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Draft Audit Report

Hysell & Wagner Desk Audit

For the period: February 1, 2014 through December 31, 2015

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INTRODUCTION

The Kansas Reading Roadmap Initiative was started in 2013 by Governor Brownback to improve the educational and life opportunities of at risk students in the state. The program was initiated by Andrew Hysell who reviewed research completed by outside parties. Mr. Hysell discovered the 3rd grade was a critical period for students to develop reading skills. Improved reading levels are a foundation for educational learning and improved life choices per the research. Governor Brownback and Mr. Hysell agreed to start Kansas Reading Roadmap (KRR) as a result.

Mr. Hysell serves as Project Lead for the Kansas Reading Roadmap with a goal to achieve school wide improvement and meet Governor Brownback's pledge to improve third grade reading scores. The Roadmap's unique approach brings together a coordinated framework of targeted K-3 reading interventions proven to meet individualized student needs. By working with best-in-class nonprofits with proven interventions, the KRR seeks to create an affordable, scalable, comprehensive intervention specially targeting rural schools.

There have been four pilot programs that coincided with Reading Roadmap. They all were temporary in nature and were not directly a part of Reading Roadmap but were related. One of the pilot programs involved two schools around Concordia. The Children's Cabinet and Lexia were partners in the program and it quickly dissolved.

The program uses TANF as its source of funding with the stipulation that the program takes place after school hours and in the summer. The portion of the program that runs during the day is funded by the Federal Education Department.

Per the request of the Secretary of DCF and as part of the statutory duty to provide oversight of federal and state grant funds, DCF/Audit Services is completing a desk review of the Kansas Reading Roadmap program. This audit focused only on the activity that included Hysell and Wagner. This was a desk audit and performed in Topeka Kansas.

The audit addressed the following questions:

1. **Has Hysell & Wagner management developed an adequate system of internal controls for federal and state funds awarded by DCF?**
2. **Has Hysell & Wagner management complied with applicable laws and regulations and the terms and conditions set forth in the contract/grant/provider agreement and Uniform Guidance?**
3. **Has management expended funds in accordance with the grant/contract/provider agreement, Uniform Guidance and applicable laws and regulations?**

Our audit period was from February 1, 2014 to December 31, 2015.

To answer these questions, we reviewed grant procedures and compared them to reports/invoices/documentation submitted by the Grantee to ensure that grant funds are being administered and used in accordance with the grant agreement, U.S. Office of Management and Budget (OMB) Circulars, and Uniform Guidance. Board of Director involvement was evaluated based on source documentation to understand oversight provided. A sample of transactions were randomly selected and tested to the criteria identified in laws, regulations, the grant agreement, Uniform Guidance. We also tested for internal controls (support documentation, appropriate authorizations and approvals, etc.), and performed other steps as necessary.

We audited one (1) contract and three (3) grants. In some instances, only a part of the contract/grant was audited because the auditee only provided partial documentation. We also reviewed three (3) months of a grant for 2017 to determine if issues found during the audit period, 2/1/14 – 12/31/15, had improved in 2017. Below is a summary of contract/grants audited:

Purchase Order #	Contract/Grant #	Period	Amount	Period Audited
19758	#39115	2/1/14 – 7/31/14	$272,962	Entire period
22271 *	#39115	8/1/14 – 7/31/15	$415,000	Entire Period
23905	OGC-2014-KRR-HW-PP-001	10/1/14 – 6/30/15	$171,100	Entire period
23909 **	OGC-2015-KRR-HW-1	1/1/15 – 8/31/15	$5,158,189	Entire period
27890	OGC-2015-KRR-HW-1	8/1/15 – 6/30/16	$8,740,950	8/1/15 – 12/31/15

*Grantee only reported activity through December 31, 2014
**Grantee only reported activity through July 2015

Subawards
Hysell & Wagner subcontracts with various partners and school districts to provide services related to the Kansas Reading Roadmap program. Four (4) of these providers were selected at random. Hysell & Wagner was asked to provide all the documentation (invoices, receipts, etc.) related to the contractual reimbursement. The expenses for Hysell & Wagner were reviewed to see if they were: adequately documented, properly allocated, reasonable, and allowable.

The audit was performed in accordance with Government Audit Standards (2011 revision), the Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors, generally accepted auditing standards, and all other applicable federal and state regulations and policies. The audit included such tests of the records and controls as considered necessary under the circumstances to establish our conclusions.

AUDIT RESULTS

CONCLUSION

Hysell & Wagner did not have internal controls required to achieve compliance with OMB Circular A-122, Uniform Grant Guidance, the Grant/Contract Terms and Conditions and applicable State of Kansas laws and regulations. The OMB Circular A-122 and the Uniform Grant Guidance (effective for audits beginning on or after December 26, 2014) establishes principles for determining costs of grants, contracts (including cost reimbursement contracts) and other agreements with non-profit organizations. The absence of internal controls and not being fully aware of the requirements caused noncompliance with the Circular, Grant Terms and Conditions and State of Kansas regulations. The main areas of noncompliance were:

- Documentation was not completed or maintained which supported the allocations of salary and benefit costs to the various awards. There were no timesheets to show time and effort associated with the DCF Reading Roadmap grant. Total non-allowable costs were $278,048.69.
- Contractor staff did complete timesheets; however, the documentation maintained lacked details regarding the amounts of time spent performing tasks related to various awards. Some contract staff did not have a contract with Hysell & Wagner and no basis for amounts billed to DCF. Finally, costs billed to DCF were not in accordance with Hysell & Wagner bylaws. We determined non-allowable costs were $549,860.59.
- DCF funds were advanced to subgrantees in which actual expenditures were less than amounts advanced. Total costs disallowed were $988,333.86.
- Other non-payroll costs audited included unsupported costs (lack of source documentation), costs for which the method of allocation was not used or supported, and costs which were not allowed by Federal Cost Circulars, the Grant/Contract Agreements and State laws and regulations. We determined the total amount disallowed to be $423,140.72.
- There was no documentation or basis for the amount of Indirect costs charged to DCF. The total amount not allowed was $447,520.14.
- The first three (3) months of calendar year 2017 was reviewed to see if issues addressed above had improved. There was little, if any improvement made.

As a result of the noncompliance, we determined DCF grant and contract funds totaling $2,295,046.54 were incorrectly claimed by and paid to Hysell & Wagner for awards audited. <u>Please note this total does not include the amount on nonallowable expenses for PO #27890 since it was only partially audited – a total of $391,857.46</u>.

FINDINGS AND RECOMMENDATIONS

1. ***Has Hysell & Wagner management developed an adequate system of internal control for federal and state funds awarded by DCF?***
2. ***Has Hysell & Wagner management complied with applicable laws and regulations and terms and conditions set forth in the contract/grant/provider agreement and Uniform Guidance?***

<u>GENERAL CONTROL AND COMPLIANCE FINDINGS</u>

<u>Kansas Statutes</u>

KSA 17-7931 requires an entity not located within the state of Kansas and doing business within the state of Kansas to register as a foreign covered entity. Hysell & Wagner are in violation of Kansas Statute as they are not registered with the Kansas Secretary of State's Office. This constitutes a violation of the terms of their grant award as they agreed to comply with all applicable state and federal laws, rules and regulations.

Uniform Grant Guidance

In December 2013, the U.S. Office of Management and Budget made significant changes to guidance and information relating to federal grant awards and single audit provisions that are effective for fiscal years beginning on or after December 26, 2014. The OMB Uniform Grant Guidance Part 200 has a major emphasis on strengthening accountability by improving policies that will protect against waste, fraud and abuse.

Internal Controls

Management at Hysell & Wagner is responsible for establishing and maintaining an adequate system of internal controls. An internal controls system must be maintained to adequately safeguard funds and resources, check the accuracy and reliability of the accounting and financial data, promote the operational efficiency of the institution, and encourage adherence to the prescribed managerial policies. Therefore, some key elements in an internal controls structure include (but are not limited to): (1) segregation of related organizational duties; (2) a good audit trail; (3) physical protection of assets; and (4) sound personnel policies.

Internal controls are a requirement of the Uniform Grant Guidance post award requirements for financial management systems, 2 CFR 200.302 (b) (4) *"Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See § 200.303 Internal controls."*

2 CFR 200.303 provides that: *"The Non-Federal entity must:*
(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in ''Standards for Internal Control in the Federal Government'' issued by the Comptroller General of the United States or the ''Internal Control Integrated Framework'', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
(b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.
(c) Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.
(d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
(e) Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, state, local, and tribal laws regarding privacy and obligations of confidentiality."

No Financial Management System

A financial management system is required to (Uniform Grant Guidance, section 200.302):

- ✓ Identify all federal awards received and expended and the federal programs under which they were received. *While they did not receive any other federal award, they did not segregate cost centers adequately.*

- ✓ Provide accurate, current and complete disclosure of the financial results of each federal award/program. *The independent audit of the organization established that they had received monies not expended and had not returned them during this time frame- so this condition was not met.*
- ✓ Provide and maintain records that identify the source and application of funds. *No GL was maintained until December of 2014 to track funding and expenditures, the Excel spreadsheet provided was not sophisticated enough to perform the functions of a financial management system as it did not track deposits to financial institutions etc. The GL did not operate with a true chart of accounts to segregate items of expense and income by program. The use of a notes field was helpful but was not consistently applied. Reconciliation between reports and the accounting system was not occurring. The company maintained the GL on a cash basis until 2016 and reported on an accrual basis without reconciliation.*
- ✓ Provide effective control over, and accountability for: all funds, property and other assets. *Purchase orders were not maintained to ensure costs were managed. Property records to identify items with a useful life greater than one year were not inventoried. Funds were not returned in accordance with the guidance, funds were advanced using a method that does not align with the requirements of the uniform grant guidance 2 CFR 200.345. They failed to obtain an independent audit until the close of FYE 2015 which is a compliance issue.*
- ✓ Provide a comparison of expenditures with budget amounts for each award
- ✓ Maintain written procedures to implement payments in accordance with set federal standards 200.305. *Procedures for disbursement are not in line with the expectations of 200.305 for advances- schools while operating programs on a semester basis do not operate daily financial needs based on the semester- and issuing payment in this manner is not in line with the requirements which reference "minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements... or if they cannot meet the requirements for advance payments cash may be provided on a working capital basis... the pass-through entity must advance cash payments to the non-Federal entity to cover its estimated disbursement needs for an initial period generally geared to the non-Federal entity's disbursing cycle. Thereafter, the... pass-through entity must reimburse the non-Federal entity for its actual cash disbursements."*
- ✓ Written procedures for determining the allowability of costs in accordance with the cost principles. *The cost principles are cited, and there is oversight of the sub-awards and of travel expenses, however in reviewing purchases it became clear that the oversight was not adequate and that cost principles were not understood or always applied. Records to allocate time or indirect costs were not maintained; records to demonstrate an allocation of time were not maintained. Therefore, the policies and procedures for review of purchases and expenses were inadequate to act as an internal control. The level of expertise and understanding of employees is a necessary internal control for oversight of a grant program.*

Specific issues related to the lack of financial management system are as follows:

<u>Lack of Policies and Procedures</u>

The OMB Circular A-110 2 CFR Part 215, Subpart Part C Post Award Requirements, 215.21, (b) (6) states:

Recipient's financial management systems shall provide for the following:

- *Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.*

Written policies and procedures specify management's criteria for executing an organization's operations and promote uniformity in executing and recording transactions. They state what is to be done, how and how often, by whom, and how the process is to be documented. Policies and procedures set forth the fundamental framework and the underlying methods and processes all employees rely on to do their jobs. Thorough policies and procedures also serve as effective training tools for employees.

If written policies and procedures are not followed, do not exist, are inaccurate, incomplete, or simply not current, the following could result:

- Inaccurate and unreliable financial records due to inappropriate recording of transactions which could result in inaccurate decisions made concerning resource allocation;
- Inconsistent practices among employees that could cause confusion and poor customer and employee morale;
- Processing errors due to a lack of knowledge.

Auditors did find some policies and procedures; however, they did not appear to be up-to-date and reflect current practices. In particular, we found:

- Policies and procedures are not adequate to ensure that fiscal processes maintain segregation of duties and internal controls are adequate to protect the organization.
- The organization lacked an organizational chart to demonstrate lines of hierarchy as well as to describe any processes for segregation of duties until after 2015.
- While this is a for profit organization – the oversight of the CEO's expenditures was not adequate to ensure funds were spent in accordance with grant purposes and to protect the organization or DCF. While DCF does not claim expenditures from grant funds were improperly made, the potential for fraud increases with the lack of adequate oversight and segregation of duties found at every level of the organization.
- Bylaws had not been updated and/or were not followed.
- Board minutes were not kept.

Lack of Audit Trail

An **audit trail** refers to the complete record of events that occurred in the execution of a transaction. The records comprised in an audit trail can be reviewed with diligence in the event that accounting figures fail to reconcile. Recreating a transaction step-by-step will reveal where a breakdown in the process occurred (if any). An audit trail also has to do with being able to provide a complete history of any given financial transaction – identifying each step in the process from the initiation of the transaction all the way through completion of the transaction.

The audit trail provides a critical component in fraud detection. Strict adherence to the creation of an audit trail provides information proving the legitimacy of transactions. All business payments must have supporting documentation such as purchase orders and approved invoices. The presence of an audit trail requirement not only helps detect fraud but serves to prevent it. Employees who know that management monitors and tracks their work see less opportunity for fraudulent activity.

OMB Circular A-110 2 CFR Part 215, Subpart Part C Post Award Requirements, 215.21, (b) (2) states:
Recipients' financial management systems shall provide for the following:

- *Records that identify adequately the source and application of funds for federally-sponsored activities.*
- *These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.*

Uniform Grant Guidance, section 200.302 – Financial Management states grantee must provide and maintain records that identify the source and application of funds.

Grant Agreement: Section 31.2 states: *The Grantee shall maintain books, records and other documents in such a manner so as to readily identify them directly with the delivery of services outlined in the Grant award.*

The purpose of the review was to trace expenditures reported to DCF/OGC to actual source documentation to prove the accuracy and authenticity of expenditures. Being able to trace to a source document provides reasonable assurance that amounts reported are accurate.

Expenditure transactions were randomly selected for review for each grant. As noted later in this report, there were instances where Hysell & Wagner could not provide documentation to support amounts reported to DCF/OGC.

Cannot Trace to Source Document. Vouching is used to prove the accuracy and authenticity of entries by tracing to supporting documentation. Being able to trace to a source document provides reasonable assurance that amounts reported to the federal government are accurate. Amounts reported on the federal report that cannot be supported by a source document may result in federal funds being repaid to the federal government. There should be an audit trail for all amounts reported on federal reports. There should also be a complete history of any amounts reported – including changes.

There needs to be a comprehensive manual that details how source documents are to be prepared, maintained, and filed.

Review & Approval

When a process is performed within a department, there should always be another level of review and approval performed by a knowledgeable individual independent of the process. The approval should be documented to verify that a review was done. Review and approval are internal controls that help management gauge whether operational and personnel goals and objectives are being met.

The lack of or inadequate review and approval could result in the following:

- Errors may be overlooked resulting in misstatements that could affect financial, as well as, operational decisions.
- Inaccurate or incomplete information in accounts and/or reports.
- The inability to detect irregularities.

There should be a thorough review of process, transactions, and reports that are performed for accuracy, completeness, and timeliness. The reviewer should be someone who is knowledgeable about the items or areas being performed so they are able to readily identify errors and/or omissions. Evidence of the reviews and approvals should be documented (e.g., signed or initialed and dated by the reviewer/approver).

***PAYROLL COSTS** (Salaries, Taxes and Fringe Benefits)*

Lack of Documentation to Support Reported Salary and Benefit Amounts. For POs #19758, #22271, and #23905, Hysell & Wagner was required to follow the provisions of A-122, Attachment B, 8. Compensation for Services. In 8m, *Support of Salaries and Wages*, the Circular details the requirements necessary for allowability of salaries and wages charged to awards.

> *Charges to awards for salaries and wages, whether treated as direct costs 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, as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency.*

Subparagraph 2 further states:

> *Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards.*

The Circular further states the reports must:
- *Reflect an after-the-fact determination of the actual activity of the employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.*
- *Account for the total activity for which employees are compensated.*
- *Be signed by the individual employee, or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during periods covered by the reports.*
- *Be prepared at least monthly and must coincide with one or more pay periods.*

The **Uniform Grant Guidance** became effective for all awards beginning on or after December 26, 2014. Therefore, POs #23909 and #27890 fell under the provisions of this Guidance. Per 2 CFR Part 200 under the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart E - Cost Principles, Section 200.430 (8)(i), *Standards* *for Documentation of Personnel Expenses* states, in part, that charges for salaries and wages must be based on records that accurately reflect the work performed. These records must:

(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

(ii) Be incorporated into the official records of the non-Federal entity;

(iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS);

(iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;

(v) Comply with the established accounting policies and practices of the non-Federal entity; and

(vi) [Reserved]

(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

We found:

<u>No Timesheets</u>

Individuals charged 100% to the grant with no timesheets to support hours worked towards the DCF program. With the lack of documentation for time worked, the payroll costs for time worked were not allowed.

<u>Bylaws</u>

The Bylaws provided by Hysell & Wagner were effective July 2013. Article II identifies both Hysell and Hazen to be board members; however, during the period being audited Wagner was a partner and Hazen was not. Hazen did not become a partner until January 2016.

Article III, Board of Directors, Section 1. Powers and Compensations states, *"The Board of Directors of the Corporation shall supervise, control and coordinate the activities and affairs of the Corporation, except as otherwise expressly provided by law, the Articles of Incorporation of the Corporation, or these bylaws. The Directors shall serve these governance functions without compensation. However, as individuals they may be compensated in such reasonable amounts as established by the Board, for consulting and related services rendered by or on behalf of the Corporation to its third-party clients."*

Based on the bylaws, either Hysell or Wagner was entitled to compensation for this grant.

<u>Lack of Contract</u>

In addition to the above, there was no contract with Hysell or Wagner that identified roles and responsibilities related to tasks for the DCF award. There was also no clarification on reimbursements of salary and other grant related reimbursements.

Also, for the Deputy State Manager position, a contract was provided showing reimbursement of $5,000 per month for eight (8) months. Seven (7) months was charged against PO #23909. No contract was provided for PO #27890. In addition, monthly amounts reported to DCF changed from $5,000 to $5,200 for PO #27890. Since, the contract provided supported eight (8) months of reimbursement at $5,000 per month, one (1) month was allowed for PO #27890. The balance reported ($21,000) was considered nonallowable.

<u>Lack of Documentation</u>
For PO #23909, Hysell & Wagner advanced Keystone Learning Services $102,400.56. The only documentation provided showing expenses occurred was an invoice for $16,946.82. Therefore, the undocumented balance of $85,453.74 was considered nonallowable.

For PO #29505, documentation was not provided to support payroll costs $16,405.22 (Ashland $3,664.08/Concordia $12,381.14 (includes Taxes and Benefits).

<u>Costs Not Budgeted</u>
Section 12.0. Grant Changes and Budget Modifications, Part 12.1 of the Grant Agreement states, in part, *The Grantee Agency shall continue to utilize the grant funds in a manner consistent with the Approved Grant Budget Authority, abiding by the restrictions found elsewhere with these Grant conditions.* The Ashland school district reported Taxes and Benefits that were not in the approved budget. Total nonallowable was $227.17.

<u>Taxes/Benefits</u>
Applicable taxes/benefits for the nonallowable payroll costs were considered nonallowable. Non-allowable Personnel Costs are Summarize below:

P O #	* No Timesheets	* No Contract/ Bylaws	No Contract	Lack of Documentation	Not In Budget	Total Unsupported Salary/ Benefit Costs
19758	$0.00	$97,500.00	$45,495.00	$0.00	$0.00	$142,995.00
22271	$0.00	$90,000.00	$30,240.00	$0.00	$0.00	$120,240.00
23905	$0.00	$0.00	$0.00	$22,384.68	$227.17	$22,611.85
23909	$160,712.49	$91,560.00	$0.00	$85,453.74	$0.00	$337,726.23
Total Not Allowed	$160,712.49	$279,060.00	$75,735.00	$107,838.42	$227.17	$623,573.08
#27890	$117,336.20	$66,000.00	$21,000.00	$0.00	$0.00	$204,336.20
TOTAL	**$278,048.69**	**$345,060.00**	**$96,735.00**	**$107,838.42**	**$227.17**	**$827,909.28**

* Amount includes applicable Taxes and Benefits

NON-PAYROLL COSTS

The Federal Cost Circulars and Grant Agreement provides details about records required to be maintained by Hysell & Wagner.

<u>OMB Circular A-122</u>

OMB Circular A-122, Attachment A, General Principles, A. Basic Considerations that discusses the factors affecting the allowability of costs. That Circular states for costs to be allowable they must be *"reasonable for the performance of the award"*, and *"conform to any limitations or exclusions set forth in the cost principles or the award"*. Additional citations are detailed below. Further guidance is given in the Circular as to "reasonable costs". The Circular states:

2. *Factors affecting the allowability of costs. To be allowable under an award, costs must meet the following general criteria:*
   a. *Be reasonable for the performance of the award and be allocable thereto under these principles.*
   b. *Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.*
   c. *Be consistent with policies and procedures that apply uniformly to both federally and other activities of the organization.*
   d. *Be accorded consistent treatment.*
   e. *Be determined in accordance with generally accepted accounting principles (GAAP).*
   f. *Not to be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or the prior period.*
   g. *Be adequately documented.*

3. *Reasonable costs. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by Federal agencies. In determining the reasonableness of a given cost, consideration shall be given to:*
   a. *Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.*
   b. *The restraints or requirements imposed by such factors as generally accepted sound business practices, arm's length bargaining, Federal and State laws and regulations, and terms and conditions of the award.*
   c. *Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government.*
   d. *Significant deviations from the established practices of the organization which may unjustifiably increase the award costs.*

4. *Allocable Costs:*

a. *A cost is allocable to a particular cost objective, such as a grant, contract, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:*
   (1) Is incurred specifically for the award;
   (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received; or
   (3)Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.
b. *Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law of the terms of the award.*

<u>Uniform Grant Guidance</u>
The Uniform Grant Guidance, which applies to awards on or after December 26, 2014 also offers standards for a financial management system (see section 200.302) and internal controls (see section 200.303) as previously discussed in the General Control and Compliance section. Additional requirements, most which mirrors OMB Circular A-122 are also referenced in the Uniform Grant Guidance. Section **200.403** addresses **Factors affecting allowability of costs;** section **200.404 Reasonable costs;** and section **200.405 Allocable costs.**

<u>Grant Agreement</u>
Section 3.0 Grant Award, section d. states, in part, the grantee will not receive payments for any expenditures made or incurred prior to the start or after the end of the terms of the grant.

Section 10.0 Funding, Part 10.2 Cost Principles states the grantee's request for reimbursement shall be limited to expenditures made consistent with NOGA and the cost principles set forth in: a) The Code of Federal Regulations (CFR); and b) The Office of Management and Budget Circulars identified.

Section 10.3 Allowable Costs states the grantee must follow their agency's purchasing regulations, or the State of Kansas regulations, whichever is more stringent.

Section 37.0 Records, Part 37.1 – Accounting System states, *"The Grantee Agency's accounting system shall meet generally accepted accounting principles and OMB Circular provisions."* Section 37.2 - *Maintenance of Cost Records* of the Grant Award also states: "*The Grantee shall maintain books, records and other documents in such a matter so as to readily identify them directly with the delivery of services outlined in the Grant award.*"

For Contract #39115 (PO #s 19758 & 22271), under Scope of Work, Section 5 Payment, it states, in part, *"all per diem and travel related expenses are to be in accordance with the State of Kansas expense limits as identified in the employee travel reimbursement section in the travel handbook."*

Hysell & Wagner Employee Handbook

Credit Card Policy – Documentation: Hysell & Wagner staff members are responsible for keeping and coding receipts. Receipts for all purchases must be kept and submitted with a completed "Expensify Expense Report" and a copy of the credit card statement.

Procurement Policy – Item III. Documentation. All source documents supporting any given transaction (receipts, purchase orders, invoices, RFP/RFQ data and bid materials) will be retained for a period of 5 years and filed in an appropriate manner. Where feasible, source documents pertinent to each individual procurement shall be separately filed and maintained. Where it is not feasible to maintain individual procurement files, source documents will be filed and maintained in a reasonable manner (examples include chronologically, by vendor, by type of procurement, etc.). Whatever form of documentation and filing is employed, the purpose of this section is to ensure that a clear and consistent audit trail is established. At a minimum, source document data must be sufficient to establish the basis for selection, basis for cost, (including the issue of reasonableness of cost), rationale for method of procurement and selection of contract type, and basis for payment.

Transactions were selected for review to determine compliance with the grant agreement, OMB Circulars, and applicable laws and regulations. In particular, the purpose of the review was to:

- Determine whether expenditures have been properly allocated to DCF grant funds;
- Determine if purchases were adequately supported with documentation;
- Determine reasonableness of expenditures;
- Determine whether the correct line item was charged; and
- Determine that expenditures meet the purpose of the grant and are allowable based on the OMB Circulars.

FINDINGS

- **Costs Related to Travel by the Project Director to Commute Between Home in Washington, D.C. and Kansas – where the deliverables are being provided.** OMB Circular A-122 Attachment B, Section 51. Travel Costs states:

  > a. *General. Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the non-profit organization* (Uniform Grant Guidance – Section 200.474)...

  - The State of Kansas Travel Reimbursement Handbook specifically lists "transportation expenses incurred commuting between an employee's official station and domicile" as non-reimbursable. *$20,423.13 is considered non-allowable.*

  - We also found instances where travel costs were charged to the DCF grant/contract that were not in compliance with the State of Kansas Travel Handbook. In particular: 1) mileage charged not supported or over the minimum allowable miles *(non-allowable $881.73)*; 2) meals charged not supported by overnight travel or above the per diem allowed *(non-allowable $3,491.64)*; and 3) lodging costs in excess of state maximum allowed *(non-allowable $245.25)*.

$25,041.75 are not allowable because of noncompliance to official State of Kansas travel guidelines.

- **Lack of Supporting Documentation.** According to Attachment A (General Principles) of OMB Circular A-122, Cost Principles for Non-Profit Organizations, Basic Considerations states in subparagraph A.2 in part, *"Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria: (a) Be reasonable for the performance of the award and be allocable thereto under these principles. (g) Be adequately documented."* Also, see Uniform Grant Guidance section 200.403(g) - Factors affecting allowability of costs.

OMB Circular A-110 2 CFR Part 215, Subpart Part C Post Award Requirements, 215.21, (b) (2) states:
Recipients' financial management systems shall provide for the following:
- *Records that identify adequately the source and application of funds for federally-sponsored activities.*

Grant Agreement: Section 31.2 states: *The Grantee shall maintain books, records and other documents in such a manner so as to readily identify them directly with the delivery of services outlined in the Grant award.*

Auditors reviewed transactions to see if all of the expenditures charged against the DCF Reading Roadmap award were supported with proper documentation. Being able to trace to a source document provides reasonable assurance that amounts reported to the federal government are accurate. Auditors found insufficient or missing documentation existed to support several transactions. **With the lack of documentation, a total of $19,627.89 unsupported costs was considered non-allowable.**

We found:
- ✓ Travel that lacked information relating the travel to the purpose of the award. Without documentation detailing the purpose of the travel, we could not determine whether the travel costs, in total, related to "official business of the organization" and pertained to the DCF Reading Roadmap award. **Total non-allowable was $6,189.88.** *Note: Travel detail is also required for all subgrantees.*
- ✓ Hysell & Wagner charged travel expenditures to the grants that were not supported by source documentation, e.g., an invoice or other document, and that clearly showed the relationship of the expenditure to the grant award. **Total unallowable $3,707.08.**
- ✓ We also found Transportation costs charged by subgrantee to PO #29505 with no documentation. **Total nonallowable $151.46.**
- ✓ Supplies were also charged to the grant that lacked documentation. The supplies were either: 1) supplies directly charged against the grant; or 2) supplies purchased by grant personnel in which they were reimbursed with no documentation provided. **Total non-allowable $2,547.94.**

- ✓ Costs charged to both PO #19578 and #22271 that could not be confirmed with supporting documentation. **Therefore, $7,031.53 in costs that could not be supported are nonallowable** (PO #19578 $1,077.67 and PO #22271 $5,953.86).

  Documentation is needed to substantiate a decision, event, transaction or system. All documentation should be complete, accurate and recorded timely. It should have a clear purpose and be in a usable format that will add to the efficiency and effectiveness of Hysell & Wagner when information is requested for historical documentation.

- ➢ **Unallowable, Unreasonable and Unnecessary.** During the review of expenditures charged to DCF awards, we noted multiple instances of items charged that appeared or were determined to be unallowable, unreasonable or unnecessary as required by the OMB Circular A-122 and the Uniform Grant Guidance, Sections 200.403 (Allowability of costs) and 200.404 (Reasonableness of costs). In many instances the amount charged seemed excessive and unnecessary. Examples of questionable costs charged to awards included:

  1) Paying travel expense prior to the actual travel - $8.92.
  2) Travel costs associated with meeting with Kansas Senators - $2,269.09. (see *Uniform Grant Guidance section 200.450 for allowable costs related to Lobbying)*
  3) Food costs that appear to be unrelated to the purpose of the award - $2,241.99 (reported as travel costs - $517.69; reported as supplies - $1,724.30).
  4) Costs charged to supplies that did not appear to be related to the purpose of the award. This included costs for activities, centerpieces, footballs, and hotel room at Wichita Marriott. Total not allowed was $21,461.59.

  These costs do not meet the criteria of "ordinary and necessary for the operation of the organization or performance of the award" as per the Circular. **Total non-allowable costs are $25,981.59.**

- ➢ **Control Weaknesses for Recording Transactions in the General Ledger.** As part of our testing of controls over expenditures, non-payroll costs were reviewed to ensure that amounts on monthly reports to DCF, could be vouched to an entry in the accounting system (General Ledger) and to bank statements. We compared dates on all transactions. We found a control weakness in the recording of some non-payroll costs. Tracing transactions to the general ledger was very difficult. There was no clear audit trail from Monthly Reports to DCF and the general ledger.

  Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. Amounts reported to DCF should be easily identifiable in Hysell & Wagner's accounting records. **We found $1,056.11 in Travel costs and $728.38 in Supplies untraceable and therefore not allowable.** We could not determine if the expenditures were real.

  Weak controls in recording of transactions could result in misstated financial reports or inaccurate and unreliable financial records.

- **No Written Method for Allocating Non-Payroll Costs.** Hysell & Wagner failed to develop, document, and implement a method of allocating costs. We identified costs for which no allocation method was found and costs that were fully charged to a single award but should have been allocated to multiple awards in accordance with the Uniform Grant Guidance. In addition to the need to have documentation to support a cost, OMB Circulars A-122 and A-110 require proper documentation to support the allocation methodology used to distribute costs among various funding sources. A-122 also provides the following guidance regarding allocability of costs in Attachment A, 4. *Allocable Costs. …To be allowable under an award, costs must meet the following general criteria: Be adequately documented.*

    a. We found travel costs that appear to provide support to multiple programs (funding sources) with Hysell & Wagner. These costs were fully charged to a single award during a specific time period but should have been allocated to multiple funding sources in accordance with Circular A-122 and Uniform Grant Guidance.

    Consequently, costs charged to awards were disallowed due to the lack of documentation supporting allocations to multiple funding sources. **The lack of a method for allocating costs resulted in costs of $884.19 being disallowed.**

    b. The 2 CFR Part 200 Uniform Grant Guidance addresses Indirect costs as follows:

    200.56 Indirect facilities & administrative (F&A) costs. Indirect (F&A) costs means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

    200.414 Indirect (F&A) costs. Part (f) states, in part, any non-Federal entity that has never received a negotiated indirect cost rate, may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC), which may be used indefinitely. It further states as in 200.403 Factors affecting allowability of costs, costs must be consistently charged as either indirect or direct costs but may not be double charged or inconsistently charged as both.

    Hysell & Wagner did not use the de minimis rate. Issues found were as follows:

    1) Hysell & Wagner used the de minimis 9% rate during the grant audit period to allocated indirect costs to the DCF award. However, the methodology behind this allocation percentage was unclear and not adequately documented – there was no cost allocation plan or an approved indirect cost rate. Therefore, this percentage was not allowed.
    2) Included in the costs were payments made by Hysell & Wagner to subgrantees. These costs did not apply to the cost of operations of Hysell & Wagner and should not have been included prior to applying the 9% cost rate.

3) Hysell & Wagner did not have costs identified as indirect costs (indirect cost pool). There was no way for auditors to determine if there were costs being reported as both direct and indirect costs. **200.403 Factors affecting allowability of costs, section (g)** states, in part ...To *be allowable under an award, costs must meet the following general criteria: Be adequately documented.* DCF was reimbursing Hysell & Wagner for charges that were not based on actual costs and there was no documentation to support reported amounts.

Indirect costs were not allocated based on actual benefit received as required by the Uniform Grant Guidance. The 9% indirect cost rate applied was not documented and could not be supported. Therefore, all indirect costs were considered non-allowable. **Total considered nonallowable was $447,520.14.**

Total costs not properly allocated and considered nonallowable was $448,404.33.

- **Charges to Grant Not Based on Actual Costs.** According to the Uniform Grant Guidance, Section 200.403, *"Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria: (a) Be reasonable for the performance of the award and be allocable thereto under these principles. (g) Be adequately documented."*

The **Grant Agreement** *Section 3.0*, section c. states, in part, *"The Grantee shall only be paid for actual work performed and services delivered."*

We found the following:

a) Stipends were paid to individuals in the spring at USD #286 (5 for a total of $4,000) and USD #247 (7 for a total of $4,800) and also four (4) summer tutor stipends totaling $2,000. The total stipends paid to these individuals totaled $10,800. Documentation provided for USD #286 stated it was a verbal agreement to pay 5 FAST stipends directly to take them out of the school's payroll system. Hysell & Wagner provided no documentation showing a contract existed between these individuals. Also, there was no documentation showing amounts paid were actual costs related to these individual advanced stipends to ensure actual costs were incurred. **Therefore, the entire amount of $10,800 was considered non-allowable.**

b) Hysell & Wagner did not provide company cell phones to staff. Each of the four (4) Program Managers were given a stipend of $75 per month for reimbursement of cell phone charges on their personal phones, which in some instances the cell phone plan included other family members. Hysell & Wagner charged DCF $300 per month for these stipend costs.

   Each Program Manager was to submit a copy of the first page of their personal cell phone bill as documentation and record the $75 stipend on the "Expensify Expense Report" (along with other requests) for reimbursement. Hysell & Wagner had no written cell phone policy regarding the use of the stipends for charges to the DCF award – including a requirement that only amounts can be reimbursed of the lower of the $75 or the actual cell phone charge for that month.

This business practice is unacceptable from an internal control standpoint; it is misuse of federal grant funds. Expenditures incurred using Federal or State funds must be actual and real to be allowable. Funds received through DCF cannot be spent without having a legitimate, reasonable business purpose. **Therefore, the entire amount of cell phone stipends charged to the award was considered non-allowable – a total of $3,600.**

c) Hysell & Wagner charged as expenses to the DCF award advances of funds to the subgrants. These are not considered an expense to Hysell & Wagner and should not have been charged against the DCF award. Only the actual costs incurred by the subgrantees should have been charged against the DCF award. Therefore, all advances totaling $3,979,291.79 (does not include stipends, consultants, or Keystone advances) were considered non-allowable (PO 25909 $3,960,563.86; PO 27890 - $18,727.93). Only audited costs were amounts reported by subgrantees to Hysell & Wagner.

Reported costs for PO #25909 were $3,009,757.93 whereas audited costs (as reported by subgrantees) were $2,996,342.42 - a difference of $969,605.93. For PO #27890, for the six (6) months of the grant reviewed, reported costs were $18,727.93 and audited costs were $1,935,343.92.

For PO #25909, the difference was considered nonallowable. For PO #27890, since the grant is only partially audited, only the advances were considered nonallowable. The difference between advances and actual audited (not allowable) costs were considered nonallowable - $988,333.86 ($969,605.93+$18,727.93).

PLEASE Note: Allowable costs for Contractual subawards are addressed later in this report.

Total nonallowable costs not based on an actual cost was $1,002,733.86.

- **Costs Charged Outside the grant period.** The Uniform Grant Guidance, Section **200.309 - Period of performance** states, *"A Non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance."*

  The **Grant Agreement** *Section 3.0*, section d. states the grantee will not receive payments for any expenditures made or incurred prior to the start or after the end of the terms of the grant.

  For PO #23909, the grant began January 1, 2015. However, there were supplies costs reported to DCF were for costs incurred in December 2014. **Total non-allowable is $3,600.**

- **Costs Not Reported in Accordance with Approved Budget.** As part of the granting process, Hysell & Wagner submitted a line item budget to DCF that outlined how the funds awarded would be used. The budget narrative included descriptions about the types of expenditures or costs used to make up the budgeted amount. As part of the audit, costs were reviewed to verify expenditures were reported on the correct line item budget. As shown below for PO #23909, we found costs not consistently reported and applied. Adjustments were made to move costs to the correct budgeted line item.

1) Moved $405.09 in training costs from its own separate line item to the Travel/Training/ Events line item.
2) Moved $2,000 in Stipends from Supplies to Contractual line item.
3) Moved $18,978.56 in Contractual (Keystone) to Payroll Costs.

➢ **Line Item Budget not Followed.** Section 12.0. Grant Changes and Budget Modifications, Part 12.1 Revision Requests of the Grant Agreements states: *"A Grantee Agency may submit a Revision Request (OGC-1008) during the grant year to their designated OGC Grant and Contract Specialist if they would like to move funding from one line item to another, within the existing grant year, without changing the Total Expense amount. If the requested funding change is less than 10% of the line item amount where the money is coming from no Revision is required. Approval is necessary prior to making any expenditure. In addition, approval is necessary before requesting reimbursement for such expenses. If reimbursement is being requested for monies over 10% of a line item and approval has not been given, those expenses will not be reimbursed. The Grantee Agency shall continue to utilize the grant funds in a manner consistent with the Approved Grant Budget Authority, abiding by the restrictions found elsewhere with these Grant conditions.*

Revision Requests will not be accepted during the last thirty (30) days of the grant term."

For PO #23905, the school districts (Ashland and Concordia) reported costs which were not in the approved budget. Hysell & Wagner did not request a revision to the budget. **Therefore, $18,454.46 in costs not approved were considered non-allowable.** Costs not budgeted include:

Training - $165.03
Stipends - $5,645 (also; not an actual expense; see previous conclusion regarding Stipends)
Other - $12,365.28

For PO #27890, Hysell & Wagner reported Other costs of $279.15 which were not included in the approved budget and was considered nonallowable.

➢ **Review of Sub Awards**. The Uniform Grant Guidance section 200.331(6)(d) states, in part, all pass-through entities must: *"Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward, and that subaward performance goals are achieved."*

As part of the Contractual line item, Hysell & Wagner entered into a separate contract with each of the school districts and other partners. During the course of the audit period, contracts covered three (3) different parts of the school year: Spring, Summer, and Fall. The periods for each program was as follows:

Spring: 1/1/15 – 5/31/15
Summer: 6/1/15 – 7/31/15
Fall: 8/1/15 – 12/31/15

The Spring and Summer periods were covered under the grant agreements (PO 23505 and 23509) for the period 1/1/15 – 8/31/15. The Fall period 8/1/15 – 12/31/15 was covered under a separate grant agreement (PO 27890).

Four (4) subgrantees were randomly selected for review: Ashland (USD #220); Fowler (USD #225); West Bourbon Elementary (USD #235); and Concordia (USD #333). Hysell & Wagner was contacted and asked to provide documentation for all expenses reported to them from each of the school districts for each part of the school year.

Non-allowable costs were found in review of documentation provided for each of the school districts. Reasons for non-allowable costs included: Lack of documentation; insufficient documentation; costs not reasonable or necessary for reading roadmap program; costs not included in approved budget; costs reported twice; costs not based on actual costs; no expense report found. Below is a summary of non-allowable costs for each school district.

Ashland
This school district only participated in the Spring Reading Roadmap school program for the period 1/1/15 – 5/31/15. The activities related to this school district were included in a separate grant agreement = PO #23905. The only expense report found was for $5,232.31. In review of the expenses, the entire amount reported was considered non-allowable due to costs not budgeted and lack of documentation. Total non-allowable:

Period	**Total Nonallowable**
Spring	$5,232.31
Total for PO #23905	**$5,232.31**

Fowler
This school district participated in all the school programs – Spring, Summer, and Fall. Total non-allowable costs:

Period	**Total Nonallowable**
Spring	$20,675.83
Summer	$23,407.79
Total for PO #23909	**$44,083.62**
Fall – **PO #27890**	**$36,748.17**

West-Bourbon Elementary
This school district participated in all the school programs – Spring, Summer, and Fall. Total non-allowable costs:

Period	Total Nonallowable
Spring	$65,447.71
Summer	$40,566.79
Total for PO #23909	**$106,014.50**
Fall – **PO #27890**	**$54,394.39**

Concordia

This school district participated in all the school programs – Spring, Summer, and Fall. The activities related to the Spring period were also included in a separate grant agreement – PO #23905. Summer activities were charged against PO #23909 whereas the Fall activities were charged against PO #27890. Total non-allowable costs:

Period	Total Nonallowable
Spring – **PO #23905**	**$37,013.05**
Summer – **PO #23909**	**$33,652.32**
Fall – **PO #27890**	**$38,473.35**

In addition, Section 10 - Funding of the **Grant Agreement,** Part 10 states, in part, the subgrantees are to adhere to the terms and conditions of the NOGA (Notification of Grant Award). Also, subgrantees are to used grant funds in a manner consistent with their given budget and abide by the restrictions found elsewhere within the Grant conditions. It also notes that Sub-Contracting restrictions and requirements in the uniform grant guidance will apply to each tier and oversight must be managed by the granting/contracting entity.

Summary of Nonallowable Subgrantee Costs:

PO # 23905	Amount
Ashland	$5,232.31
Concordia	$37,013.05
Total	**$42,245.36**

As this was a separate grant, these nonallowable costs were incorporated into findings within this report.

PO # 23909	Amount
Fowler	$44,083.62
West-Bourbon	$106,014.50
Concordia	$33,652.32
Total	**$183,750.44**

PO # 27890	Amount
Fowler	$36,748.17
West-Bourbon	$54,394.39
Concordia	$38,473.35
Total	**$129,615.91**

PLEASE NOTE: DCF Audit staff did not review the costs reported by all of the subgrantees to Hysell & Wagner. Nor did DCF Audit Staff review compliance by the subgrantees to the subaward through Hysell & Wagner. If the subgrantees were reporting nonallowable costs similar to Hysell & Wagner and the subgrantees reviewed above, the recoupment amount would have been much higher. To avoid future audit exceptions and additional dollar recoveries, Hysell & Wagner should be ensuring all subgrantees follow and comply with all federal and state rules, laws, and regulations – including: Uniform Grant Guidance; State of Kansas Travel Policy, Grant/Contract Agreement, etc. Also, any unearned grant funds at the end of the award period should be returned to Hysell & Wagner.

Also, reports submitted by subgrantees were not signed or dated to determine timely submission and compliance.

Summary

Expenses charged to DCF awards by Hysell & Wagner were not:

- Adequately documented.
- Allocated based on the benefit received.
- Reasonable.
- Allowable under the cost circulars and the grant award.

Below is a table that identifies non-allowable costs by purchase order (not including subawards).

PO #	State Travel Policy	Lack of Document.	Not Reasonable or Necessary	Not in GL	Not Properly Allocated	Outside Grant Period	Not An Actual Expense	Expense Not Budgeted	Total
19758	$6,896.62	$4,068.55	$0.00	$0.00	$448.55	$0.00	$0.00	$0.00	$11,413.72
22271	$5,527.23	$8,547.78	$75.03	$0.00	$124.10	$0.00	$0.00	$0.00	$14,274.14
23905	$0.00	$1,458.20	$0.00	$0.00	$0.00	$0.00	$0.00	$18,175.31	$19,633.51
23909	$7,947.63	$2,182.88	$25,257.53	$1,056.11	$419,851.57	$3,600	$982,505.93	$0.00	$1,442,401.65
Total	$20,371.48	$16,257.41	$25,332.56	$1,056.11	$420,424.22	$3,600	$982,505.93	$18,175.31	$1,487,723.02
27890	$4,670.27	$3,370.48	$649.03	$728.38	$27,980.11	$0.00	$20,227.93	$279.15	$57,905.35
Total	$25,041.75	$19,627.89	$25,981.59	$1,784.49	$448,404.33	$3,600	$1,001,233.86	$18,454.46	$1,545,628.37

Summary of Nonallowable Expenses

PO	19758	22271	23905	23909	27890	Total
Payroll	$142,995.00	$120,240.00	$22,611.85	$337,726.23	$204,336.20	$827,909.28
Non-Payroll	$11,413.72	$14,274.14	$19,633.51	$1,022,717.16	$30,069.70	$1,098,108.23
Indirects	$0.00	$0.00	$0.00	$419,684.49	$27,835.65	$447,520.14
Subawards	$0.00	$0.00	$0.00	$183,750.44	$129,615.91	$313,366.35
Total	$154,408.72	$134,514.14	$42,245.36	$1,963,878.32	$391,857.46	$2,686,904.00

➢ **<u>Status Update of Review of Activity for Three (3) months of 2017 – January – March</u>.** DCF Audit Services reviewed three (3) months of Hysell & Wagner's FYE 12/31/17 to determine if issues outlined above had improved. The situation had not improved. We found:

- Personnel costs are still not certified, as 100% for those with multiple activities outside of the grant. There was no documentation that demonstrated 100% time.
- Hysell & Wagner is operating on a modified cash basis with some activities as noted with purchase of supplies (see note below).
- Reconciliations were not being completed on a timely basis. Reconciliations are not being performed monthly, which would help prevent errors and other issues.
- There was an instance of double billing a set of purchase orders to the grant.
- Items were being reported and reimbursed, which are unallowable.
- Reasonable and necessary test not met with supplies reported to DCF.
- Expenses reported not based on actual costs or activity (cell phone).
- Travel from domicile was still being reimbursed.
- No allocation of costs (i.e., no cost allocation plan in place to cover items benefitting other programs).
- Documentation is still missing.
- Not all items could be traced to the General Ledger.
- Meals were not supported by overnight travel.
- Per-diem was being claimed over the State Travel Policy limit.
- Travel documentation was inadequate/vague.
- Indirect costs are still being charged to pass through or advanced funds.

3. ***Has management expended funds in accordance with the grant/contract/provider agreement, A-133/Uniform Guidance and applicable laws and regulations?***

CALCULATION OF UNSUPPORTED GRANT AND CONTRACT PAYMENTS

Hysell & Wagner did not maintain documentation to support costs charged to the DCF grants and contracts as well as charging costs to the grants and contracts without a supportable allocation basis or which did not comply with applicable federal cost circulars, the grant/contract award or State laws.

We have determined expenditures totaling **$2,686,904** were paid for unallowed and unsupported costs for the period 2/1/14 to 12/31/15. The payments were the result of control weaknesses and noncompliance with OMB Circular A-110, A-122, and Uniform Grant Guidance, Grant/Contract Award Terms and Conditions and State Laws.

Grant Agreement, Section 10.11 states all unearned Federal Grant funds on hand at the end of the Grant period shall be returned to DCF within sixty (60) days of the end of the grant period. *Revenue is earned when allowed expenses (according to the Grant terms) are incurred and properly reported...*

Overpayment of DCF Grant Funds. *OMB Circular A-110 states in Subpart D, __.71 Closeout Procedures:*

> *(g) In the event a final audit has not been performed prior to the closeout of an award, the Federal awarding agency shall retain the right to recover an appropriate amount after fully considering the recommendation on disallowed costs resulting from the final audit.*

The Circular further states in __*.72 Subsequent adjustments and continuing responsibilities*:

> *a) The closeout of an award does not affect any of the following:*
> *1) The right of the Federal awarding agency to disallow costs and recover funds on the basis of a later audit or other review.*
> *2) The obligation of the recipient to return any funds due as a result of later refunds, corrections, or other transactions.*

The total amount incorrectly claimed by Hysell & Wagner for each award is outlined below:

Final Settlement PO #19758

Reported Costs	$165,934.92
Adjustment	$0.00
Audited Costs	$165,934.92
Less:	
N/A Payroll Costs	$(142,995.00)
N/A Non Payroll Costs	$(11,413.72)
Allowable Costs	$11,526.20
DCF Fund Received	$(165,934.92)
Total Due Hysell-Wagner/(DCF)	$(154,408.72)

Final Settlement PO #22271

Reported Costs	$139,345.11
Adjustment	$0.00
Audited Costs	$139,345.11
Less:	
N/A Payroll Costs	$(120,240.00)
N/A Non Payroll Costs	$(14,274.14)
Allowable Costs	$4,830.97
DCF Fund Received	$(139,325.11)
Total Due Hysell-Wagner/(DCF)	$(134,494.11)

Final Settlement PO #23905 - Ashland

Reported Costs	$5,232.31
Adjustment	$0.00

Audited Costs	$5,232.31
Less:	
N/A Payroll Costs	$(3,891.25)
N/A Non Payroll Costs	$(1,341.06)
Allowable Costs	$0.00
DCF Fund Received	$(51,983.50)
Total Due Hysell-Wagner/(DCF)	$(51,983.50)

Final Settlement PO #23905 - Concordia

Reported Costs	$37,013.05
Adjustment	$0.00
Audited Costs	$37,013.05
Less:	
N/A Payroll Costs	$(18,720.60)
N/A Non Payroll Costs	$(18,292.45)
Allowable Costs	$0.00
DCF Fund Received	$(41,381.00)
Total Due Hysell-Wagner/(DCF)	$(41,381.00)

Final Settlement PO #23909

Reported Costs	$5,071,587.53
Adjustment	($969,605.93)
Audited Costs	$4,101,981.60
Less:	
N/A Payroll Costs	($337,726.23)
N/A Non Payroll Costs	($53,111.23)
N/A Indirect Costs	($419,684.49)
N/A Subgrantee Costs	($183,750.44)
Allowable Costs	$3,107,709.21
DCF Fund Received	($5,071,608.23)
Total Due Hysell-Wagner/(DCF)	($1,963,899.02)

Summary Total Due to DCF:

Purchase Order	Due to DCF
#19758	$154,408.72
#22271	$134,494.14
#23905 – Ashland	$51,983.50
#23905 – Concordia	$41,381.00
#23909	$1,963,899.02
Total	**$2,346,166.38**

Preliminary Status PO #27890

This grant ran from 8/1/15 – 6/30/16. The grant was only audited through 12/31/15.

Reported Costs	$337,120.30
Adjustment	$1,916,615.99
Audited Costs	$2,253,736.29
Nonallowable Costs	$(391,857.46)
Allowable Costs	$1,861,878.83
DCF Fund Received	$(1,643,182.38)
Excess Costs Over Revenues	$218,696.45

Recommendations:

To improve compliance, avoid audit exceptions, and reduce the risk of costs being disallowed again in the future, we recommend Hysell & Wagner:

1. Ensure all Board, Management and Accounting staff are familiar with the Code of Federal Regulations, Title 2, Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

2. Develop a plan of action for creating and/or revising policies and procedures for all the areas listed above.

3. Update and continue to develop a formalized process to maintain and review organizational written policies and ensure they are current with authorizations documented and dated. These governing requirements, including bylaws, should be current with practices at Hysell & Wagner and provide guidance to staff. Staff should be made aware of policies and procedures and management should make sure staff understands them.

4. Ensure an adequate audit trail from financial transactions and for state and federal reporting. There should also be a complete history of any amounts reported – including changes. Hysell & Wagner needs to develop written process and procedures to clarify how source documents are to be prepared, maintained, and filed.

5. Develop a detailed policy and procedure to ensure expenses get coded to the correct accounts. The policy should include whose responsibility it is to make entries into the general ledger and whose responsibility it is to review and ensure those entries are correct.

6. Review Uniform Grant Guidance section 200.430 regarding Compensation of Personal Services. Staff should have documented allocations to the DCF award. Contractors should have a contract with Hysell & Wagner that includes such items as terms and conditions, contract period, reimbursements, scope of work, etc.

7. Develop, document, and implement a method of allocating costs for both direct and indirect costs. The methodology developed should ensure allocation to various funding sources is reasonable. This plan should detail how costs will be applied to various funding sources when more than one program or grant benefits from the purchase.

8. Develop written procedures and implement a formal monitoring process over approvals for fiscal transactions to ensure they are consistently approved and documented. Staff approvals and authorization of payments should be granted to those directly involved with assigned duties involving the approval and authorization process. Authorizations and approvals should be in writing and contain a legible signature to verify that a review was done.

9. Obtain an outside accounting firm to maintain books and records associated with the grant/contract. Staff at Hysell & Wagner, most especially the accounting staff, are not skilled and experienced to handle the accounting and financial management systems of the organization.

10. Hire a Grants Manager for the Reading Roadmap program who resides in Kansas.

11. Ensure expenses are reported accurately and coded correctly prior to submitting reports to DCF.

12. Develop a monthly report for monitoring grant line item budgets. Management staff should monitor the budget by approved line item. This will assure staff knows when to request funds to be moved between approved line items. Hysell & Wagner should also review the grant terms and conditions to have a better understanding of which budget line items do and do not require written approval before revisions.

13. Shall file and maintain necessary papers and reports with the Kansas Secretary of State's Office to come into compliance as a foreign covered entity doing business within the State of Kansas.

Recommendations:
We recommend DCF should:
1. Recoup funds totaling $2,346,166.38. This amount represents payments received by Hysell & Wagner which were not properly earned or spent as required by the applicable cost circulars and the grant award.

2. Review expenditures for the subsequent six (6) month period ending June 30, 2016 for PO #27890. Nonallowable costs as identified above should be identified. Amounts due DCF should be offset against future awards.

3. Consider moving the Reading Roadmap program to a DCF Program area – probably EES. There should be monitoring of financial as well as program outcome on a monthly basis.

Maia Ruby-Clemmons, Senior Auditor

Yolanda Gay, Audit Manager