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United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Report of Audit

Review of Lutheran Immigration and Refugee Service's Reception and Placement Program

Report Number AUD/CG-05-28, May 2005

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Summary

At the request of the Department of State's (Department) Bureau of Population, Refugees, and Migration (PRM), the Office of Inspector General (OIG) conducted a review of the Lutheran Immigration and Refugee Service's (LIRS) Reception and Placement (R&P) Program for FYs 2000, 2001, and 2002. The objectives of OIG's review were to determine whether LIRS adequately accounted for federal funds and specifically to ascertain if and why spending increased in the fourth quarter of FY 2002. In addition, OIG reviewed LIRS's compliance with applicable federal laws and regulations related to the terms and conditions of the agreements.

OIG found that LIRS generally accounted adequately for federal funds. However, LIRS needs to increase monitoring of its subrecipients to ensure that they are properly accounting for federal funds and using them for their intended purpose.[1] Specifically, OIG noted that subrecipients did not always record or allocate costs to federal programs based on a consistent or logical methodology, which resulted in a significant spending increase in the fourth quarter of FY 2002 despite only a slight increase in refugee arrivals.

As a result of deficiencies noted, OIG questioned costs totaling about $655,000. Of that amount, $48,000 was unauthorized or unallowable under terms and conditions of the agreements and $607,000 was classified as unsupported because of either inadequate or lack of documentation.

OIG also noted instances of noncompliance with applicable circulars and agreement terms and conditions. Noncompliance issues were related to timesheets, reporting, and property accountability.

LIRS's subrecipients did meet the per capita $400 expenditure requirement per refugee. OIG's home visits to newly arrived refugees showed that housing and furnishings and other services met the standards of care.

OIG is recommending that PRM require LIRS and its subrecipients to reimburse the Department for unallowable costs and provide additional documentation for the unsupported costs. On March 30, 2004, OIG conducted an exit conference with PRM officials to discuss the review results, and on April 7, 2004, with LIRS officials at their office in Baltimore. Their comments are incorporated in the body of the report as applicable.

This report discusses the findings in detail and presents OIG's recommendations for resolution of the findings. The questioned costs are discussed in detail in the notes to Schedules 1 through 4.

[1] OIG reviewed three of 27 LIRS subrecipients: Lutheran Social Services of the National Capital Area in Falls Church, VA; Lutheran Social Services of Michigan in Detroit, MI; and Lutheran Community Services Northwest in Portland, OR.

Background

Each year, the United States resettles a limited number of refugees. Qualifying refugees must meet the Immigration and Nationality Act's[2] definition of refugee. Generally, refugees are people who were persecuted in their homelands or have a well-founded fear of persecution there on account of race, religion, nationality, membership in a particular social group, or political opinion. The Department of Homeland Security, U.S. Citizenship and Immigration Services has the statutory authority to determine which applicants meet the requirements for refugee status and are admissible to the United States. Detailed information on all refugees approved for United States resettlement is sent to the Refugee Processing Center in Virginia.[3] The Center matches refugees with one of ten voluntary agencies that provide R&P Program services. Transportation arrangements to the United States are usually made through the International Organization of Migration.

The Department coordinates resettlement policy and manages overseas processing, cultural orientation, and transportation to the United States and provides funds to private nonprofit, nongovernmental organizations (NGO) for the initial R&P Program activities for newly arrived refugees. The Department also manages the R&P Program for arriving refugees through funding agreements with ten NGO agencies, including LIRS. The R&P Program is intended to welcome arriving refugees and provide the essential services they need during their first 90 days in the United States, and it provides a link to longer term services funded by the Department of Health and Human Services (HHS).

HHS has responsibility for the domestic program of refugee resettlement services, which includes cash and medical assistance to arriving refugees and a broad range of social services for refugees in the United States less than five years. HHS' Office of Refugee Resettlement provides funding for refugee service programs through state governments as well as through NGOs.

During FYs 2001 and 2002, PRM expended approximately $55 million and $49 million related to its R&P Program and placed about 69,000 and 27,000 refugees. With the uncertainty on the number of arrivals following September 11, 2001, the NGOs said that they needed assistance in maintaining their local capacity network so that when the number of arrivals returned to the pre-9/11 levels, the infrastructure would still be intact. PRM approved reimbursement for the subrecipient offices based on FY 2001 reported expenditures of the R&P Program funds as a "cap." Each NGO had the option of accepting this reimbursement or a fixed per capita of $800 per refugee arrival, with $400 going directly to or on behalf of each refugee.

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[2] Pub. L. No. 82-414.
[3] Before September 2003, the Refugee Data Center, New York City processed refugee admissions.

Figure 1 – LIRS Office, Baltimore, MD

LIRS is one of ten NGOs that partner with PRM to carry out the R&P Program. LIRS is located in Baltimore, Maryland, as shown in Figure 1, and employed about 62 people domestically at the time of OIG's review. Incorporated in 1939, LIRS is a nonprofit organization classified as a tax-exempt and publicly supported charitable and educational organization in accordance with section 501(c) (3) of the Internal Revenue Code.

Purpose, Scope, and Methodology

The objective of OIG's review were to determine whether LIRS adequately accounted for federal funds and complied with applicable federal laws and regulations related to the terms and conditions of the agreements. Specifically, OIG sought to ascertain if and why costs increased in the fourth quarter of FY 2002.

The scope of this review included agreements awarded by the Department during FYs 2000, 2001, and 2002, which included a fifth quarter (October through December 2002) for the R&P Program. As shown in Table 1, the agreements, including amendments, totaled about $28 million. OIG limited testing of transactions to FY 2002 because under the FY 2000 and 2001 agreements, LIRS was on a per capita arrangement per refugee. The agreements imposed no limitations on the amount that could be retained at headquarters or the amounts that could be passed on to the subrecipients or to the refugee.

Table 1 – Department R&P Funding, FY 2000 through December 31, 2002

Award Number	Performance Period	Award Amount
PRM 01022	10/01/99 – 09/30/00	$9,003,580
PRM 11075	10/01/00 – 09/30/01	$8,872,420
PRM 21130	10/01/01 – 09/30/02	$8,067,049
PRM 21130	10/01/02 – 12/31/02	$2,330,963
Total		**$28,274,012**

Source: Cooperative agreements and amendments as of Dec. 12, 2002.

In FY 2002, including the fifth quarter, the Department provided more than $10 million for LIRS's R&P Program. Of that amount, LIRS awarded about $7.9 million (76 percent) to the 27 subrecipients listed in Appendix A. OIG reviewed $1,910,788 of $10.4 million or 48 percent of claimed expenditures for FY 2002 related to LIRS and its three subrecipients: Lutheran Social Services of the National Capital Area, Inc. (Falls Church); Lutheran Social Services of Michigan (Detroit); and Lutheran Community Services of the Northwest (Portland). OIG selected these three subrecipients for review because of their high administrative and operating costs, highest average cost per refugee, or high capital equipment expenditures in the fourth or fifth quarter.

To obtain information on the accountability and allowability of costs related to R&P Program expenditures, OIG reviewed LIRS's financial records, bank statements, supporting documentation, annual audits, annual reports, board minutes, cooperative agreements including amendments, financial reports, and internal control structure. OIG also interviewed officials from the Department, LIRS, and the three subrecipients. However, OIG's consideration of LIRS's and its three subrecipients' internal control structures and tests designed as a result of that consideration would not necessarily disclose all matters that might be reportable conditions or all questionable financial transactions.

OIG performed several steps to verify expenditures. At LIRS and three of its subrecipients, OIG examined available data relevant to the Department agreements. This included 100 percent of R&P Program employees' FY 2002 timesheets and payroll records for one two-week pay period for each of the months of November 2001, February 2002, and September 2002, which OIG reconciled to the FY 2002 payroll report.

To the extent possible, OIG compared figures for Department assistance in LIRS and subrecipient single audit reports to the certified financial reports and discussed any differences with LIRS officials. To ensure that OIG did not duplicate the nonfederal auditors' work, OIG coordinated with LIRS's independent accounting firm that conducted audits prepared under Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for FY 2002. OIG did not coordinate with the individual auditors for the three subrecipients, but relied on their annual audits and work conducted by LIRS's independent auditors.

To determine compliance, OIG compared systems, control procedures, records, and data submitted with the applicable criteria, including pertinent OMB circulars related to nonprofit organizations, cooperative agreements and amendments, proposals, budgets, and refugee case files. Lastly, OIG conducted onsite visits with some newly arrived refugees at two (Detroit and Portland) of the subrecipients that OIG visited to observe accommodations and ascertain if the subrecipient's services met the standards of care.

OIG conducted fieldwork in Baltimore from July 14, 2003, through July 25, 2003, and at subrecipients in Falls Church from October 6, 2003, through October 16, 2003; Detroit from October 20, 2003, through October 24, 2003; and Portland from October 24, 2003, through October 31, 2003. The Office of Audits, Contracts and Grants Division conducted this review in accordance with government auditing standards and included such procedures as OIG considered necessary in the circumstances. On March 30, 2004, OIG conducted an exit conference with Department officials, and on April 7, 2004, with LIRS officials. Department and grantee comments are incorporated in this report as applicable. OIG reassigned staff to higher priority assignments such as Iraq, which resulted in delays to this report.

Review Results

LIRS should increase its monitoring of the subrecipients to ensure accountability for federal funds and compliance with regulations and terms of the agreements. As a result of deficiencies noted primarily at the subrecipients, OIG questioned costs totaling about $655,000. Of that amount, $48,000 was unauthorized or unallowable under terms and conditions of the agreements and $607,000 was classified as unsupported because of either inadequate or lack of documentation. The questioned costs are discussed in detail in the notes to Schedules 1 through 4.

Accountability for Federal Funds

Generally, LIRS adequately accounted for federal funds. LIRS had a double-entry accounting system, maintained a chart of accounts, and had an OMB A-133 single audit conducted annually. LIRS received unqualified opinions on its financial statements, internal controls, and compliance reports with no material deficiencies noted for the period ended December 31, 2002. However, OIG found that LIRS needs to improve and increase financial monitoring of the subrecipients to ensure that federal funds are accounted for and used for their intended purpose as specified in the award agreements. OIG noted that the subrecipients visited did not always record or allocate costs to federal programs based on a consistent or logical methodology; did not always properly account for federal funds; had excessive increased spending in the fourth and fifth quarters of 2002; and did not have adequate policies and procedures.

LIRS and its subrecipients attributed some of the accounting deficiencies to the significant changes in the FY 2002 R&P Program from previous years. There were three principal changes affecting the R&P Program:

1. Following the September 11, 2001, terrorist attacks on the United States, the number of refugee arrivals suddenly declined and did not begin to recover until the second quarter of FY 2002.

2. The Department's method of funding the R&P Program changed from a per capita arrangement of $740 for FY 2000 to $800 for FY2001 per refugee settled to a hybrid system consisting of cost reimbursement at LIRS and affiliate offices, plus a $400 per capita payment earmarked for the specific benefit of refugees. These payment provisions evolved during FY 2002, and the grantee was not sure until March 2002 that all of its program costs would be covered.

3. The Department made cost-reimbursable funds available in August of FY 2002.

Monitoring Subrecipients

OMB Circular A-133 requires that nonfederal entities that expend $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in a year in federal awards shall have a single or program-specific audit conducted. In addition, the circular requires that passthrough entities, such as LIRS, ensure that subrecipients meet the audit requirement. The passthrough entity must also issue a management decision on audit findings and ensure that subrecipients take appropriate and timely corrective action. During FY 2002, including a fifth quarter, PRM awarded about $10.4 million to LIRS as shown in Table 2. Of this amount, LIRS awarded about $7.9 million to 27 subrecipient organizations (see Appendix A) to carry out the R&P Program. LIRS relied primarily on subrecipient annual single audits to ensure accountability for federal funds.

Table 2 – Source and Amount of Funds, FY 2000-02

FY	*DOS*	*HHS*	*Justice*	*Other State*	*Private*	*Total*
2000	$9,003,580	$8,261,089	$476,551	$84,265	$2,411,025	**$20,236,510**
2001	$8,872,420	$13,787,777	$455,437	$335,699	$3,030,725	**$26,482,058**
2002	$8,067,049	$8,307,787	$350,960	$167,758	$3,129,185	**$20,022,739**
2002 5th Qtr	$2,330,963					**$2,330,963**
Total	**$28,274,012**	**$30,356,653**	**$1,282,948**	**$587,722**	**$8,570,935**	**$69,072,270**

Source: OMB Circular A-133s and FY 2000-02 agreements, including first quarter of 2003.

LIRS tracked subrecipient compliance with the audit requirement. Specifically, LIRS tracked due dates for subrecipient audit reports, date-stamped the audit reports when received, and reconciled amounts reported in subrecipient reports to LIRS accounting records. However, OIG found that LIRS did not always conduct the reconciliation in a timely manner. For example, LIRS received one audit report on January 7, 2003, and another on July 17, 2003. However, LIRS did not conduct either reconciliation until September 16, 2003, eight months after the receipt of the January report. According to LIRS, if it noted material differences between amounts budgeted, disbursed, and reported, it contacted the subrecipient immediately, who reconciled the differences. Of the three subrecipients reviewed, OIG noted an exception to this procedure. Specifically, the Falls Church audit reconciliation dated September 25, 2003, showed about $50,000 more in expenditures than funds received. LIRS explained that it did not pay for August and September 2001 expenditures because Falls Church did not submit expense reports in a timely manner.

Allocation of Costs by Subrecipients

LIRS awarded 76 percent of funds received from the Department to subrecipients. Thus, accurate accounting of awards for the costs of programs was an essential stewardship responsibility of LIRS. Except for expenses directly paid on behalf of newly arrived refugees, most of the costs reviewed by OIG (such as rent, equipment, and supplies) benefited more than one program. OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, states that for a cost to be allowable under an award, costs should be reasonable for the performance of the award and be allocable to the award. To be allocable to an award, the costs should (1) be incurred specifically for the award, (2) benefit the award or other work and be distributed in a reasonable proportion to the benefits received, or (3) be necessary to the overall operation of the organization.

OIG found that none of the three subrecipients reviewed had a written methodology for allocating costs among its various programs. Although they provided informal explanations of their allocation methodologies, OIG noted instances where they did not consistently allocate costs to federal awards. As a result, the subrecipients and ultimately LIRS sometimes overcharged the R&P Program, which in some cases also contributed to excessive fourth-quarter spending.

For example, Falls Church said it used a historical percentage based on previous years. Yet, it did not have any documentation showing how it calculated the historical percentage. OIG's review of office cleaning invoices for August through November 2002 showed that Falls Church charged three different percentages, ranging from 30 to 40 percent. For instance, in August 2002, Falls Church wrote check number 74703 for $360 for cleaning services and charged 30 percent to the R&P Program. In October 2002, the voucher had been annotated to allocate 35 percent to the R&P Program. However, OIG's review of the general ledger showed that Falls Church charged 100 percent of the cleaning service costs for October to the R&P Program. In November 2002, it charged 40 percent of the cleaning costs to the R&P Program. OIG found no documentation to explain how Falls Church established the percentages or why they changed. The financial officer also could not explain the discrepancies.

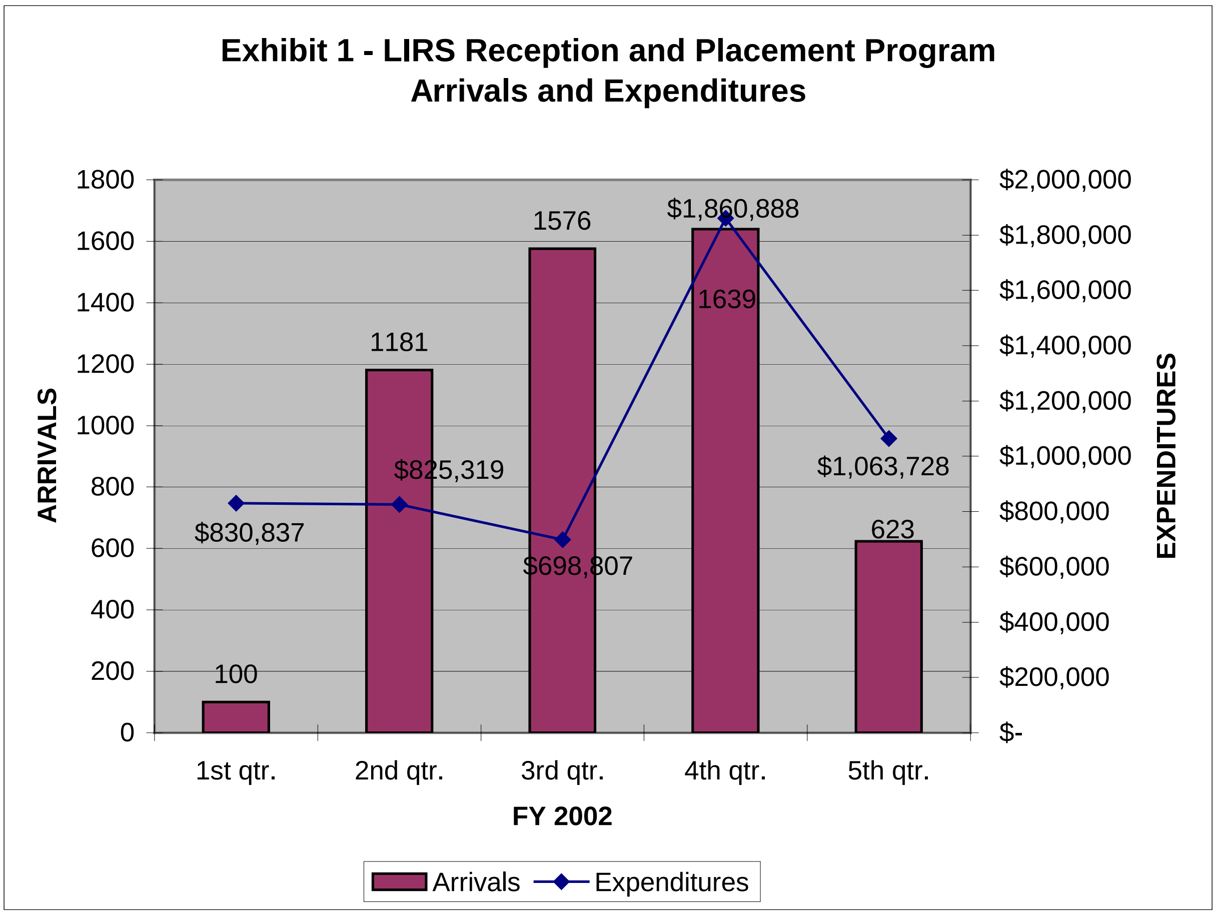
Subrecipient Accounting for Reception and Placement Costs

OIG also found that one subrecipient did not always properly account for or report R&P Program costs. Governmental Generally Accepted Accounting Principles states that expenditures are recognized when the related liability is incurred. The R&P Program requires that the subrecipient provide $400 to each newly arrived refugee. Portland expensed the entire $400 for refugee assistance in its general ledger, yet initially disbursed only $200. In other words, Portland recorded the payments to refugees as expenditures before making the actual disbursements.

For example, OIG noted refugee assistance paid to one family of six that arrived on October 29, 2002. This family should have received $2,400 (six people x $400) in refugee assistance. On October 25, 2002, Portland recorded an expense of $2,400 in its general ledger, but did not issue check number 32681 until October 30, 2002, for only $1,200. On December 11, 2002, Portland issued check number 34509 for the remaining $1,200. Portland's accountant explained that the remaining half of the assistance was placed in general ledger revenue account 2020 until given to the refugee families. Although OIG's review of 24 case files showed that the refugees received the entire assistance amount, the accounting for the expense was improper and could have allowed the expense to be charged to the wrong period or misused.

Fourth-quarter and Fifth-quarter Expenditures

OIG also found that LIRS had a significant increase in expenditures in the fourth quarter of FY 2002 despite only a slight increase in refugee arrivals. Specifically, refugee arrivals and LIRS expenditures increased in the fourth quarter of FY 2002 as shown in Exhibit 1. The FY 2002 quarterly financial reports showed third-quarter refugee arrivals of 1,576 and expenses totaling about $699,000 while the fourth quarter reported arrivals of 1,639 with expenses totaling about $1.86 million, a difference of 63 more arrivals and $1.2 million more in expenditures. In other words, an increase in refugee arrivals of only 4 percent was accompanied by an increase in expenditures of 166 percent. This disproportionate spending increase resulted from improper allocation of costs, as discussed above, and year-end spending.



Note: Exhibit 1 only reflects the operating expenses for the 27 subrecipients.
Source: LIRS's Final Report for FY 2002 dated Feb. 13, 2003.

The figures in Exhibit 1 show the final adjustments to LIRS subrecipients operating expenses as of February 2003. The adjustment to the final financial report placed the expenditures in the correct period incurred, including a fifth-quarter (October 1, 2002 to December 31, 2002). OIG also found that subrecipients purchased equipment and sensitive items and stockpiled supplies during the fourth quarter of FY 2002 (July 1, 2002 to September 30, 2002) as well as the additionally authorized fifth quarter. For example, Portland

- purchased a 21-passenger van in December 2002 for $44,000 to support the R&P Program but could not use the van for the R&P Program until August 2003, eight months after the initial purchase, when an employee received a commercial license. In fact, the vehicle log showed that another program (the Russian Youth Program) used the van. The director said that the youths were newly arrived refugees and had been referred to the Youth Program by the R&P Program case managers. However, Portland allocated 100 percent of the cost of the van to the R&P Program. As stated earlier, OMB Circular A-122 requires that costs be distributed in a reasonable proportion to the benefits received. As a result, OIG questioned $44,000 as unallowable.

- hired new employees because of an increase in the number of refugee arrivals, moved its Vancouver office, and charged the third-quarter (April 1, 2002 to June 30, 2002) costs in the first month (July) of the fourth-quarter. The indirect costs were reported in the correct quarter when LIRS restated its final financial report to PRM. Portland also purchased four laptops and four desktop computers for $8,723 in the fifth quarter (October 1, 2002 to December 31, 2002).

- sponsored an employee retreat in September that was agreed upon in early September (fourth quarter of FY 2002). On September 10, 2002, Portland issued check number 30408 for $690 to pay the reservation fee. On September 17, 2002, Portland issued check number 30905 for $500 for a down payment on the retreat and on September 27, 2002, a final check for $1,474.12.

- purchased office supplies totaling $1,280 in December, 2002, with the largest order ($1,149) being purchased on December 27, 2002, four days before the FY 2002 performance period ended. OIG's review of prior months showed an average cost of $154 per month for office supplies. As a result, OIG questioned $1,126 ($1,280 less $154) as unallowable prepaid expense for stockpiling supplies to be used in a future performance period.

Detroit also increased spending in the fourth and fifth quarters. For example,

- on December 26, 2003, Detroit paid $1,000 each to 14 refugees for a total of $14,000 to help them purchase automobiles. According to Detroit officials, the city does not have a good public transportation system. Subsequently, six checks totaling $6,000 were voided.

- on September 17, 2002 (fourth quarter of FY 2002), with LIRS approval, Detroit paid $25,821 for a 15-passenger van and charged it to the R&P Program. Detroit officials stated the van was used only for the R&P Program to pick up arrivals, pick up furniture, and take refugees to appointments, and their other van was used for the Matching Grant program.

- in December 2002, Detroit spent $399 for a laser printer and transferred $5,100 in computer equipment from IT inventory to Refugee Resettlement. Refugee Resettlement is the institution name that covers seven different departments, including the R&P Program. Detroit charged 100 percent of the costs to the R&P Program; however, the documentation did not clearly identify that the equipment was purchased only for the R&P Program. As a result, OIG questioned $5,499 as unsupported.

- on September 30, 2002, Detroit paid $3,999 for office furniture and allocated 100 percent of the cost to the R&P Program. However, the documentation did not clearly identify that the furniture was purchased only for the R&P Program. As a result, OIG questioned $3,999 as unsupported.

Accounting Policies and Procedures

LIRS did not have adequate accounting policies and procedures. Two of the three subrecipients also were deficient in this area.

Accounting policies and procedures are key elements in an effective internal control structure. When followed, written policies and procedures serve to ensure uniformity in practices and consistency in treatment of costs. Accounting system procedures should cover the flow of a transaction from inception through consummation.

At the time of this review, LIRS and Falls Church did not have formal accounting policies and procedures. LIRS maintained a collection of memos and e-mails to document current accounting procedures but did not have policies on cash receipts, accounts receivable, check disbursements, and financial management. Falls Church had a draft Accounting Policies and Procedures Manual. Detroit’s formal accounting manual was outdated and needed revision. Overall, Portland’s accounting manual was complete and current.

Conclusions

Notwithstanding the difficulties LIRS and its subrecipients experienced in managing the refugee program following September 11, 2001, the financial management weaknesses could affect their ability to adequately manage and accurately report on federal assistance. To ensure that federal funds are properly accounted for, reported, and spent for their intended purposes, OIG is making the following recommendation.

Recommendation 1: OIG recommends that the Bureau of Population, Refugees, and Migration grants officer require the Lutheran Immigration and Refugee Service and its subrecipients to do the following:

- Reimburse the Department for unallowable costs totaling $48,000.

- Provide any additional supporting documentation to the Department so that an appropriate determination can be made regarding unsupported costs totaling $606,000.

- Establish or update written policies and procedures governing accounting for federal funds and allocation of costs to federal programs, including documentation requirements to show that an allowable expense benefited the program to which the cost was allocated, avoid unwarranted year-end spending, and approve prior-period adjustments.

Compliance With Laws and Agreement Provisions

OIG identified instances of noncompliance with applicable circulars and agreement terms and conditions. Noncompliance issues were related to timesheets, reporting, and property accountability. This occurred primarily because LIRS's subrecipients did not comply with the agreements or circulars and had inadequate procedures. OIG found that timesheets did not reflect actual hours worked at any of the three subrecipients, contrary to OMB Circular A-122. Instead, estimates were used. As discussed in the notes to Schedules 1 through 4, LIRS's subrecipients claimed costs that OIG questioned under OMB circular guidance or the terms and conditions of the agreements.

Timesheets

OMB Circular A-122 states that charges to awards for salaries and wages, whether treated as direct or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports that must meet the following standards. The reports must:

- reflect an after-the-fact determination of the actual activity of each employee;
- account for the total activity for which employees are compensated;
- be signed by the individual employee, or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee; and
- be prepared at least monthly and must coincide with one or more pay periods.

At LIRS and the three subrecipients reviewed, OIG examined 100 percent of R&P Program employees' FY 2002 timesheets and payroll records for one two-week pay period for each of the months of November 2001, February 2002, and September 2002. LIRS's accounting system allocated labor costs based on detailed timesheets; however, none of the three subrecipients reviewed had a labor distribution system that complied with the circular. Instead, the subrecipients allocated hours based on estimated percentages rather than actual hours worked. Although employees completed timesheets, the timesheets showed only total hours worked per day. Using this allocation methodology makes a payroll system vulnerable to errors or manipulation because the basis for the charges was estimated by management. The specific conditions found at the three subrecipients are as follows:

- Employees in Falls Church did not record actual hours worked on the R&P Program on their timesheets. Instead, the program director predetermined the percentage that each employee worked on a certain program. This process was necessary because timesheets used by employees did not provide for allocation of time by day or hours worked by specific program. As a result, OIG questioned $137,574 in salary and benefit costs during FY 2002 as unsupported. Subsequent to OIG's review period, Falls Church changed its timekeeping procedures to record actual hours worked on each program.

- Employees in Detroit did not record actual hours worked on the R&P Program on their timesheets. Detroit charged employee wage and salary expenses to the agreement based on estimates by managers of the time their employees worked on the program and not on records by employees of the actual hours worked. The timesheets signed by the employees and supervisors showed only total hours worked during the day and did not detail the actual time charged to the program. As result, OIG questioned $203,466 in salary and benefit charges during FY 2002 as unsupported. Starting in March 2003, employees in Detroit's Refugee and Settlement office (including R&P and six other programs) began using a supplemental timesheet that showed actual hours worked by program.

- Employees in Portland did not record actual hours worked on the R&P Program on their timesheets. Instead of recording actual hours worked, Portland allocated salary expenses based on percentages; however, no documentation was provided to show how the percentages were established. As a result, OIG questioned $221,642 in salary and benefit costs during FY 2002 as unsupported. Subsequent to the period of the review, in March 2003, Portland started using actual time worked on specific programs to allocate salaries and benefits.

Reporting Provisions

LIRS did not submit financial reports to the Department in a timely manner as required by the terms of the agreements. Article V specifies the reporting requirements for financial reports. OIG reviewed PRM's Tracking Report for financial reports that LIRS submitted for FYs 2000-02. As shown in Table 3, LIRS did not submit nine of 13 reports due (69 percent) within time requirements.[4] Reports submitted ranged from one to 43 days late. LIRS submitted more timely financial reports in FY 2002 than the two prior years, but still submitted multiple revisions to the reports. For example, LIRS submitted its FY 2002 second-quarter financial report on time, May 31, 2002. Subsequently, LIRS submitted revisions to this report in August and December 2002 and a final revision on February 13, 2003, 258 days after the report was initially submitted. LIRS indicated that the multiple revisions and untimely reporting was owing, in part, to the late submissions of its subrecipients' expense reports.

Table 3 – Financial Reporting for FYs 2000-02

	Financial Reports	
Timeliness	***Number***	***Percentage***
Timely	4	31
Untimely	9	69
Total	**13**	**100**

Source: PRM Tracking Report and award files.

[4] For purposes of testing, OIG considered the date PRM received a report to be the date LIRS submitted the report.

In 2003, PRM, in coordination with OIG, addressed the issue of untimely reporting and submission of multiple revisions of amounts expended by adding a provision in the agreement requiring that any revisions or adjustments to previously reported expenditures for any quarter would be due within 30 days from the end of each quarterly reporting period and that no revisions or adjustments of expenditures would be recognized after the due date of the final report.

Property Accountability

LIRS did not conduct a physical inventory of equipment as required by OMB Circular A-110. All three of its subrecipients also did not conduct required inventories.

OMB Circular A-110 requires accurate property records that include a description of the equipment, serial number, model, stock number, acquisition date and cost, location and condition of the equipment, and whether title vests in the recipient or the federal government. The circular also states that a physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. LIRS did not conduct an inventory as required by the circular. At the time of OIG's review, the last physical inventory LIRS conducted was in FY 1999.

None of the subrecipients reviewed conducted the required periodic physical inventory. In fact, two of three subrecipients reviewed did not have an inventory listing of property. Falls Church kept a schedule of depreciation for capital purchases but no detailed inventory. According to the program director, Falls Church was in the process of creating an inventory list. Detroit had records for depreciated items only. Everything in the R&P Program was a direct expense, a practice approved by LIRS. Portland had property records, but it did not do a periodic physical inventory. Portland had procedures for an inventory of goods for resale, but not for property.

Conclusions

Compliance with agreements and pertinent regulations provide the Department with some assurance that the program was carried out as proposed and that federal funds were used for their intended purpose. Considering the items questioned during this review and the large percentage of support the federal government provided LIRS, OIG is making the following recommendation.

> **Recommendation 2:** OIG recommends that the Bureau of Population, Refugees, and Migration ensure that the Lutheran Immigration and Refugee Service and its subrecipients comply with the terms and conditions of its agreements. Specifically, the grants officer should require the grantee and its subrecipients to do the following:
>
> - Prepare personnel activity reports for all staff members whose compensation is charged, in whole or in part, to federal awards. The staff should indicate the time worked on each program, and the supervisor should approve the activity reports. In addition, payroll allocations to federal programs should be based on actual hours worked and not estimates.

- Establish a system to ensure that all financial reports are submitted in a timely manner.

- Complete the property listing and conduct inventories as outlined in applicable regulations.

Program Evaluation

Generally, OIG found that LIRS's subrecipients were adequately fulfilling the R&P Program requirements, per the agreements. However, record keeping could be refined, thereby improving efficiency.

The agreements require that the subrecipients provide refugees with appropriate reception services and basic necessities (housing, furnishings, clothing, food, referral to available social services) during their initial period in the United States, and case management services for an additional period for family reunion cases. OIG's review of program reports, refugee case files, monitoring reports, and onsite fieldwork showed that the subrecipients had:

- established and maintained case files for each arriving refugee;
- met or exceeded the per capita $400 expenditure requirement per refugee;
- provided community orientation during the 90-day initial reception and placement period and provided health care and employment orientation and assistance; and
- monitored the situation of each refugee and verified in the 90-day report that they had provided all core services.

LIRS provided each subrecipient with the R&P Program Guidelines for Participants, effective October 1, 2001. The guidelines established the documentation required in the case files. LIRS had recommended R&P Program operational guidance forms, including the Home Safety Checklist, Supply List, and Core Services Checklist, to standardize information. LIRS followed up on this with the subrecipient monitoring questionnaire used during monitoring site visits.

OIG noted that all three subrecipients had the three operational guidance forms recommended by LIRS, but did not all use the same forms to collect the required documentation. OIG noted that all the case files reviewed contained all required documentation; however, the files were set up differently at each subrecipient. For example, Falls Church's case file was set up by section, with each one having a guide sheet of information needed in that section. Detroit had set up the case file by section but did not have a guide sheet to show what information and forms were needed. Portland's case file was not divided by sections and did not have a guide sheet to identify what forms were needed. Although not required or necessary for program success, the standardization of forms and case file setup would enhance subrecipient monitoring.

At two of the three subrecipients visited, OIG also conducted brief home visits with recently arrived refugees. OIG observed that the new arrivals had adequate accommodations and essential furnishings.

Conclusions

LIRS's subrecipients were adequately providing refugee R&P Program services in accordance with the agreement. However, if LIRS required rather than recommended that subrecipients use the standardized forms, this could increase program efficiency and reduce costs. Additionally, having the same file setup and guide sheet would also improve efficiency. Therefore, OIG is making the following recommendation.

> **Recommendation 3:** OIG recommends that the Bureau of Population, Refugees, and Migration grants officer require that the Lutheran Immigration and Refugee Service review the different case file setups used by its 27 subrecipients, identify best practices to complement LIRS' standardized forms, and require their use.

Recommendations

Recommendation 1: OIG recommends that the Bureau of Population, Refugees, and Migration grants officer require the Lutheran Immigration and Refugee Service and its subrecipients to do the following:

- Reimburse the Department for unallowable costs totaling $48,000.
- Provide any additional supporting documentation to the Department so that an appropriate determination can be made regarding unsupported costs totaling $606,000.
- Establish or update written policies and procedures governing accounting for federal funds and allocation of costs to federal programs, including documentation requirements to show that an allowable expense benefited the program to which the cost was allocated, avoid unwarranted year-end spending, and approve prior-period adjustments.

Recommendation 2: OIG recommends that the Bureau of Population, Refugees, and Migration ensure that the Lutheran Immigration and Refugee Service and its subrecipients comply with the terms and conditions of its agreements. Specifically, the grants officer should require the grantee and its subrecipients to do the following:

- Prepare personnel activity reports for all staff members whose compensation is charged, in whole or in part, to federal awards. The staff should indicate the time worked on each program, and the supervisor should approve the activity reports. In addition, payroll allocations to federal programs should be based on actual hours worked and not estimates.
- Establish a system to ensure that all financial reports are submitted in a timely manner.
- Complete the property listing and conduct inventories as outlined in applicable regulations.

Recommendation 3: OIG recommends that the Bureau of Population, Refugees, and Migration grants officer require that the Lutheran Immigration and Refugee Service review the different case file setups used by its 27 subrecipients, identify best practices to complement LIRS' standardized forms, and require their use.

Abbreviations

Department	Department of State
Detroit	Lutheran Social Services of Michigan
Falls Church	Lutheran Social Services of the National Capital Area Inc.
HHS	Department of Health and Human Services
LIRS	Lutheran Immigration and Refugee Service
NGO	nongovernmental organization
OIG	Office of Inspector General
Portland	Lutheran Community Services of the Northwest
PRM	Bureau of Population, Refugees, and Migration
R&P	Reception and Placement

Lutheran Immigration Refugee Service
Reception and Placement Program
Cooperative Agreement Award Number PRM 21130

Schedule of Claimed Costs – Lutheran Immigration Refugee Service
October 1, 2001 – December 31, 2002

		Questioned Costs			
Category	**Claimed Costs**	**Unallowable / Unauthorized**	**Unsupported**	**Total**	**Notes**
Salaries	$699,487				
Fringe Benefits	$227,652				
Other Personnel Costs	$91,216				
Rent, Utilities, & Occupancy	$202,154				
Telephone, Postage, & Shipping	$52,625				
Supplies, Repairs, Printing, & Duplicating	$27,183				
Capital Equipment	$0				
Other Office Operations	$66,970				
Travel (local & away)	$168,793	$353		$353	1
Professional Fees	$2,312				
Other Direct Program Expenses	$22,412				
Indirect Costs	(b) (4)				
Total	$2,503,087	$353		$353	

Source: Claimed Costs from LIRS FY 2002 Financial Reports.
Note: Numbers rounded to the nearest whole dollar.

Note:

1. <u>Travel (local & away)</u>
OIG questioned as unallowable $353 of $2,121 claimed for meals. OMB Circular A-122 states costs of alcoholic beverages are unallowable.

Lutheran Immigration Refugee Service
Reception and Placement Program
Cooperative Agreement Award Number PRM 21130

Schedule of Claimed Costs – Lutheran Social Services of the National Capital Area, Inc.
October 1, 2001 – December 31, 2002

		Questioned Costs			
Category	**Claimed Costs**	**Unallowable/ Unauthorized**	**Unsupported**	**Total**	**Note**
Salaries	$115,004		$115,004	$115,004	1
Fringe Benefits	$22,571		$22,571	$22,571	1
Other Personnel Costs	$256				
Rent, Utilities, & Occupancy	$4,898				
Telephone, Postage, & Shipping	$18,467	$1,062	$52	$1,114	2
Supplies, Repairs, Printing, & Duplicating	$6,347				
Capital Equipment	$0.00				
Other Office Operations	$31,356	$234	$1,323	$1,557	3
Travel (local & away)	$1,755				
Professional Fees	$0				
Other Direct Program Expenses	$95,072				
Indirect Costs	(b) (4)				
Payment to or on Behalf of Refugees	$93,215		$32,513	$32,513	4
Total	$441,202	$1,296	$171,463	$172,759	

Source: Claimed Costs from LIRS FY 2002 Financial Reports.
Note: Numbers rounded to the nearest whole dollar.

Note:

1. Salaries & Fringe Benefits
OIG questioned as unsupported $137,575 claimed for salaries and fringe benefits because of inadequate or lack of documentation. The subrecipient allocated costs based upon management estimates instead of actual hours worked on each program. OMB Circular A-122, Attachment B, Paragraph 7.m. states that charges to awards for salaries and wages will be based on documented payrolls approved by a responsible official(s) of the organization.

2. Telephone, Postage, & Shipping

OIG questioned $1,114 claimed for telephone, postage, and shipping as follows:

- $1,062 as unallowable because the subrecipient improperly allocated costs to the R&P Program:

  - $974 in telephone costs erroneously charged to the R&P Program that should have been charged to another program.

  - $88 in telephone costs over allocated to the R&P Program. The subrecipient allocated 100 percent of a $125 telephone bill to the Program instead of the correct 30 percent allocation. According to OMB circular A-122, Attachment A, Paragraph 4, a cost is allocable to a federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances, if incurred specifically for the award, benefits both the award and other work, and can be distributed in reasonable proportion to the benefits received.

- $52 as unsupported telephone costs because of inadequate documentation. According to OMB Circular 122, Attachment A, A.2.g, costs must be adequately documented to determine if the cost would be allowable under the award.

3. Other Office Operations

OIG questioned $1,557 claimed for professional services as follows:

- $1,323 as unsupported professional services because of inadequate documentation as discussed in note 2.

- $234 as unallowable because the subrecipient improperly allocated 100 percent of $360 office cleaning service cost to the R&P Program instead of 35 percent annotated on the voucher(see note 2 for over allocation of costs).

4. Payment to or on Behalf of Refugees

OIG questioned $32,513 as unsupported costs because of a lack of or inadequate documentation (see note 2) for payment to or on behalf of refugees as follows:

- $2,400 claimed for disaster relief rent.

- $15,653 claimed for assistance to individual/housing.

- $14,460 as unsupported assistance to individual/general.

Schedule 3
Page 1 of 2

Lutheran Immigration Refugee Service
Reception and Placement Program
Cooperative Agreement Award Number PRM 21130

Schedule of Claimed Costs – Lutheran Social Services of Michigan
October 1, 2001 – December 31, 2002

Category	Claimed Costs	Questioned Costs: Unallowable/ Unauthorized	Questioned Costs: Unsupported	Questioned Costs: Total	Note
Salaries	$162,079		$162,079	$162,079	1
Fringe Benefits	$41,387		$41,387	$41,387	1
Other Personnel Costs	$140				
Rent, Utilities, & Occupancy	$22,921				
Telephone, Postage, & Shipping	$4,588	$13		$13	2
Supplies, Repairs, Printing, & Duplicating	$16,356		$9,498	$9,498	3
Capital Equipment	$25,821				
Other Office Operations	$10,178				
Travel (Local & Away)	$17,572	$504		$504	4
Professional Fees	$0				
Other Direct Program Expenses	$12,245	$600		$600	5
Indirect Costs	(b				
Payments to or on Behalf of Refugees	$80,335				
Total	$393,622	$1,117	$212,964	$214,081	

Source: Claimed Costs from LIRS FY 2002 Financial Reports.
Note: Numbers rounded to the nearest whole dollar.

Note:

1. Salaries & Fringe Benefits
OIG questioned as unsupported $203,466 claimed for salaries and fringe benefits because of inadequate or lack of documentation. The subrecipient allocated costs based upon management estimates instead of actual hours worked on each program. OMB Circular A-122, Attachment B, Paragraph 7.m. states that charges to awards for salaries and wages will be based on documented payrolls approved by a responsible official(s) of the organization.

2. Telephone, Postage, & Shipping
OIG questioned as unallowable $13 for freight and express claimed by an employee not assigned to work on the R&P Program.

3. Supplies, Repairs, Printing, & Duplicating

OIG questioned $9,498 claimed for supplies, repairs, printing, and duplicating as follows:

- $3,999 as unsupported for office furniture because of inadequate documentation. According to OMB Circular A-122, a cost is allowable under an award if it is adequately documented. The cost was not adequately documented to show that it should be allocated to the R&P Program.

- $399 as unsupported for a laser printer because of inadequate documentation. The cost was not adequately documented to show that it should be allocated to the R&P Program, in whole or in part.

- $4,826 as unsupported for computers because of inadequate documentation to show that it should be allocated to the R&P Program. The voucher indicated the transfer was from IT Inventory to Refugee Resettlement. Refugee Resettlement is the institution name that covers seven different departments, including R&P.

- $274 as unsupported for computers because of inadequate documentation to show that it should be allocated to the R&P Program.

4. Travel (Local & Away)

OIG questioned $504 as unallowable travel expense for conference lodging claimed for employees not assigned to work on the R&P Program. The total expense for 4 people was $1,008. Two of the four people did not work in the R&P Program department; therefore, one-half of the expense is not allowable.

5. Other Direct Program Expenses

OIG questioned as unallowable $600 for conference and meetings claimed for employees not assigned to work on the R&P Program.

Lutheran Immigration Refugee Service
Reception & Placement Program
Cooperative Agreement Award Number PRM 21130

Schedule of Claimed Costs – Lutheran Community Services Northwest
October 1, 2001 – December 31, 2002

Category	Claimed Costs	Questioned Costs			Note
		Unallowable/ Unauthorized	Unsupported	Total	
Salaries	$182,920		$182,920	$182,920	1
Fringe Benefits	$38,723		$38,723	$38,723	1
Other Personnel Costs	$522				
Rent, Utilities, & Occupancy	$14,356				
Telephone, Postage, & Shipping	$5,264				
Supplies, Repairs, Printing, & Duplicating	$6,942	$1,126		$1,126	2
Capital Equipment	$44,000	$44,000		$44,000	3
Other Office Operations	$6,464	$51		$51	4
Travel (Local & Away)	$19,499		$832	$832	5
Professional Fees	$40				
Other Direct Program Expenses	$4,657	$200		$200	6
Indirect Costs	(b				
Payments to or on Behalf of Refugees	$287,860				
Total	$611,247	$45,377	$222,475	$267,852	

Source: Claimed Costs from LIRS FY 2002 Financial Reports.
Note: Numbers rounded to the nearest whole dollar.

Note:

1. Salaries & Fringe Benefits

OIG questioned as unsupported $221,643 claimed for salaries and fringe benefits because of inadequate or lack of documentation. The subrecipient allocated costs based upon management estimates instead of actual hours worked on each program. OMB Circular A-122, Attachment B, Paragraph 7.m. states that charges to awards for salaries and wages will be based on documented payrolls approved by a responsible official(s) of the organization.

2. Supplies, Repairs, Printing, & Duplicating

OIG questioned as unallowable $1,126 claimed for program supplies because it was a prepaid expense to stockpile supplies. The performance period for the agreement ended December 31, 2002. OMB A-110 states where a funding period is specified, a recipient may charge to the grant only allowable costs from obligations incurred during the funding period. The largest supply order totaling $1,149 occurred on December 27, 2002. The average cost for program supplies in the preceding months was $154 and the total spent in December was $1,280. Therefore, OIG questioned the difference ($1,280 less $154) or $1,126.

3. Capital Equipment

OIG questioned as unallowable $44,000 claimed for the purchase of a 21-passenger van. The subrecipient purchased the van in December 2002 but did not use it until August 2003, eight months after the initial purchase. The subrecipient allocated 100 percent of the cost of the van to the R&P Program; however, the vehicle log showed that the van was primarily used for the Russian Youth Program. OMB circular A-122 requires that costs be distributed in a reasonable proportion to all benefiting programs.

4. Other Office Operations

OIG questioned as unallowable $51 for taxes and licenses for the older, red van because the subrecipient allocated 100 percent to the R&P Program as discussed in Note 3.

5. Travel (Local & Away)

OIG questioned as unsupported $832 for vehicle repairs and maintenance because the subrecipient improperly allocated 100 percent of the costs for the shared van to the R&P Program. OMB circular A-122 requires that costs be distributed in a reasonable proportion to all benefiting programs.

6. Other Direct Program Expenses

OIG questioned as unallowable $200 for volunteer recognition because the subrecipient improperly allocated costs to the R&P Program. OMB A-122 states that the costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable.

Appendix A

Lutheran Immigration and Refugee Service
Reception and Placement Program Subrecipients
FY 2002

Subrecipient		Location
1.	Lutheran Social Ministry of the Southwest	Arizona
2.	Opening Doors, Inc.	California
3.	St. Anselm's Cross-Cultural Community Center	California
4.	Lutheran Family Services of Colorado	Colorado
5.	Lutheran Social Services of the National Capital Area, Inc.	Virginia
6.	Lutheran Social Services of Northeast Florida	Florida
7.	Lutheran Services of Florida	Florida
8.	Lutheran Ministries of Georgia	Georgia
9.	Lutheran Social Services of Iowa	Iowa
10.	Interfaith Refugee and Immigration Ministries	Illinois
11.	Lutheran Social Services of Southern New England	Massachusetts
12.	Lutheran Social Services of Michigan	Michigan
13.	Lutheran Social Services of Minnesota	Minnesota
14.	Lutheran Family Services in the Carolinas	North Carolina
15.	Lutheran Social Services of North Dakota	North Dakota
16.	Lutheran Family Services of Nebraska	Nebraska
17.	Lutheran Social Services of Northern New England	New Hampshire
18.	Lutheran Social Ministries of New Jersey	New Jersey
19.	Lutheran Social Services – Metro New York	New York
20.	Mohawk Valley Resource Center for Refugees	New York
21.	Lutheran Community Services of the Northwest	Oregon
22.	Lutheran Child and Family Services of Eastern Pennsylvania	Pennsylvania
23.	Diakon Tressler Lutheran Immigration and Refugee Services	Pennsylvania
24.	Lutheran Social Services of South Dakota	South Dakota
25.	Refugee Service of Texas, Inc.	Texas
26.	Interfaith Ministries for Greater Houston	Texas
27.	Lutheran Social Services of Wisconsin and Upper Michigan	Wisconsin

Source: Lutheran Immigration and Refugee Services.

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