribute indirect charges, such as administrative costs, to all grants. Consequently, there was limited assurance that programs were being charged appropriately. While the accounting firm engaged by CYD to develop new procedures has indicated it is developing a plan to address these issues, the plan was not completed for assessment in this review.

Direct Charges - Payroll is the largest direct charge to grants. In 1997, salaries accounted for approximately \$2 million, or 57 percent of total expenditures at CYD. Slightly more than \$1 million of this amount was paid to staff whose time was designated entirely to single grants; the remaining \$977,900 was paid to staff whose time was designated to more than one grant. However, we did not find sufficient documentation to conclude salaries were being charged to the appropriate grants. CYD staff completed time records for each two-week pay period, but these records do not indicate on which grant, or grants, they worked. The costs of individuals' salaries were automatically assigned to the grants for which they had originally been hired, although this information can become out-of-date because it is not verified by actual time records. For example, auditors of the state Department of Health and Family Services contacted the CYD program supervisor for one of their grants and determined that the supervisor was not familiar with four staff persons included in the grant budget. Further, the salaries charged to the grant for a three-month period were not associated with any of the staff directly involved in the grant program.

CYD also did not have a systematic method for charging non-salary costs, such as gas, electric, water, telephone, security, and insurance bills, directly to grants and programs. In our review, it appeared bills were charged to some individual grants regardless of benefit. For example, in 1997:

- CYD’s electric bill for July was charged to a single grant, while the electric bills for June and August were divided equally among eight and ten other grants, respectively. Similarly, a security monitoring bill was charged to a single grant in one quarter, but the bill for the following quarter was divided evenly among three different grants, and trash removal bills for two months were charged to a single grant, while up to five grants (but never the same five) divided these costs for four other months.
- A day treatment program occupying a substantial area in one of the agency’s buildings was not charged for any portion of the water bills, although this program was assessed other utility charges. Similarly, an outpatient clinic occupying a substantial area in another of the agency’s buildings was charged a portion of electric bills for only two months, and a gas bill for only one month.
- Nine grants were charged a share of the cost of insurance, while 20 grants were not charged any insurance costs.

Indirect Charges - As noted, costs that generally benefit all programs but cannot easily be assigned directly, such as administrative costs, are referred to as indirect costs and typically are pooled and allocated among all programs. Most grants require recipients to have an approved allocation plan that supports the charging of indirect program costs. Allocation methods may be relatively simple: a commonly used method for indirect costs is to allocate based on the proportionate share of direct expenditures charged to each grant or program. CYD has had two different allocation plans developed, but it implemented neither and is in the process of having another plan developed.

In 1997, CYD charged \$142,800 in indirect costs to 14 grants; 17 grants were not charged any indirect costs. If all of the 31 grants had been charged a proportionate share of administrative costs, the 14 grants that were charged would have paid \$88,800 less than they did pay. Agency officials state that the contracts for the 17 grants that were not charged did not allow administrative costs to be charged. However, it appears that agency staff misunderstood funding guidelines. For example, our review of all 31 grant contracts for 1997, as well as discussions with representatives of agencies granting funds, indicate only 3 grants—a \$54,500 basic skills grant and two building improvement grants totaling \$47,900—prohibited administrative cost charges. The remaining 28 grants included restrictions, but not prohibitions, on administrative charges:

- 2 grants limited administrative charges to 20 percent of total direct expenditures, which was substantially higher than the actual percentage;
- 9 grants include administrative cost limits that were based on grant proposal budgets developed by CYD staff; and



- the remaining 17 grants did not specifically mention administrative costs but relied on federal and state grant requirements, which require that all programs be treated equally. Therefore, if CYD had included a proportionate share of administrative costs in each of these grant proposals, it appears the granting agencies would have approved the indirect charges.

It also appears that CYD may have failed to adequately identify all of its administrative costs associated with the grant programs for 1997. The amount of identified administrative costs decreased by more than 28 percent, from \$199,100 in 1996 to \$142,800 in 1997, with no apparent change in agency operations. In addition, although some of \$364,000 in 1997 expenditures not charged to any grant or identified with any other program or community service is likely to consist of administrative or indirect costs that should have been charged to grant programs, inadequacies in the agency's financial records makes it impossible to make a definitive determination.

While CYD has taken some steps to address its problems in correctly allocating costs to grants and other programs, it is questionable whether these efforts will resolve grant-accounting discrepancies. For example, while CYD has implemented electronic time sheets for staff, these time sheets do not allow staff work hours to be divided among different grants. Therefore, we recommend CYD develop appropriate methods for charging and documenting direct and indirect costs to grants. To be effective, such methods would include:

- requiring staff to report on their time sheets the number of hours worked on each different grant or program;
- developing a method to determine whether a cost should be charged directly or indirectly;
- using a consistent and equitable basis for directly charging costs such as utilities and rent; and
- implementing an approved cost allocation plan that distributes a proportionate share of indirect costs to all grants and other programs.

### **Purchasing Practices**

Policies and procedures are needed to ensure that the purchasing process is controlled and expenditures are made only for intended purposes. While CYD has an accounting manual detailing some procedures, we found there are no purchasing policies that are routinely followed.

Most purchases at CYD are for relatively small items. In 1997, CYD incurred costs of \$375,200 for numerous small purchases of supplies. To ensure savings and promote accountability, most agencies limit the number of staff authorized to make such purchases and instruct them on the reviews and approvals needed, where purchases may be made, how payments will be made, and the documentation needed to account for transactions. However, we

found that none of these controls existed to any extent at CYD. Instead, staff often made purchases with their personal funds and then obtained reimbursement.

We reviewed more than 600 checks that reimbursed 90 staff for 1997 purchases of supplies including program materials, office supplies, and postage, which totaled \$186,200, or almost one-half of the total amount spent for supplies. While the purchases made by agency staff may have been appropriate, the majority of transactions were not sufficiently documented to allow verification of the accuracy of charges made to specific grants. In many instances, documentation either did not exist or consisted of a notation of the general type of supplies purchased.

Lack of control over purchasing also contributes to higher-than-necessary costs. For example, as a nonprofit agency, CYD is exempt from sales tax. However, agency staff have typically not obtained the sales tax exemption when making purchases for which they were reimbursed. If all of these purchases had been exempted, grants could have funded up to \$10,200 in additional programming in 1997. In addition, although many purchases are for similar items, such as office supplies, CYD has not negotiated discounts from suppliers or purchased items in bulk. If the agency had obtained a discount of as little as 5 percent on up to one-half of the amount spent on supplies by staff, it could have saved up to \$4,700 on supplies in 1997. These funds, too, could have supported additional programming.

A third concern created by the lack of documentation for purchases and reimbursements to staff is the absence of adequate safeguards against potential misappropriation of funds. For example, of the \$186,200 reimbursed to staff, \$58,500 was paid to staff from a case management program that provides discretionary funding for a variety of needs of youth and their families. CYD accounting staff did not require any support for, or perform any review of, program staff funding requests. Further, the grant's program supervisor has not regularly reconciled receipts supporting program staff's use of discretionary funds to the funds staff have received. We reviewed 1997 receipts for discretionary funding for this program and found that reliable receipts fully documented \$11,000, or 18.8 percent, of the discretionary funding. There was less-reliable documentation for another \$32,500 of payments, and no support for the remaining \$15,000, or 25.6 percent, of payments.

Policies are needed not only for direct purchases such as supplies, but also to identify the types of purchases for which cost proposals should be solicited from several vendors, or purchases should be competitively bid. For example, state purchasing guidelines generally require state agencies to contact at least three vendors for purchases exceeding \$1,500 and to competitively bid purchases exceeding \$25,000. Typically, allowing a number of vendors to compete provides a higher level of assurance that the purchase price is reasonable. While CYD does not have many large transactions, some could benefit from more competitive pricing. For example, in 1997:

- \$197,000 was paid to a private company for employee health insurance;
- \$60,000 was paid to a private company for planning services;

- \$29,900 was paid to a private company for audit services;
- \$24,200 was paid to a private company for copying equipment and supplies; and
- \$18,700 was paid to a private company for payroll processing.

From CYD records, we could not readily determine how long these arrangements with service providers had been in place or what efforts CYD staff had made to solicit competitive cost information.

Without adequate purchasing policies, CYD has missed opportunities for savings and has not met accountability requirements of agencies providing public funding. Therefore, we recommend CYD develop the purchasing policies and procedures necessary to provide adequate direction to staff, safeguard grant funds, take advantage of savings, and demonstrate the appropriateness of grant charges. Some policies that should be developed and implemented as soon as practical include:

- when requests for proposals or competitive bidding are required;
- which staff positions are authorized to make purchases;
- what approvals are needed before purchases are made;
- where purchases may be made;
- how payment is to be made; and
- the documentation needed to ensure that expenditures are correctly charged to grants.

### **Future Considerations**

During our review, we noted that while CYD has significantly expanded its operations in recent years, its overall financial condition has been deteriorating. Consequently, in addition to outlining steps for improving the agency's financial systems, we have identified a number of issues for consideration by management and CYD's governing board as they plan for the future. These include:

- more effective oversight of individual programs, to prevent deficit spending;
- improved cash management to lower operating costs; and
- improved financial oversight by management and the board.

As shown in Table 3, CYD's revenues have grown from almost \$1.3 million in 1992, to more than \$3.3 million in 1997. However, in three of the past four years, expenditures outpaced revenues, which necessitated the use of contributions raised in earlier years to supplement current funding. Consequently, the agency's cash balance has been reduced.

Table 3

**Revenue and Expenditure Differences**

<u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess of Revenues Over Expenditures</u>
1992	\$1,284,800	\$1,084,500	\$ 200,300
1993	1,579,800	1,547,600	32,200
1994	1,962,700	2,000,900	(38,200)*
1995	2,268,600	2,256,000	12,600
1996	2,632,300	2,717,700	(85,400)*
1997**	3,357,300	3,477,700	(120,400)*

\* Deficits are funded by contribution revenue raised in prior periods.

\*\* Estimated; 1997 accounting records have not been finalized as of October 1, 1998.

We also noted that CYD paid for \$399,100 of 1997 costs using grant revenue advances intended for 1998. As long as all grants are renewed each year, this practice has little immediate effect. However, it creates problems for the future, especially if other revenues are unavailable and CYD is contractually committed to providing a service but has already spent the funds with which to do so. In addition to these funding issues, CYD has also recently committed to repay \$64,000 annually for five years to Milwaukee County and Milwaukee Public Schools for costs questioned in recent audits. Additional repayments may be required based on the final outcome of the audit completed by the Department of Health and Family Services and the ongoing audit being conducted by the Milwaukee County Department of Audit.

Repeated years with expenditures in excess of revenues, the use of grant advances to pay current costs, and the commitment to repay funds will each pose a significant challenge to CYD. The agency has increased fund-raising efforts as a means to address these problems. In addition, management and the agency's governing board could begin to address these problems by initiating aggressive oversight of individual programs to prevent deficit spending.

While it is apparent that the agency as a whole has overspent its income, it is not possible to determine with certainty which grants or programs overspent their budgets, because of the unreliability of accounting records. Nevertheless, CYD's accounting records can be used to

suggest where significant deficit spending may be occurring. One example is the outpatient clinic, which provides mental health and substance abuse counseling services to low-income individuals. Before 1995, Milwaukee County directly funded such clinics at CYD and elsewhere. However, in 1995, the county instead began providing clients with vouchers, which they could take to the clinic of their choice. Accounting records show that CYD's clinic had deficits of \$12,800 in 1995, \$83,300 in 1996, and \$194,600 in 1997. Therefore, it would appear that when income from vouchers decreased significantly, the agency did not make commensurate reductions in its expenditures.

If CYD implements our recommendations for accurately allocating and documenting costs by individual grants and programs, program managers will have accurate, reliable data on program costs and revenues. Management should then be able to monitor the status of specific grants or programs against established budgets on a monthly or other regular basis. Such monitoring should alert management in a timely manner if program expenditures are exceeding revenues, thereby making it possible to decide either to reduce future program expenditures or to supplement program funding from other appropriate sources, such as contributions.

A second strategy CYD could consider to address its serious financial condition is better cash management. Inadequate cash management practices have resulted in the agency incurring some costs that could have been avoided in 1997, including:

- \$3,000 of bank charges primarily related to not maintaining an agreed-upon minimum account balance;
- \$2,000 of charges for late payment of utility and telephone bills; and
- \$550 of financing charges because insurance payments were made throughout the year, rather than in one or two lump sums.

In 1997, CYD received a majority of its grant funds one or more months in advance of actual expenditures. When grant funds are received in advance, it is possible to implement cash management practices that produce savings by avoiding late-payment and other charges unrelated to providing program services. However, some of CYD's practices, such as providing salary advances and bonuses to staff, added stress to the agency's ability to manage its cash.

At the start of 1997, staff owed CYD more than \$6,500 for salary advances received in the past. During 1997, more than 50 staff received salary advances totaling \$52,600, of which \$49,100 was repaid. Consequently, staff owed the agency \$10,000 at the end of 1997. Expenditures such as salary advances can complicate and distort grant and program budgets and make it difficult to closely match revenues with expenditures in specific grants. While some consideration might be given to determining whether the agency can afford to have any portion of its cash used for salary advances in its present fiscal condition, CYD's management could ensure, at a minimum, that advances are repaid within two pay periods, as policy requires. We found, for example, that an estimated \$4,100, or 41 percent, of the outstanding salary advances at the end of 1997 should have been repaid in 1996, or at least 12 months earlier.

We also found that bonuses were provided to a small number of CYD staff and the executive director. Seven staff received bonuses ranging from \$250 to \$2,200 in 1997. According to the executive director, staff bonuses were based on job performance. However, CYD has no formal bonus policy for staff other than for the executive director, and we found no documentation in the personnel files of staff explaining the basis of bonuses.

The bonus paid to the executive director in 1997 was implemented in a confusing manner. In addition to the executive director's annual salary of \$75,000, the CYD board authorized an annual bonus of \$25,000. In late December 1997, the executive director received a \$41,200 bonus. After payroll taxes and other deductions were withheld, the net amount of the bonus equaled \$25,000. Although the issue is not referenced in the written policy, CYD board officials indicate that while a pre-tax figure is approved for the executive director's salary, the amount identified as a bonus is a net figure, after taxes are withheld.

A majority of the bonuses paid to staff and the executive director were initially recorded as salary advances. In addition, reimbursements made to staff for excess payroll withholdings were also initially recorded as salary advances. Methods such as these complicated cash management and the recording of expenditures for grant programs. Such issues could be addressed in the future through the establishment of policies to govern the manner in which bonuses, excess withholding reimbursements, and other unique transactions are paid and recorded.

A third strategy CYD could consider to address its financial condition is significantly increasing the degree of financial oversight exercised by its governing board and management. Financial oversight has improved since various problems have been publicly reported. For example, several individuals and businesses have volunteered financial management advice and services, and the board recently created a committee to review audit reports and address financial issues. It also voted to increase its membership to gain additional expertise from individuals in professions such as banking, law, and accounting. In addition to these efforts, we believe there are several ways in which the board, senior managers, and program supervisors could provide varying levels of additional financial oversight that have not been available in the past:

- The board could require and evaluate periodic financial status reports for each program, regardless of its funding source, that identify both revenues and expenditures to date and estimated revenues and expenditures for the remainder of the year. The board could also ensure that its decisions and actions are adequately documented in meeting minutes.
- Senior management could provide direct supervision of the financial and accounting department. Even though they may have limited financial experience, senior managers could hold regular meetings with the business manager, review detailed monthly reports by program, and ask sufficient questions to ensure they understand the current financial condition and any possible fiscal concerns that may arise in the near future. Similarly, senior managers could read external audit reports and question auditors until they fully understand any concerns related to the agency's financial controls and reporting. Senior managers also could provide direct supervision of program supervisors, to ensure they are monitoring financial performance as well as program performance.

- Program supervisors could participate in the development of annual program budgets and receive final budget information under contract provisions, including the number, names, and compensation of staff assigned to their programs. Supervisors could, at a minimum, review the reasonableness of monthly reports that identify revenues and expenditures charged to their programs and the amounts in each cost category remaining to be spent. Any questions related to program charges could be brought to the attention of both senior managers and accounting staff.

As part of their increased oversight of financial issues, the board and senior management could establish specific goals for the chief financial officer to be hired. Such goals could include:

- charging costs correctly to the individual accounts of grants and other programs;
- implementing an approved allocation plan for indirect costs;
- producing reliable monthly reports for each grant and for other programs and services, which identify budgeted and actual revenues and expenditures;
- demonstrating a knowledge of the financial condition and constraints of each program and the agency overall; and
- training staff, supervisors, managers, and board members to comply with new financial processing procedures, particularly those related to the purchasing process.

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