



**U.S. Department of the Interior  
Office of Inspector General**

# **AUDIT REPORT**

**PROTECTION AND ADVOCACY  
OF THE MARIANAS,  
TERRITORY OF GUAM**

**REPORT NO. 98-I-179  
DECEMBER 1997**



# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, D.C. 20240

JAN 6 1998

## MEMORANDUM

TO: The Secretary

FROM: Wilma A. Lewis  
Inspector General

SUBJECT SUMMARY: Final Audit Report for Your Information - "Protection and Advocacy of the Marianas, Territory of Guam" (No. 98-I-179)

Attached for your information is a copy of the subject final audit report. The objective of the audit was to determine whether the Protection and Advocacy of the Marianas, a nonprofit organization doing business as the Advocacy Office, administered and expended Federal grant funds in accordance with statutory and grant requirements.

We concluded that the Advocacy Office needed to make improvements in the areas of financial management, program administration, procurement and property management, and expenditure control. Specifically, we found that the Advocacy Office: (1) did not have an approved indirect cost rate; (2) used Federal grant funds for other than grant purposes; (3) did not properly allocate personal services costs among its Federal programs; (4) did not provide required financial reports to grantor agencies and prepare annual budgets; (5) did not adequately document the eligibility of clients to receive protection and advocacy services; (6) authorized payment for legal services that were not clearly authorized by the Federal grants; and (7) did not ensure that caseworkers documented actions taken to address clients' concerns. In addition, the Advocacy Office: (1) did not obtain prior grantor approval for equipment purchases; (2) did not conduct procurements competitively; (3) did not adequately control personal property; and (4) incurred unallowable and unnecessary expenditures for retroactive salary payments, local and off-island travel, and miscellaneous costs (including rent and computer purchases). As a result, the Advocacy Office incurred questioned costs of about \$743,995, including procurement actions of about \$91,630, and could not locate property items valued at \$8,813. In addition, the Advocacy Office was unable to support that Federal funds were used for grant-related purposes.

Based on the response from the President of the Board of Directors of the Protection and Advocacy of the Marianas, we considered 1 of the report's 11 recommendations resolved and implemented and requested additional information for the remaining 10 recommendations.

If you have any questions concerning this matter, please contact me at (202) 208-5745 or Mr. Robert J. Williams, Assistant Inspector General for Audits, at (202) 208-4252.

Attachment



# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, D.C. 20240

**DEC 23 1997**

Mr. Oleh Vitkovitsky  
President, Board of Directors  
Protection and Advocacy of the Marianas  
P.O. Box 8830  
Tamuning, Guam 96931

Subject: Audit Report on the Protection and Advocacy of the Marianas, Territory of  
Guam (no. 98-I-179)

Dear Mr. Vitkovitsky:

This report presents the results of our review of the Protection and Advocacy of the Marianas, a nonprofit organization doing business as the Advocacy Office. The objective of the review was to determine whether the Advocacy Office administered and expended Federal grant funds in accordance with applicable requirements. The scope of the audit included all grant-related Advocacy Office operations that occurred during fiscal years 1994, 1995, and 1996 (to March 1, 1996). However, our audit scope was limited because the Advocacy Office's accounting records were not adequate to identify the application of funds among the Federal grants and the local programs. During the audit period, the Advocacy Office received \$863,733 in Federal grants and expended \$740,213 for operations.

We concluded that the Advocacy Office needed to make improvements in the areas of financial management, program administration, procurement and property management, and expenditure control. Specifically, we found that:

- The Advocacy Office did not have an approved indirect cost rate, used Federal grant funds for other than grant purposes, did not properly allocate personal services costs among its Federal programs, and did not provide required financial reports to grantor agencies and prepare annual budgets.

- The Advocacy Office did not adequately document the eligibility of clients to receive protection and advocacy services, authorized payment for legal services that were not clearly authorized by the Federal grants, and did not ensure that caseworkers documented actions taken to address clients' concerns.

- The Advocacy Office did not obtain prior grantor approval for equipment purchases, did not conduct procurements competitively, and did not adequately control personal property.

- The Advocacy Office incurred unallowable and unnecessary expenditures for retroactive salary payments; local and off-island travel; and miscellaneous costs, including rent and computer purchases.

These conditions occurred because the Advocacy Office had not developed a financial management system that was adequate to prepare and submit an acceptable indirect cost proposal and to ensure that Federal grant funds were used only for grant-related purposes and were properly protected, allocated, and accounted for. In addition, the Advocacy Office had not developed and implemented written procedures for case reviews, procurement actions, and property management and had not performed formal case file reviews to ensure that the files contained all appropriate documents.

As a result of our review, we questioned costs totaling \$743,995, including procurement actions totaling \$91,630, and could not locate property items valued at \$8,813. In addition, the Advocacy Office was unable to support that Federal funds were used for grant-related purposes. The Office's Executive Director said that the expenditures we questioned were necessary for operation of the Advocacy Office and were appropriate because the expenditures were based on policies adopted by the Board of Directors of the Protection and Advocacy of the Marianas.

To correct the conditions noted, we made 11 recommendations to the Board of Directors of the Advocacy Office, including the recommendations that the Advocacy Office should: (1) advise the U.S. Department of Health and Human Services and the U.S. Department of Education of the questioned costs charged to the Federal grants and either resolve the questioned costs or arrange for repayment; (2) develop and implement a system of personnel activity reports to support distribution of personal services costs and prepare and submit, to our North Pacific Region, indirect cost proposals; and (3) develop and implement procedures to ensure compliance with requirements related to financial reporting and budgeting, client and service eligibility, case file documentation, competitive procurement, property management, and the allowability of expenditures.

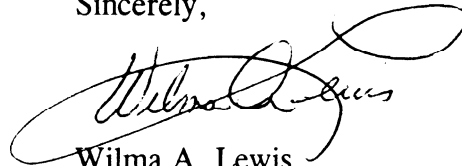
On August 4, 1997, we personally delivered a draft of this report to you requesting your response by September 12, 1997. On September 19, 1997, the Advocacy Office personally delivered its response, which was dated September 12, 1997 (see Appendix 5). The Advocacy Office indicated concurrence with all of the recommendations. Based on the response, we considered 1 recommendation resolved and implemented and requested additional information for the remaining 10 recommendations (see Appendix 6).

The Inspector General Act, Public Law 95-452, Section 5(a)(3), as amended, requires semiannual reporting to the U.S. Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

In view of the above, please provide a response, as required by Public Law 97-357, to this report by January 23, 1998. The response should be addressed to our North Pacific Region, 238 Archbishop F.C. Flores Street, Suite 807, Pacific News Building, Agana, Guam 96910. The response should provide the information requested in Appendix 6.

We appreciate the assistance of Board members and Advocacy Office staff during the conduct of our audit.

Sincerely,

A handwritten signature in black ink, appearing to read 'Wilma A. Lewis', with a large, stylized flourish extending from the end of the signature.

Wilma A. Lewis  
Inspector General

cc: Executive Director, Protection and Advocacy of the Marianas  
Governor, Territory of Guam  
President, University of Guam

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# INTRODUCTION

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## BACKGROUND

The Protection and Advocacy of the Marianas, a nonprofit organization doing business as the Advocacy Office, was established to: (1) promote and protect the general welfare and well-being of mentally and physically handicapped citizens; (2) assist mentally and physically handicapped citizens and their families or friends in finding available services; (3) promote and sponsor projects that help mentally and physically handicapped citizens reach their potential; and (4) support the objectives of Federally mandated and funded programs. The Advocacy Office is governed by a 11-member Board of Directors. As of June 20, 1996, the Advocacy Office employed four persons: an Executive Director; two case workers; and an outreach worker, who stated that she had been performing primarily administrative duties since being hired in March 1996.

During fiscal years 1994, 1995, and 1996, the Advocacy Office received grants from: (1) the Administration on Developmental Disabilities, Administration for Children and Families, U.S. Department of Health and Human Services; (2) the Substance Abuse and Mental Health Services Administration, Center for Mental Health Services, U.S. Department of Health and Human Services; and (3) the Rehabilitation Services Administration, U.S. Department of Education. In addition, in fiscal year 1995, the Advocacy Office received a U.S. Department of Education grant in a subrecipient capacity through a memorandum of understanding with the University Affiliated Program, University of Guam. This grant was to be used to develop information concerning assistive technology and related advocacy issues. The Advocacy Office also operated a locally funded financial assistance program for disabled individuals. The Advocacy Office commingled all Federal funds in one bank account and maintained all local funds in a separate bank account.

In an April 8, 1994, letter to the President of the Board of Directors of the Advocacy Office, the Administration on Developmental Disabilities, U.S. Department of Health and Human Services, declared the Advocacy Office “a high-risk grantee,” stating that “a high-risk organization is one whose management practices raise serious questions about its ability to assure proper programmatic use and financial stewardship of grant funds.” Further, in a February 28, 1996, letter to the Executive Director of the Advocacy Office, the Substance Abuse and Mental Health Services Administration, U.S. Department of Health and Human Services, also declared the Advocacy Office a “high-risk grantee,” stating that this designation is applied “to grantee organizations who have demonstrated poor business management practices.” Finally, in a September 29, 1995, letter to the Executive Director of the Advocacy Office, the Rehabilitation Services Administration, U.S. Department of Education, stated that for fiscal years 1994, 1995, and 1996, “Special conditions and reporting requirements have been made a part of [the individual rights grant] based in part on the past performance as a recipient of the Client Assistance Program grant, . . . and the more recent determination by HHS [Health and Human

Services] that the Advocacy Office is a ‘High Risk’ grantee.” The special conditions included the requirement for the Advocacy Office to obtain prior written approval for the acquisition of all contractual services, equipment, and off-island travel.

## **OBJECTIVE AND SCOPE**

The objective of our review was to determine whether the Advocacy Office administered and expended grant funds in accordance with statutory and grant requirements. The scope of the audit included all grant-related activities that occurred during fiscal years 1994, 1995, and 1996 (to March 1, 1996).

Our audit was conducted at the Advocacy Office from February through June 1996. To conduct our audit, we obtained information from Government of Guam officials of the Bureau of Budget and Management Research, officials of the U.S. Departments of Health and Human Services and Education, and the Advocacy Office’s independent public accountant. To accomplish our objective, we reviewed documents maintained by the Advocacy Office as follows: minutes of Board meetings; internal and external correspondence; and personnel, procurement, contract, and accounting records. We also reviewed applicable laws, regulations, and operating procedures related to administering the funds and programs under the Advocacy Office’s three Federal grants. However, our audit scope was limited because the Advocacy Office’s accounting records were not adequate to identify the application of funds among the Federal grants and local programs.

The audit was made, as applicable, in accordance with the “Government Auditing Standards,” issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

As part of the audit, we evaluated the system of internal controls in the areas of financial management, program administration, procurement and property management, and expenditure control to the extent that we considered necessary to accomplish the audit objective. We identified significant internal control weaknesses in all of these areas, as discussed in the Findings and Recommendations section of this report. Our recommendations, if implemented, should improve the internal controls in these areas.

## **PRIOR AUDIT COVERAGE**

During the past 5 years, neither the U.S. General Accounting Office nor the Office of Inspector General has issued any audit reports concerning the Advocacy Office. However, an independent public accounting firm issued single audit reports on Advocacy Office operations for fiscal years 1990 through 1993. These single audit reports stated that the Advocacy Office had allocated indirect costs among its Federal programs on the percentage basis of each program’s funding level relative to the total funding provided. However, the use of funding levels as a basis for distributing indirect costs was contrary to the requirements of U.S. Office of Management and Budget Circular A-122, “Cost Principles



for Nonprofit Organizations. " Therefore, the auditor questioned indirect costs totaling \$575,716 that were charged to the grants. In addition, the single audit reports questioned: (1) excess per diem claimed by Advocacy Office officers and employees (\$6,559); (2) unresolved differences between quarterly financial reports submitted to the grantor agencies (\$27,815); (3) grant expenditures that exceeded award amounts (\$25,564); (4) disbursement checks that were unsupported (\$21,682); and (5) unreconciled differences between financial reports and the accounting records. Based on our review, we determined that as of June 20, 1996, the Advocacy Office had not resolved these issues.

In an October 19, 1992, letter to the President of the Board of Directors of the Marianas Association for Retarded Citizens (the Advocacy Office's predecessor), the Administration on Developmental Disabilities, U.S. Department of Health and Human Services, reported its results of an administrative review performed in June 1992 on the operation of the Association's protection and advocacy program for persons who have developmental disabilities. The Administration's Commissioner stated that three "serious issues" were identified during the review, including "insufficient documentation of case records to support the provision of services," and that the "provision of services to clients who do not meet the developmental disabilities definition pursuant to Section 102(5) of the Act is a compliance issue that could seriously affect the administration of the . . . program. " The other two "serious issues" were the "lack of a formal agreement or contract for providing individual legal services, " which is discussed in Finding C, "Procurement and Property Management, " of this report, and the "unsubstantiated payment of salaries to salaried and contracted employees," which had been corrected before our audit was conducted. The report questioned the provision of legal services to clients in cases involving divorce, wills, collections, and eviction because they were not related to protection and advocacy activities. Our review disclosed that the Advocacy Office had not effectively resolved these issues and that client and case eligibility and case administration continued to be areas of significant weaknesses in Advocacy Office operations.

## **FINDINGS AND RECOMMENDATIONS**

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### **A. FINANCIAL MANAGEMENT**

The Advocacy Office did not manage Federal grant funds effectively. Specifically, the Advocacy Office: (1) did not have an approved indirect cost rate; (2) used Federal grant funds for other than grant-related purposes; (3) did not properly allocate personal services costs among its Federally funded programs; and (4) did not submit annual budgets and required financial reports to grantor agencies. U.S. Office of Management and Budget Circular A-122 requires that grant awards be used for grant purposes and sets forth standards for identifying direct and indirect costs. In addition, Titles 34 and 45, Part 74, of the Code of Federal Regulations, "Administration of Grants and Agreements With . . . Nonprofit Organizations," provide policies, standards, and guidelines for the financial management systems of nonprofit organizations. Guidance for managing grants funds is also contained in the terms and conditions of the Advocacy Office's Federal grant agreements. However, the Advocacy Office had not developed an adequate financial management system to: (1) prepare and submit an acceptable indirect cost rate proposal to the Department of the Interior's Office of Inspector General and (2) ensure that Federal grant funds were used only for grant-related purposes and were properly controlled, allocated, and accounted for. As a result, we questioned costs of \$528,938, which consisted of cost exceptions of \$358,994 and unsupported costs of \$169,944.

#### **Indirect Costs**

Circular A-122, Attachment A, Paragraph E.2.b, states, "A nonprofit organization which has not previously established an indirect cost rate with a Federal agency shall submit its initial indirect cost proposal immediately after the organization is advised that an award will be made and, in no event, later than three months after the effective date of the award." <sup>1</sup> In addition, Paragraph 8 of the terms and conditions of the grant agreements with the Administration on Developmental Disabilities, U.S. Department of Health and Human Services, for fiscal years 1994, 1995, and 1996 requires "any claims for the reimbursement of indirect costs [to] be supported by an approved indirect cost rate."

Although the Advocacy Office had received Federal grants since at least 1987, it did not submit an indirect cost proposal until May 1, 1995, for fiscal year 1995. Therefore, the Advocacy Office did not have an approved indirect cost rate for fiscal year 1994, and its indirect cost proposal for fiscal year 1995 was submitted 4 months late to the cognizant audit agency (U.S. Department of the Interior, Office of Inspector General). These conditions occurred because the Advocacy Office had not established an accounting system capable of identifying and documenting expenditures chargeable to the appropriate Federal and non-Federal programs. Thus, the Advocacy Office could not: (1) determine which

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<sup>1</sup>Circular A-122, Attachment A, Paragraph E.1.f, states that an indirect cost proposal refers to the "documentation prepared by an organization to substantiate its claim for the reimbursement of indirect costs."

costs were specifically identified with a particular program (direct costs) and which were incurred for a joint purpose benefiting more than one program (indirect costs) and (2) prepare an accurate indirect cost proposal that could be approved by the cognizant audit agency. Based on the lack of approved indirect cost rates for fiscal years 1994 and 1995 and the deficiencies noted in the accounting system, we questioned \$418,859<sup>2</sup> in charges made to the indirect cost category for fiscal years 1994 (\$232,849) and 1995 (\$186,010).

## **Non-Federal Program**

Circular A-122, Attachment A, Paragraph A.2, states that for costs to be allowable under an award, they "must . . . [b]e reasonable for the performance of the award and be allocable thereto under these principles. " Despite this requirement, during fiscal years 1994, 1995, and 1996, the Advocacy Office used funds from three Federal grants to pay for the costs of a local financial assistance program.<sup>3</sup> The local financial assistance program was not a protection and advocacy program and therefore was not eligible for funding under the Federal grant awards received by the Advocacy Office. The local program provided clients one-time grants based on financial need. Although these one-time grants were paid from local program funds, the cost of the personnel, equipment, and office space used to administer the local program were fully paid by the three Federal grants. These administrative costs associated with the local financial assistance program were not an authorized use of Federal protection and advocacy grant funds (requirements for eligibility in the Federal grant programs are presented in Appendix 4).

Based on our review of case files and interviews with employees, we determined that, during fiscal years 1994, 1995, and 1996 (to March 1, 1996), approximately 10 percent of Advocacy Office staff and office space were used to administer the local financial assistance program. Of 161 Advocacy Office cases open during the audit period, we reviewed 76 cases and identified 9 cases (about 12 percent of the 76 cases) for which the Advocacy Office provided financial assistance to the disabled (the local program). In addition, two staff members and the Executive Director stated that they worked on the local program during regular working hours. The Executive Director said that he did not realize that these costs should not be charged to the Federal grant programs. As a result

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<sup>2</sup>Appendix 1 shows questioned costs of \$303,792 related to the section "Indirect Costs" (Finding A). That amount consists of the total questioned costs of \$418,859 reduced by costs of \$115,067 that are questioned, for other reasons, elsewhere in the report as follows: \$16,183 in the section "Non-Federal Program" (Finding A); \$2,376 in the section "Eligibility of Clients and Services" (Finding B); \$75,133 in the section "Procurement" (Finding C); \$12,933 in the section "Salary Payments" (Finding D); \$238 in the section "Travel" (Finding D); and \$8,144 in the section "Miscellaneous Costs" (Finding D).

<sup>3</sup>The three Federal grants were Protection and Advocacy for the Developmentally Disabled, Protection and Advocacy for the Mentally Ill, and Protection and Advocacy for Individual Rights.

of our review, we questioned total costs of \$55,202,<sup>4</sup> which represent our estimate of the costs of salaries, fringe benefits, reimbursements for local mileage, and rental expenses that were applicable to the local non-Federal program.

## **Personal Services Costs**

Circular A-122, Attachment B, Paragraph 6.1.(1), states that charges to Federal grant awards "whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. " The paragraph further states, "The distribution of salaries and wages to awards must be supported by personnel activity reports as described in subparagraph (2) below. " Paragraph 6.1. (2) states:

Reports maintained by nonprofit organizations to satisfy these requirements must meet the following standards:

- (a) The reports must reflect an after-the-fact determination of the actual activity of each employee . . . .
- (b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
- (c) The reports must be signed by the individual employee, or by a responsible supervisory official . . . .
- (d) The reports must be prepared at least monthly and must coincide with one or more pay periods.

Despite these requirements, during fiscal years 1994, 1995, and 1996, the Advocacy Office did not have a method to identify time spent by employees on work related to a specific program and did not accurately allocate employee salary costs among its Federal programs. Time clock cards showing the times when employees arrived at and departed from the office were the only time records routinely maintained. The Advocacy Office allocated personal services costs among its Federally funded programs using a system based on the case load of each program over a 5-year period instead of identifying and collecting employee time spent on a specific program or on administrative duties. The case load method was one of three cost allocation options proposed by the Advocacy Office and accepted by the Administration on Developmental Disabilities, U.S. Department of Health and Human Services. However, the Advocacy Office did not properly implement this case load cost allocation method because it did not have an

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<sup>4</sup>We estimated the costs of \$55,202 charged to the Federal grants as applicable to the local program by allocating actual personal services costs to the local program based on estimates, provided by each Advocacy Office employee, of the percentage of work each spent on the local program (\$46,645) and by allocating the other costs using a combination of the employee time estimates and space utilization (\$8,557).

accounting system and a personnel activity system that identified personal services costs incurred by employees who performed work on: (1) the local (non-Federal) financial assistance program; (2) cases normally handled by other staff under other Federal grant programs; and (3) general administrative activities. Therefore, we questioned direct<sup>5</sup> personal services costs totaling \$394,249,<sup>6</sup> which consisted of all costs charged directly to Federal programs in fiscal years 1994 (\$155,549) and 1995 (\$170,011) and all personal services costs in fiscal year 1996 to March 1, 1996 (\$68,689).

## Financial Reports and Budgets

Federal grant guidelines, grant agreement terms and conditions, and the Code of Federal Regulations require grant recipients to maintain effective control over and accountability for all funds, to submit periodic financial reports, and to prepare annual budgets. However, the Advocacy Office did not submit required financial reports and annual operating budgets to Federal grantor agencies for fiscal years 1994, 1995, and 1996. The Executive Director of the Advocacy Office told us that financial reports were not submitted because the grantor agencies would not accept the results of the Advocacy Office's allocations of personal services costs. Grantor agency personnel stated that they questioned the accuracy of the cost allocation results provided by the Advocacy Office. In addition, the Director stated that annual budgets were not submitted to the grantor agencies because they had not requested the budgets. As a result, neither the Advocacy Office Board of Directors nor the Federal agencies could adequately plan for or control the use of Federal grant funds.

**Financial Reports.** Paragraph 3 of the terms and conditions of the U.S. Department of Health and Human Services Administration on Developmental Disabilities Federal grant agreement for fiscal years 1994, 1995, and 1996 required grantees to submit a Financial Status Report (SF-269) to the Administration for Children and Families "on a semi-annual basis. " Further, paragraph 4 stated that not submitting the reports on time "may be basis for withholding financial payments, suspension or termination. " Paragraph 1 of the terms and conditions of the Federal grant agreement for fiscal years 1994, 1995, and 1996 of the U.S. Department of Health and Human Services Substance Abuse and Mental Health Services Administration required a report to be submitted to the Center for Mental Health Services "on an annual basis" and required the report to "contain a description of the . . . expenditures associated with protecting and advocating the rights of the mentally ill individual supported by payments derived from the grant. " The grant agreements with the U.S. Department of Education for fiscal years 1994, 1995, and 1996

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<sup>5</sup>Personal services costs included in the indirect costs for fiscal years 1994 and 1995 were Questioned as part of costs questioned in the section "Indirect Costs" (Finding A).

<sup>6</sup>Appendix 1 shows questioned costs of \$169,944 related to the section "Personal Services Costs" (Finding A). That amount consists of the total questioned costs of \$394,249 reduced by costs of \$224,305 that are questioned, for other reasons, elsewhere in the report as follows: \$164,597 in the section "Indirect Costs" (Finding A); \$46,645 in the section "Non-Federal Program" (Finding A); and \$13,063 in the section "Salary Payments" (Finding D).

included special award conditions which required that quarterly performance and financial reports be provided to the U.S. Department of Education Regional Office (Region IX) 30 days after the end of each quarter.

We found, however, that from October 1, 1993, to February 29, 1996, the Advocacy Office had not prepared and submitted 41 of the 51 required quarterly reports and any of the 7 required final reports. During this period, the Federal grantor agencies had made at least four requests for the reports, including a December 12, 1995, letter from the U.S. Department of Education that stated, "Failure to submit these and other required reports (i.e., financial, audits, program, or other required reports) on time may be the basis for withholding financial payments, suspension, or termination of this grant." However, as of June 20, 1996, we found no documentation indicating that the U.S. Department of Education or the U.S. Department of Health and Human Services had taken action to withhold payments or suspend or terminate the grants.

**Budgets.** Title 34, Section 74.25(a), of the Code of Federal Regulations states that the budget plan is "the financial expression of the . . . program as approved during the award process. " In addition, Section 74.25(b) requires recipients "to report deviations from budget and program plans, and request prior approvals for budget and program plan revisions. " Further, in a July 24, 1996, letter to the Advocacy Office, the Substance Abuse and Mental Health Services Administration stated that it "[does] expect P&As [grantees] to prepare budgets annually. " The President of the Board of Directors and the Executive Director said that the Advocacy Office had not prepared budgets for submission to the grantor agencies since at least 1987 because the grantor agencies had not requested such, but that annual budgets could be prepared if needed. Officials from the Department of Health and Human Services stated that annual budgets are "critical" for adequate management and control of Federal funds.

## **Recommendations**

We recommend that the Board of Directors of the Protection and Advocacy of the Marianas ensure that the Executive Director:

1. Advises the U.S. Department of Health and Human Services (Administration on Developmental Disabilities and the Substance Abuse and Mental Health Services Administration) and the U.S. Department of Education (Region IX) of the questioned costs and either resolves the questioned costs or arranges for repayment.

2. Annually prepares and submits indirect cost proposals to the cognizant audit agency for approval in accordance with requirements of U.S. Office of Management and Budget Circular A-122.

3. Develops and implements an accounting system which separately tracks revenues and expenditures by each Federal and non-Federal program and a personnel

activity system which accounts for and reports the distribution of personal services costs (direct and indirect) among each Federal and non-Federal program.

4. Develops and implements procedures to ensure that all financial reports required by the grant agreements are submitted to the grantor agencies in a timely manner and that annual budgets are prepared and approved by the Board of Directors and submitted to the grantor agencies.

## **Advocacy Office Response and Office of Inspector General Reply**

In the September 12, 1997, response (Appendix 5) to the draft report from the President of the Advocacy Office, the Advocacy Office concurred with the four recommendations and indicated that corrective actions would be taken, but it disagreed with certain aspects of the finding as they related to Recommendations 2, 3, and 4. Based on the response, additional information is needed for the recommendations (see Appendix 6).

### **Recommendation 2. Concurrence.**

**Advocacy Office Response.** The Advocacy Office said that it did not have an approved indirect cost rate but that it was the Office's "understanding" that our office would provide technical assistance for it to 'come up with an acceptable indirect cost rate.' " The Advocacy Office also stated that it did not concur with the statement in our report that it " 'had not established an accounting system capable of identifying and documenting expenditures chargeable to the appropriate Federal and non-Federal programs.' " The Advocacy Office said that it had used "for years" several methods to calculate indirect costs, including formulas "based on a running 5-year average case load"; the "quarterly case load per program"; and, more recently, "a weighted, monthly case load per program. "

**Office of Inspector General Reply.** Although the Advocacy Office's accounting system adequately identified and summarized total financial transactions, as stated in the finding, we concluded that the Advocacy Office was unable to accurately calculate indirect costs because it had not established an accounting system capable of identifying and documenting those personnel and other expenditures specifically chargeable to each Federal and non-Federal program and those expenditures of a joint nature that needed to be allocated to the various programs. As a result, for its reports to the grantor agencies, the Advocacy Office had to estimate the expenditures applicable to each Federal program. Therefore, as stated in the finding, the Advocacy Office did not properly allocate expenditures among the Federal programs and did not reflect the impact of the local program on the Advocacy Office's operations. The formulas based on case load that were used by the Advocacy Office were not, in our opinion, adequate to allocate indirect costs among the programs. For example, just counting the number of cases applicable to each program would not take into consideration the relative amount of time that had to be devoted to different types of cases. We believe that a more accurate basis for allocating indirect costs (one which would have met the requirements of U.S. Office of Management

and Budget Circular A-122) would have been actual time reporting records of the Advocacy Office's employees which showed how many hours were spent on each program for direct charging to those programs and on administrative duties for allocation through an approved indirect cost rate.

Regarding our providing technical assistance on preparing an acceptable indirect cost proposal, in March 1995, personnel from our North Pacific Regional Office in Guam provided both the Advocacy Office's Executive Director and the accountant with technical information and guidance for the preparation of indirect cost proposals. Further assistance can be provided if requested.

### **Recommendation 3. Concurrence.**

**Advocacy Office Response.** The Advocacy Office did not agree that it "used funds from three Federal grants to pay for the costs of a local assistance program," stating that "[o]nly local funds were ever used for the local financial assistance program." The Advocacy Office was also critical of our report for questioning costs associated with programs that were of a "humanitarian and altruistic" nature. In addition, the Advocacy Office stated that the amount of time the Executive Director spent in attending "to the [local program] cases . . . during office hours, . . . can be shifted to the considerable extra time [the Director, as well as other officers and members of the Board of Directors of the Advocacy Office] spends at the office after hours which are uncompensated." The Advocacy Office also stated that caseworkers' hours were allocated as direct costs based on actual case loads for each employee and program and that this method was "apparently acceptable to the grantor agencies, which continued to release operating funds" to the Advocacy Office.

**Office of Inspector General Reply.** The finding does not question the need for or the humanitarian benefit of the types of services provided by the Advocacy Office. However, the report does question the adequacy of accounting for Federal and non-Federal funds used to provide those services.

During the audit, we determined, based on interviews with Advocacy Office personnel and reviews of the Advocacy Office's files, that Advocacy Office staff assisted needy individuals during regular working hours through the local financial assistance program. Although there was no indication that Federal funds were distributed to clients through the local program, we concluded that the use of personnel, equipment, and office space which were fully paid for by Federal funds for non-Federal programs was not an allowable use of Federal funds. The use of an approved indirect cost rate would have permitted an equitable allocation of a portion of the costs of such personnel, equipment, and office space to the local financial assistance program. Further, without detailed records and prior Board approval, work performed outside preestablished working hours should not be a substitute for work performed during official working hours, at least partially because an unregulated system would be susceptible to abuse. We have revised the wording of the



finding to more clearly identify the nature of the costs associated with the local financial assistance program that were charged to Federal funds.

Regarding the identification of personnel services costs with specific Federal programs, we found that the personnel time reporting and accounting systems of the Advocacy Office were not designed to capture personnel time and financial transactions on a program/grant basis. As indicated in reply to Recommendation 2, we said that the Advocacy Office's practice of allocating personnel costs on the basis of case load was not the most accurate way of allocating such costs. In addition, as stated in the finding, Circular A-122 contains specific requirements for any personnel time reporting system. In our opinion, computerized personnel time reporting systems are readily available and can be easily adopted for an organization with a small staff, such as the Advocacy Office. Since personnel costs represent the majority of program costs, we still believe that the Advocacy Office should obtain and adopt such a computerized personnel time reporting system and use the data generated by the system to charge associated personnel costs to each of the Federal and local programs and to accumulate administrative personnel costs for allocation through an approved indirect cost rate.

Finally, the fact that grantor agencies released operating funds is not an indicator that any specific management practice is allowable. One of the purposes of an audit is to identify deficiencies in and to make recommendations for the improvement of management practices. We believe that the fact that two of the three grantor agencies had placed the Advocacy Office in a high risk status (the third grantor included additional controls in its grant agreements with the Advocacy Office) indicates that the grantor agencies were concerned about certain aspects of the Advocacy Office's operations.

#### **Recommendation 4. Concurrence.**

**Advocacy Office Response.** The Advocacy Office stated that its financial reports were submitted to the grantor agencies after our audit was concluded and that quarterly performance reports were routinely submitted to Region IX of the U.S. Department of Education. The Advocacy Office also stated that budgets were prepared for internal use and that some were submitted to the Substance Abuse and Mental Health Services Administration, U.S. Department of Health and Human Services.

**Office of Inspector General Reply.** Although the Advocacy Office was not able to provide most financial reports and officially approved budgets when they were requested during the audit, the fact that the financial reports have now been submitted and that the fiscal year 1998 budget will be submitted is commendable. We have revised the finding to clarify that budgets were not prepared for submission to the grantor agencies.

## B. PROGRAM ADMINISTRATION

The Advocacy Office did not administer its Federal grants program effectively. Specifically, the Advocacy Office: (1) did not adequately document the eligibility of clients to receive protection and advocacy services; (2) authorized payment for legal services not clearly related to protection and advocacy needs; and (3) did not ensure that caseworkers documented actions taken to address clients' concerns. Titles 42 and 29 of the U.S. Code Annotated and Title 45, Part 1386.24, of the Code of Federal Regulations contain the guidelines for client and service eligibility. However, the deficiencies occurred because the Advocacy Office had not developed written procedures for documenting eligibility for protection and advocacy programs and had not performed formal case file reviews to ensure that the files contained all appropriate documents. As a result, we questioned costs of \$89,264, which consisted of cost exceptions of \$4,991 and unsupported costs of \$84,273.

### Eligibility of Clients and Services

Titles 42 and 29 of the U.S. Code Annotated (see Appendix 4) contain the requirements for an individual's eligibility to participate in protection and advocacy programs. In addition, Title 45, Part 1386.24, of the Code of Federal Regulations states, "Federal financial participation is not allowable for: (a) Costs incurred for activities on behalf of persons with developmental disabilities to solve problems not directly related to their disabilities and which are faced by the general populace . . . ." Despite these requirements, the Advocacy Office did not ensure that client eligibility for protection and advocacy services was documented and that legal services provided were allowable. The conditions related to the eligibility of clients and services occurred because the Advocacy Office had not developed and implemented written procedures to require caseworkers to document the basis of their determinations as to client and service eligibility. As a result, we questioned total costs of \$250,959,<sup>7</sup> which consisted of \$245,968 in unsupported costs and \$4,991 in unallowable costs.

During the period of October 1, 1993, to February 29, 1996, Advocacy Office records identified 161 cases that were administered by Advocacy Office personnel. We reviewed the files for 76 of the 161 cases for documents supporting each client's eligibility for protection and advocacy services.<sup>8</sup> By using questionnaires either provided by or prepared based on guidance from grant officials for the Developmental Disabilities, Mental Illness,

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<sup>7</sup>Appendix 1 shows questioned costs of \$89,264 related to the section "Eligibility of Clients and Services" (Finding B). That amount consists of costs of \$250,959 reduced by costs of **\$161, 695** that are questioned, for other reasons, elsewhere in the report as follows: \$138,755 in the section "Indirect Costs " (Finding A) and \$22,940 in the section "Personal Services" (Finding A).

<sup>8</sup>We considered case file records adequate to support a client's eligibility for services if the file included documents such as medical, legal, and educational records that **defined** the disability so that a determination could be made if the disability met program criteria.

and Individual Rights programs, we determined that 52 of the 76 case files reviewed did not contain documentation to support the client's eligibility as follows:

<u>Client Cases</u>	<u>Developmental Disabilities</u>	<u>Mental Illness</u>	<u>Individual Rights</u>	<u>Total Cases</u>
Total Cases	96	33	32	161
Cases Reviewed	45	17	14	76

Eligibility  
Supported

Yes	19	2	3	24
No	<u>26</u>	<u>15</u>	<u>11</u>	<u>52</u>
Cases Reviewed	<u>45</u>	<u>17</u>	<u>14</u>	<u>76</u>

For example, notes in one case file opened in fiscal year 1996 indicated that the client had an orthopedic disability. However, the notes also stated that the disability was not severe and that the client had a full-time job and substantial money in savings and checking accounts. The fact that the client had a full-time job indicated that the client may not have been eligible for the developmental disability program, but there was no documentation in the file which explained how the client did qualify for the program.

Since the Advocacy Office was unable to identify staff time and/or other costs by case except for legal fee invoices, we could not determine the cost of providing advocacy services by individual case. Therefore, to estimate the value of services provided to clients who may not have been eligible for protection and advocacy services, we divided the number of case files that did not have adequate support for the clients' eligibility by the total number of client cases and multiplied this percentage by the total charges to the Federal grants for each fiscal year. Based on these calculations, we estimated that the Advocacy Office charged \$245,968 to Federal grants for work performed for clients who may not have been eligible.

In addition, the Advocacy Office authorized payment for cases involving client legal services. By examining all Advocacy Office legal services invoices and supporting documents for services paid by the Advocacy Office, we identified 36 clients for whom the Advocacy Office had paid for legal services from October 1, 1993, to February 29, 1996. We selected and reviewed 9 of the 36 cases based on descriptions on the invoices. We determined that legal services paid for by the Advocacy Office did not appear to qualify as protection and advocacy issues in eight of the nine cases as follows: two cases involving wills (\$1,018), five cases involving divorce (\$3,725), and one case involving consumer finance (\$248). Therefore, we questioned costs of \$4,991 (as of February 29, 1996) that were charged to the Federal grants for these eight cases. We also identified payments in the 36 case files reviewed that appeared to be for appropriate legal

services, such as helping clients obtain special education services and social security benefits.

## **Records Maintenance**

Guidelines for the operation of protection and advocacy offices are contained in the "Standards for Advocacy Programs Serving People With Disabilities and People With Mental Illness." These standards are included in the publication "A Technical Guide For Operating a Protection & Advocacy System," which was prepared by the Advocacy Office Training/Technical Assistance Center.<sup>9</sup> The pertinent standards related to the areas reviewed are as follows:

- Section 500.30, Paragraph 2, states, "The program ensures that each client's file includes documentation regarding the objectives and desired and attained outcomes of the representation." Paragraph 3 states, "Individual cases are reviewed regularly by supervisors to ensure representation of high quality."

- Section 500.70, Paragraph 1, states, "Case notes indicate ongoing attention to expressed goals."

- Section 1100.00 states, "Case records include information regarding the nature of the client's disability, the client's complaint or problem, the advocacy strategies employed, case responsibility, and final disposition, as well as other relevant data."

The Advocacy Office did not follow these guidelines and did not maintain its case files and related records in an effective manner. Specifically, of the 80 cases (from the 161 total cases) requested for review, 3 case files could not be located and 1 case listed as open in fiscal year 1994 had been closed in fiscal year 1992. Of the 76 case files reviewed, 12 of the 33 open case files did not contain the current status, none of the 43 closed case files contained evidence that closure letters were sent to the client, and none of the 76 case files included evidence of supervisory review of caseworker actions. These conditions occurred because the Advocacy Office did not have written procedures and case file checklists to ensure that needed administrative actions were taken on each case. Although the Executive Director stated that he discussed each case with the caseworker after the case was opened and during its processing, such discussions were not documented. In our opinion, all actions taken to resolve a case should be documented, particularly any advice and/or recommendations from the Executive Director, to assist the caseworker and to provide a case history if there is an extended delay in resolving the case or if the case is assigned to another caseworker. As a result of these conditions, the Advocacy Office could not ensure that clients received appropriate services in a timely manner.

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<sup>9</sup>The Center is part of a Federal Interagency Project of the Administration for Developmental Disabilities, the Center for Mental Health Services, and the Rehabilitation Services Administration.

## **Recommendations**

We recommend that the Board of Directors of the Protection and Advocacy of the Marianas ensure that the Executive Director:

1. Advises the U.S. Department of Health and Human Services (Administration on Developmental Disabilities and the Substance Abuse and Mental Health Services Administration) and the U.S. Department of Education (Region IX) of the questioned costs and either resolves the questioned costs or arranges for repayment.

2. Develops and implements procedures to ensure that Advocacy Office clients and services meet the eligibility requirements contained in Federal law and grant agreements and regulations and that Advocacy Office personnel prepare and maintain case files in accordance with guidelines issued by the National Association of Protection and Advocacy Systems.

## **Advocacy Office Response and Office of Inspector General Reply**

In the September 12, 1997, response (Appendix 5) to the draft report from the President of the Advocacy Office, the Advocacy Office concurred with the two recommendations and indicated that corrective actions would be taken, but it disagreed with certain aspects of the finding as they related to Recommendation 2. Based on the response, additional information is needed for both recommendations (see Appendix 6).

### **Recommendation 2. Concurrence.**

**Advocacy Office Response.** The Advocacy Office agreed that some cases were “without written medical diagnosis or certification of disability” and stated that such lapses in documentation were “promptly remedied.” The Advocacy Office further stated that our report “assumes that we [the Advocacy Office] are unable to determine obvious functional disabilities among our clients” and that it used an “intake form” obtained from the Hawaii Protection and Advocacy which has “specific written instructions and definitions for caseworkers” to help identify qualified clients. The Advocacy Office then provided information on two specific cases related to the example cited in the finding, stating that “financial status was never a criteria for eligibility in our programs.” In addition, the Advocacy Office stated that this audit was “suspended” to allow the Advocacy Office time to obtain certifications but that the auditor did not return to review the records. The Advocacy Office also stated that the auditors did not identify the clients used as examples in the finding and that a better “yardstick” (than an audit) for evaluating the Advocacy Office’s operations would be a “peer review process” by counterpart advocacy organizations. Finally, the Advocacy Office stated that the caseworker who told us that “he had not received adequate training to determine client eligibility and eligible services” had “in fact received more training both off and on-island as well as one-on-one, hands-on training with his peers as well as with the Executive Director as compared to others.”

**Office of Inspector General Reply.** The finding does not state that clients served by the Advocacy Office were not eligible for those services but that the Advocacy Office “did not adequately document the eligibility of clients to receive protection and advocacy services. ”

Our review of Advocacy Office case files was performed during a 3-week period and included files prepared with the intake form (referred to in the response) that was adopted from Hawaii. Based on that review, we determined that information in 52 of the files was insufficient to adequately support that the client met the various grant program requirements (see Appendix 4). In addition, since a determination that a client has a specific level of developmental disability or mental illness is necessary to qualify for Protection and Advocacy services and especially since, according to an Advocacy Office caseworker, the Advocacy Office’s caseworkers were not licensed in the United States to provide medical or psychological services, we believe that the files should contain written support for the eligibility determinations. Regarding the example cited in the finding, our point was not that “financial status” was an eligibility requirement but that the client’s ability to hold a full-time job might have affected the individual’s eligibility for services under the Federal program. For example, the definition of “developmental disability” identifies seven indicators of “substantial functional limitations” (at least three of which must be satisfied), including limitations on an individual’s capacity for independent living and economic self-sufficiency (see Appendix 4). Although the recipient may have been qualified to receive the needed services, the case file did not contain documentation to allow a clear determination as to the client’s continued eligibility, especially in view of the independent living and economic self-sufficiency indicators.

Further, we did not suspend the audit to allow time to obtain medical certifications. We requested, in writing, the files that were reviewed as part of our audit. Those files were provided to us by the Advocacy Office’s staff, and those employees had the opportunity to provide, and did provide in several cases, additional information during the audit. Additionally, because those files were provided to us by the Advocacy Office’s staff, the identity of the clients should have been known to Advocacy Office officials. However, a list of the cases presented as examples in the report can be provided if requested.

Regarding the issue of a peer review being a better means by which to evaluate the Advocacy Office’s operations than our audit, we agree from a technical delivery of services perspective but disagree with respect to the financial and programmatic aspects of the program. That is, the objective of a peer review would be to evaluate the technical aspects of the Advocacy Office’s operations, including the specific type and level of services provided to clients. The objective of our audit, which was performed in accordance with the “Government Auditing Standards, ” was not to evaluate the technical aspects of the operations but to determine whether the Advocacy Office administered and expended Federal grant funds in accordance with statutory and grant requirements. Thus, our audit included reviews of financial transactions and program operations to determine whether they were carried out in accordance with Federal requirements.

Finally, during the audit, interviews with Advocacy Office personnel, reviews of case files, and observations of the caseworker cited in the Advocacy Office's response indicated that this employee was conscientious and concerned about his job and clients. When this caseworker was hired, the Advocacy Office had no open cases in the Protection and Advocacy for Individuals With Mental Illness program. During his 2 years at the Advocacy Office, the caseworker opened and managed 33 cases in this program, as well as handled most of the cases under the Protection and Advocacy for Individual Rights program. In addition, although we received several complaints from clients relating to Advocacy Office operations during the audit, we received a compliment and no complaints from clients relating to this caseworker. In any event, because the training provided was a minor issue, we have removed the caseworker's comment pertaining to inadequate training from the report.

## **C. PROCUREMENT AND PROPERTY MANAGEMENT**

The Advocacy Office did not effectively conduct procurement actions for purchases made under Federal grants. Specifically, the Advocacy Office: (1) did not obtain prior grantor approval for equipment purchases in excess of \$500; (2) did not conduct procurements competitively and issue written contracts for legal services; and (3) did not adequately manage and control personal property. Titles 34 and 45 of the Code of Federal Regulations and Circular A-122 contain the standards for procurement and property management activities under the Federal grant programs. However, the deficiencies occurred because the Advocacy Office had not developed and implemented procurement and property management procedures which ensured that Federal funds were used properly and that property was adequately accounted for and protected. As a result, we questioned procurement costs totaling \$91,630 and could not locate property items valued at \$8,813.

### **Procurement**

Title 34, Section 74.43, states, "All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition." In addition, Section 74.45 states, "Some form of cost or price analysis must be made and documented in the procurement files in connection with every procurement action." Also, Circular A-122, Attachment B, Paragraph 35.a, states, "Costs of professional and consultant services . . . are allowable . . . when reasonable in relation to the services rendered." Paragraph 35.b further states that "in determining the allowability of costs in a particular case," relevant factors include the "adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions)." Finally, the U.S. Department of Health and Human Services required the Advocacy Office, as a "high risk" grantee, to obtain prior approval for all procurement of equipment valued in excess of \$500 that would be charged to the Developmental Disabilities grant. Despite these requirements, the Advocacy Office did not conduct procurement actions in a manner that provided, to the maximum extent practicable, open and free competition and did not execute written contracts before legal services were acquired.

The June 1992 Program Administrative Review by the Administration on Developmental Disabilities, U.S. Department of Health and Human Services, stated that the Advocacy Office did not comply with the requirement to obtain prior approval for equipment purchases in excess of \$500. On September 17, 1993, the agency granted the Advocacy Office a one-time exemption from the approval requirement for the items that were improperly procured between fiscal years 1984 and 1991. However, the grantor agency did not grant an exception for procurement actions made during fiscal years 1992 and 1993. According to the Executive Director, the Advocacy Office did not need to obtain prior approval for equipment purchases made during fiscal years 1994 through 1996 (the time period covered by our review) because Federal regulations governing equipment purchases for the three Federal programs administered by the Advocacy Office were revised before fiscal year 1994 and the revised regulations did not require prior approval



from agencies for purchases of less than \$5,000. However, according to the grantor agency, the revised purchase authorization limits for equipment did not apply to the Advocacy Office because the Advocacy Office was designated a “high risk” grantee. In addition, the 1992 Program Administrative Review noted that the Advocacy Office had not entered into a written contract with the organization which provided legal services to Advocacy Office clients. The Executive Director stated that the Advocacy Office did not issue contracts for legal services in fiscal years 1995 and 1996 because the Advocacy Office used oral agreements and did not have a policy requiring written contracts.

To test the level of compliance with procurement requirements, we reviewed 20 procurement actions, totaling \$124,455, out of the 123 procurement actions, totaling \$153,002, that were initiated by the Advocacy Office during the period of October 1, 1993, to February 29, 1996. Based on our review, we questioned costs totaling \$95,040 as follows:<sup>10</sup>

- For eight procurement actions, we classified \$13,216 as cost exceptions because the Advocacy Office did not obtain the required grantor agency approval prior to making the purchases. One of the eight equipment purchases occurred on January 31, 1995, when the Advocacy Office paid an employee \$1,400 for a computer, a monitor, and a printer. Documentation in the file indicated that the employee purchased this computer equipment for \$2,200 about 3 years earlier, on March 21, 1992. The file contained no record of competition, cost or price analysis, or justification for the purchase.

- For 10 procurement actions, we classified \$81,824 as unsupported costs because the files did not contain evidence of competition. For example, the Advocacy Office obtained a lease for office space costing \$36,508 and issued six service contracts, consisting of three bookkeeping contracts for \$12,985, two auditing contracts for \$7,250, and one consulting contract for \$4,450, without any record of competition. In addition, the Advocacy Office did not document any competition efforts and could not provide written contracts for two other procurement actions for legal services costing \$13,759.

Although the Advocacy Office had not executed formal written contracts with private attorneys during fiscal years 1995 and 1996, we identified three instances in which the Advocacy Office orally authorized private attorneys to provide legal services to clients. Since no payments had been made or invoices received as of February 29, 1996, we could not identify any questioned costs related to these legal services.

## **Property Management**

Titles 34 and 45 of the Code of Federal Regulations contain guidelines relating to the safeguarding and control of equipment. Specifically, Title 34, Section 74.34(f), states that

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<sup>10</sup>Appendix 1 shows questioned costs of \$91,630 related to the section “Procurement” (Finding C). That amount consisted of costs of \$95,040 reduced by costs of \$3,410 that are questioned, for other reasons, in the section “Eligibility of Clients and Services” (Finding B).

equipment records “shall be maintained accurately” and “shall include” information on the equipment such as description, source, acquisition date and cost, location and condition, and ultimate disposition data. This section also requires that a physical inventory be taken and the results reconciled with the equipment records “at least once every two years” and that a control system be implemented “to insure adequate safeguards to prevent loss, damage, or theft of the equipment. ”

Although the Advocacy Office did maintain property listings, the listings were not comprehensive or current, and the most recent property inventory had been performed on April 15, 1994. Based on our review of a sample of 43 personal property items, valued at \$69,180, we found that the following 8 property items, valued at \$8,813, could not be located:

<u>Quantity</u>	<u>Description</u>	<u>Purchase Cost</u>
1	Computer Monitor	\$620
1	Karaoke System	500
1	Computer	2,073
3	Window Air Conditioners	1,790
1	Copier	3,060
<u>1</u>	Electric Typewriter	<u>770</u>
<u>8</u>	Total	<u>\$8,813</u>

The Executive Director stated that he could not provide documentation to support the status of the eight property items because the Advocacy Office’s procurement and property records were “in shambles.” The Executive Director attributed this condition to a lack of adequate supervision of office staff and to misplaced documents resulting from the Advocacy Office’s two moves in 1993 and 1994. In addition, the Executive Director stated that the Advocacy Office had not adopted internal written procedures for procurement or property management because it used Federal regulations instead of developing its own procedures. However, based on our review, we determined that the Advocacy Office did not appear to have followed the Federal regulations. Accordingly, the Advocacy Office needs to establish procedures to ensure that: (1) records are maintained for personal property from the time of receipt until the time of disposal; (2) comprehensive biennial inventories are taken; (3) property is tagged for identification and security; and (4) donated property and stolen property are adequately documented.

## **Recommendations**

We recommend that the Board of Directors of the Protection and Advocacy of the Marianas ensure that the Executive Director:

1. Advises the U.S. Department of Health and Human Services (Administration on Developmental Disabilities and the Substance Abuse and Mental Health Services

Administration) and the U.S. Department of Education (Region IX) of the questioned costs and either resolves the questioned costs or arranges for repayment.

2. Develops and implements procedures which provide for:

- Procurement actions to be conducted in accordance with Titles 34 and 45, Section 74.40, of the Code of Federal Regulations.

- All equipment purchases in excess of \$500 to be approved by the grantor agency before the procurement actions are executed while the Advocacy Office is designated a high risk grantee.

- Written contracts to be awarded and executed before the Advocacy Office incurs costs for goods or services, including legal services.

- Personal property acquired with Federal funds to be documented and controlled in accordance with Titles 34 and 45, Section 74.34, of the Code of Federal Regulations.

## **Advocacy Office Response and Office of Inspector General Reply**

In the September 12, 1997, response (Appendix 5) to the draft report from the President of the Advocacy Office, the Advocacy Office concurred with the two recommendations and indicated that corrective actions would be taken, but it disagreed with certain aspects of the finding as they related to Recommendation 2. Based on the response, additional information is needed for both recommendations (see Appendix 6).

### **Recommendation 2. Concurrence.**

**Advocacy Office Response.** The Advocacy Office stated, "[W]e were under the impression that we were uniformly covered by the revised regulation exempting purchases of less than \$5,000 from prior authorization. " The Office further stated, "[F]or the most part, we did allow for open and free competition. " However, according to the response, the problem was in locating and retrieving written documents to prove the Advocacy Office's position. The Advocacy Office provided a narrative justification for the purchase of the employee's computer and stated that it would have been "helpful to have an itemized list" of the other seven procurement actions classified as "cost exceptions." The Advocacy Office also provided narrative justifications for a lease for office space and six service contracts and stated that it did have written contracts for legal services. Further, regarding property management, the Advocacy Office provided details on the disposition of each of the eight inventory property items that could not be located during the audit.

**Office of Inspector General Reply.** The Advocacy Office has the obligation, based on Federal grant requirements, to document its compliance with requirements related to competitive procurement and the protection of property acquired with Federal funds.

At the time of our audit, such documentation was not contained in the Advocacy Office's files for the purchases and property items discussed in the finding and, despite our oral requests, was not provided to us by the Advocacy Office. Regarding the seven purchases that were not specifically identified in the finding, we will provide the Advocacy Office with a list of the transactions.

## **D. EXPENDITURE CONTROL**

The Advocacy Office used grant funds for purposes that were either unallowable or unnecessary. Attachment A of Circular A-122 provides general cost principles, and Attachment B establishes the allowability of specific items of cost. The Executive Director stated that, in his opinion, the expenditures were necessary for the operation of the Advocacy Office and were based on policies that had been adopted by the Board of Directors. However, we questioned costs of \$25,350 because they were for: (1) retroactive salary payments; (2) local and off-island travel expenditures; and (3) miscellaneous costs, including rent and computer purchases.

### **General Cost Allowability Guidelines**

Circular A-122, Attachment A, Paragraph A.2, states, "[T]o be allowable under an award, costs must . . . be reasonable for the performance of the award. " Paragraph A.3 states:

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 . . . . 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, arms 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 Government.

### **Salary Payments**

Circular A-122, Attachment B, Paragraph 6.a, states, "Compensation for personal services includes all compensation paid currently or accrued by the organization for services of employees rendered during the period of the award " (Emphasis added.) However, during fiscal years 1994 and 1995, the Board of Directors of the Advocacy Office approved retroactive salary increase payments to the Executive Director and three staff members for periods dating back to 1990. We questioned retroactive salary payments made during

fiscal years 1994 and 1995, which totaled \$13,063,<sup>11</sup> including \$8,930 paid to the Executive Director, because we found no evidence in the files to indicate that the Advocacy Office had included the use of Federal funds for proposed salary increases in any grant request, budget, or other financial planning document until 1994.

According to the President of the Board of Directors, the retroactive payments were appropriate because the Board had tied Advocacy Office wages to the Government of Guam pay scale, but the Advocacy Office did not have the funds available to increase the employee salaries in 1991, when the Government of Guam increased salaries for its employees. However, in our opinion, since the Board of Directors did not approve the salary increases until fiscal years 1994 and 1995, there was no basis to use current year Federal funds for prior period expenditures. Therefore, only the salary payments made for personal services subsequent to the date of the Board's approval of the raises would be considered allowable costs.

## **Travel**

Although Circular A-122 requires that costs be reasonable to be allowed under the grant award, the Advocacy Office paid its staff local mileage rates that were in excess of the rates paid by the Government of Guam for the use of personally owned vehicles for official business. From May 1995 through February 1996, the Advocacy Office paid staff members \$1,192 for local mileage at \$.60 per mile instead of the \$.30 per mile rate used by the Government of Guam. The Executive Director said that since the Board of Directors adopted the Government of Guam travel schedule,<sup>12</sup> it also used the local mileage reimbursement rate of \$.60 per mile and that he was not aware that the Government of Guam had subsequently reduced its mileage rate to \$.30 per mile.

We also found that, during fiscal year 1995, the Advocacy Office charged costs of \$1,116 to the U.S. Department of Education grant for off-island travel without obtaining prior grantor agency approval. The fiscal year 1995 grant agreement with the U.S. Department of Education states, "Pursuant to 34 CFR [Code of Federal Regulations] 74.7 the following special reporting requirements are included as a condition of this award: 1. Prior RSA (Rehabilitation Services Administration) Approvals - Written prior approval must be obtained from this RSA Regional Office for . . . all off-island travel." The Executive Director stated that he was not aware that travel costs had been charged to the U.S. Department of Education grant and that the costs should have been charged to the U.S. Department of Health and Human Services grants, which did not have a similar restriction.

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<sup>11</sup>The total of all retroactive salary payments made for periods prior to the date of approval was \$19,868, which included payments of \$12,961 to the Executive Director.

<sup>12</sup>Title 5, Chapter 23, of the Guam Code Annotated ("Government Travel Law") established allowable per diem rates and minimum control procedures.

In summary, we questioned costs totaling \$2,308, which consisted of cost exceptions of \$1,192 based on the excess mileage rates and unsupported costs of \$1,116 based on the lack of approval of off-island travel.

## **Miscellaneous Costs**

Circular A-122, Attachment B, Paragraph 16.b, states. "The costs of idle facilities [defined as "unused facilities that are excess to the organization's current needs"] are unallowable except to the extent that: (1) They are necessary to meet fluctuations in workloads; or (2) Although not necessary to meet fluctuations in workload, they were necessary when acquired and are now idle because of . . . causes which could not have been reasonably foreseen. " Further, Paragraph 37.b states that "public information service costs are allowable as direct costs with the prior approval of the awarding agency" and that "such costs are unallowable as indirect costs. " Also, Paragraph 19.a( 1) states, "Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable. "

The Advocacy Office incurred costs that, in our opinion, were unnecessary or unallowable based on the criteria contained in Circular A-122. Specifically, we found that, during the audit period, the Advocacy Office incurred costs of \$400 for the first month of a 1-year lease agreement for office space, which we believe was excessive considering the Advocacy Office's current staffing level. The office space consisted of an interior room, separated by a hall from the Advocacy Office offices, that, based on our observations and Advocacy Office personnel statements, had been used only for incidental storage. In addition, the main office space provided separate offices for all professional personnel, a separate work area for the secretary/outreach worker, a break area, a conference area, and file cabinet area. Also, since October 1, 1993 (fiscal year 1994), the Advocacy Office paid \$4,201 for space to store unneeded property, which, in our opinion, should have been disposed of in 1993. Further, the Advocacy Office paid \$5,387 for two new computer systems, one purchased in September 1994 and the other purchased in November 1995, despite having five additional computer systems (one of the five computer systems was loaned to the Developmental Disabilities Council) for four employees. The purchase of these computers was not approved in advance by the grantor agency (see Finding C). In addition, the Advocacy Office purchased public information advertising at a total cost of \$3,378 to announce the relocation of the Advocacy Office, a general membership meeting, and a disability-related conference. Finally, the Office improperly paid interest of \$2,000 on an equipment lease issued on December 11, 1992.

According to the Executive Director, the extra space was needed for storage of excess property and for a conference room. The Executive Director also stated that the computer equipment was intended to improve the Advocacy Office's operations and office administration, that he was not aware that prior approval was needed for public information service costs, and that the interest was a part of the lease payments applied

toward the purchase of the equipment. Despite these explanations, we continue to believe that the costs, which totaled \$15,366,<sup>13</sup> are questionable.

## **Recommendations**

We recommend that the Board of Directors of the Protection and Advocacy of the Marianas ensure that the Executive Director:

1. Advises the U.S. Department of Health and Human Services (Administration on Developmental Disabilities and the Substance Abuse and Mental Health Services Administration) and the U.S. Department of Education (Region IX) of the questioned costs and either resolves the questioned costs or arranges for repayment.

2. Revises the current local mileage reimbursement rate to conform to that used by the Government of Guam.

3. Develops and implements procedures which provide for all charges to Federal grants to be in compliance with requirements of Office of Management and Budget Circular A-122 and, where required by specific regulations or grant conditions, for Federal approval of planned expenditures to be obtained before costs are incurred.

## **Advocacy Office Response and Office of Inspector General Reply**

In the September 12, 1997, response (Appendix 5) to the draft report from the President of the Advocacy Office, the Advocacy Office concurred with the three recommendations and indicated that corrective actions had been or would be taken, but it disagreed with certain aspects of the finding as they related to Recommendation 3. Based on the response, we consider Recommendation 2 resolved and implemented and requested additional information for Recommendations 1 and 3 (see Appendix 6).

### **Recommendation 3. Concurrence.**

**Advocacy Office Response.** The Advocacy Office stated that to “catch up” with the Government of Guam’s pay raises, prior Advocacy Office Boards of Directors had “approved the pay increases in principle with full implementation upon availability of funds. ” The Advocacy Office also stated that the Executive Director’s retroactive payments “represented postponed increments due to delayed performance evaluations and unavailability of funds. ” Regarding travel expenses, the Advocacy Office “concur[red]” with the finding but stated that “sixty cents per mile [as opposed to the thirty cents per mile rate used by the Government of Guam] is not unreasonable to pay our staff for local

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<sup>13</sup>Appendix 1 shows questioned costs of \$9,979 related to the section “Miscellaneous Costs” (Finding D). That amount consisted of cost exceptions of \$15,366 reduced by costs of \$5,387 that were questioned, for other reasons, in the section “Procurement” (Finding C).



mileage” because the road conditions, other environmental factors, and gasoline prices on Guam resulted in higher operating costs than in the mainland United States. The Advocacy Office also disagreed with the questioned costs related to the lease of office and storage space, the purchase of computers and public information advertising, and the payment of interest on the purchase of office equipment. Specifically, the response stated:

- The room rented adjacent to the Advocacy Office’s current office space was used for storage of official files and various items that were needed for “periodic events” and for purposes such as a meeting room for the Advocacy Office’s Board of Directors and other nonprofit organizations, a computer learning and work area, and a reading and audiovisual room.

- The commercial storage space was used to store some of the “ ‘excess baggage’ ” the Advocacy Office had accumulated over the years but which it wanted to maintain, although these items were “no longer needed in [the Advocacy Office’s] daily operation. ”

- The new computers were purchased to upgrade from three “286,” one “386,” and one “486” computers and to give the Advocacy Office the benefit of the latest computer software and Internet access.

- The public information advertising was purchased to “tell our community where persons with disabilities, . . . can find us, or to tell members of our organization and the general public when and where we are going to have a general membership meeting and election of officers, or to invite people to attend a conference on assistive technology where they can gain new, valuable and essential information which would impact their lives. ”

- The interest costs were related to the lease of a photocopier that the Advocacy Office could not “afford to buy outright. ”

**Office of Inspector General Reply.** During our review of minutes of Board of Directors meetings that occurred during fiscal year 1993, we did not identify any Board approval, actual or in principle, of the questioned salary increases. However, even if the prior Boards had approved the increases in principle, the payments were not allowable unless those salary increases were included in the grant request, budget, or other Federally approved document obligating the Federal grant funds during the relevant period. As stated in the finding, Attachment B, Paragraph 6.a, of Circular A-122 states that “compensation for personal services includes all compensation paid currently or accrued by the organization for services of employees rendered during the period of the award. ” (Emphasis added.) Therefore, if grant funds were not available for the salary increases during the grant period to which those increases were applicable, the Advocacy Office could not use funds from subsequent grant periods to pay for prior period costs.

Regarding the mileage rate used by the Advocacy Office to reimburse employees for the use of private vehicles, we believe it is inconsistent that, although the Advocacy Office

chose to adopt the salary scales used by the Government of Guam, it considered the mileage rate used by the Government of Guam to be “a disincentive to staff” to use their private vehicles.

Finally, regarding the other questioned costs, we believe that our decision to question those costs was appropriate for the following reasons:

- The additional office space was used for purposes that do not appear to have been related exclusively to the Federal programs.

- The commercial storage space and related rental costs could have been reduced if the Advocacy Office had taken prompt action to dispose of items that were no longer needed in its daily operations.

- Although the Advocacy Office said that it purchased the new computers to upgrade its computer capabilities, in 1995 the Advocacy Office purchased a 3-year old computer from an employee. (During the audit, we were not able to determine the computer’s microprocessor type. However, because it was a 1992 model, we believe that it was most likely a 386- or a 486-type computer.) Additionally, the purchase of this equipment was not approved in advance, as required by the grantor agency (see Finding C).

- Attachment B, Paragraph 37b, of Circular A-122 states that “public information service costs are allowable as direct costs with the prior approval of the awarding agency” and that “such costs are unallowable as indirect costs. ” (Emphasis added.) However, we did not find any documentation during our audit to indicate that the questioned public information advertising costs had been approved by the grantor agencies, and no such documentation was subsequently provided to us.

- Attachment B, Paragraph 19a(1), of Circular A-122 states that “costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable.”<sup>14</sup> Therefore, we believe that the interest costs for leasing the photocopier were unallowable.

The essential issue regarding these questioned costs was not whether they may have served a useful purpose for the Advocacy Office but whether they should have been charged to local funds rather than Federal funds. These costs were questioned because they: (1) were not allowable costs under the Federally funded programs; (2) required grantor agency approval; and (3) need documented justifications as to their eligibility for grant purposes.

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<sup>14</sup> A September 29, 1995, revision to Circular A-122 now states that “interest on debt incurred . . . to acquire capital assets (including renovations, alterations, equipment, land and capital assets acquired through capital leases)” is allowable. However, the photocopier in question was leased by the Advocacy Office in December 1992, or almost 3 years before this revision.

## CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding Area</u>	<u>Questioned Costs*</u>
A. Financial Management	
Indirect Costs	\$303,792 **
Non-Federal Program	55,202
Personal Services	169,944 **
B. Program Administration	
Eligibility of Clients and Services	89,264 **
C. Procurement and Property Management	
Procurement	91,630 **
Property Management	8,813
D. Expenditure Control	
Salary Payments	13,063
Travel	2,308
Miscellaneous Costs	<u>9 , 9 7 9</u> **
Total	<u><del>\$7</del>\$3,995</u>

\*Amounts represent Federal funds.

\*\*Amount adjusted to avoid duplicate counting of questioned costs (see the reconciliation in Appendix 3).

\*\*\*The total questioned costs in this appendix exceed the total expenditures reported for the audit period and the total questioned costs shown in Appendix 2 because the \$8,813 questioned in "Property Management" (see Finding C) related to property acquired before October 1, 1993, the start of the audit period (see the reconciliation in Appendix 3).

# **PROGRAM AND QUESTIONED COSTS FOR FISCAL YEARS 1994, 1995, AND 1996 (TO MARCH 1, 1996)**

<u>Fiscal Year and Grant Program</u>	<u>Grant Award</u>	<u>Total Drawdowns</u>	<u>Total Expenditures</u>	Total Audited	<u>Questioned Costs</u>	
					<u>Unsupported Costs</u>	<u>Cost Exceptions</u>
<u>Fiscal Year 1994</u>						
Developmental Disabilities	\$121,052	\$286,864*	\$43,629	\$43,629	\$42,333	\$1,296
Mental Illness	139,242	*	34,421	34,421	24,050	10,371
Individual Rights	50,000	0	0	0	0	0
Indirect Costs**	<u>0</u>	<u>0</u>	<u>232,849</u>	<u>232,849</u>	<u>48,508</u>	<u>184,341</u>
Subtotal	\$310,294	\$286,864	\$310,899	\$310,899	\$114,891	\$196,008
<u>Fiscal Year 1995</u>						
Developmental Disabilities	\$136,161	\$269,330*	\$73,332	\$73,332	\$70,696	\$2,636
Mental Illness	139,242	*	52,487	52,487	36,560	15,888
Individual Rights	51,400	42,889	3,310	3,310	1,129	1,116
Assistive Technology	5,000	3,000	3,000	3,000	1,129	0
Indirect Costs**	<u>0</u>	<u>0</u>	<u>186,010</u>	<u>186,010</u>	<u>17,507</u>	<u>168,503</u>
Subtotal	\$33 1,803	\$315,219	\$318,139	\$318,139	\$127,021	\$188,143
<u>Fiscal Year 1996</u>						
Developmental Disabilities	\$136,161	\$95,000*	\$22,496	\$22,496	\$20,161	\$2,335
Mental Illness	61,831	*	16,052	16,052	9,335	6,717
Individual Rights	23,644	18,000	1,219	1,219	899	320
Assistive Technology	0	0	0	0	0	0
Indirect Costs**	<u>0</u>	<u>0</u>	<u>71,408</u>	<u>71,408</u>	<u>60,324</u>	<u>9,028</u>
Subtotal	\$22 1,636	\$113,000	\$111,175	\$111,175	\$90,719	\$18,400
TOTAL	<u>\$863,733</u>	<u>\$715,083</u>	<u>\$740,213***</u>	<u>\$740,213</u>	<u>\$332,631</u>	<u>\$402,551</u>

\***Drawdown** amounts for the Developmental Disabilities and Mental Illness grants are combined because Advocacy Office and U.S. Department of Health and Human Service **drawdown** records did not distinguish between the two grants.

\*\***The** term "indirect costs" was used in the Advocacy Office's accounting records to identify costs not charged to a particular program rather than to indicate allowable costs **pursuant** to an approved indirect cost rate.

\*\*\***Reported** expenditures exceed total drawdowns because the Federal grant funds were available for a 2-year period. In addition, the Advocacy Office received \$18,898 in Federal funds as reimbursement for expenditures incurred prior to **fiscal** year 1994 for another Federal grant program that was transferred to another agency during fiscal year 1993.

## RECONCILIATION OF QUESTIONED COSTS SHOW-N IN APPENDICES 1 AND 2

<u>Finding Area</u>	<u>Gross Questioned Costs</u>	<u>Elimination of Duplicate Costs</u>	<u>Net Questioned Costs</u>	<u>Unsupported Costs</u>	<u>cost Exceptions</u>
A. Financial Management					
Indirect Costs	\$418,859	(\$115,067)	\$303,792	0	\$303,792
Non-Federal Program	55,202	0	55,202	0	55,202
Personal Services	394,249	(224,305)	169,944	\$169,944	0
B. Program Administration					
Eligibility of Clients and Services	250,959	(161,695)	89,264	84,273	4,991
C. Procurement and Property Management					
Procurement	95,040	(3,410)	91,630	78,414	13,216
Property Management	8,813	0	8,813	0	8,813
D . Expenditure Control					
Salary Payments	13,063	0	13,063	0	13,063
Travel	2,308	0	2,308	0	2,308
Miscellaneous Costs	15,366	(5,387)	<u>9,979</u>	<u>0</u>	<u>9,979</u>
Totals Per Appendix 1			\$743,995	\$332,631	\$411,364
Less: Costs Prior to FY 1993			<u>8,813</u>	<u>0</u>	<u>(8,813)</u>
Totals Per Appendix 2			<u>\$735,182</u>	<u>\$332,631</u>	<u>\$402,551</u>

## U.S. CODE REQUIREMENTS FOR ELIGIBILITY TO PARTICIPATE IN THE PROTECTION AND ADVOCACY PROGRAMS ADMINISTERED BY THE ADVOCACY OFFICE

Each of the three programs administered by the Advocacy Office had different requirements for client eligibility as follows:

**Developmental Disabilities.** The protection and advocacy program for individuals who have developmental disabilities is established by Title 42, Section 6000(b)(2), of the United States Code Annotated to ensure that individuals with developmental disabilities and their families have the support to protect their legal and human rights. Regarding the protection and- advocacy program, Sections 6042(a)( 1) and (2) state:

[S]uch system . . . must have the authority to . . . pursue legal, administrative, and other appropriate remedies or approaches to ensure the protection of, and advocacy for, the rights of such individuals . . . who are or who may be eligible for treatment, services, or habilitation, . . . and to investigate incidents of abuse and neglect.

Section 6001(8) defines “developmental disability” as follows:

[A] severe, chronic disability of an individual 5 years of age or older that - (A) is attributable to a mental or physical impairment or combination of mental and physical impairments; (B) is manifested before the individual attains age 22; (C) is likely to continue indefinitely; (D) results in substantial functional limitations in three or more of the following areas of major life activity - (i) self-care; (ii) receptive and expressive language; (iii) learning; (iv) mobility; (v) self-direction; (vi) capacity for independent living; and (vii) economic self-sufficiency; and (E) reflects the individual’s need for a combination and sequence of special, interdisciplinary, or generic services, supports, or other assistance that is of lifelong or extended duration and is individually planned and coordinated.

**Mental Illness.** Title 42, Section 10801(b), of the United States Code Annotated established the protection and advocacy program for individuals with mental illness, which “ensure[s] that the rights of individuals with mental illness are protected. ” According to this section, the purpose of the program is as follows:

[T]o assist States to establish and operate a protection and advocacy system for individuals with mental illness which will . . . protect and advocate the rights of such individuals through activities to ensure the enforcement of the Constitution and Federal and State statutes; and . . . investigate incidents

of abuse and neglect of individuals with mental illness if the incidents are reported to the system or if there is probable cause to believe that the incidents occurred.

Section 10802(4) defines an individual with mental illness as follows:

[A]n individual - (A) who has a significant mental illness or emotional impairment, as determined by a mental health professional qualified under the laws and regulations of the State; and (B)(i) who is an inpatient . . . in a facility rendering care or treatment, even if the whereabouts of such inpatient are unknown; (ii) who is in the process of being admitted to a facility . . . ; or (iii) who is involuntarily confined in a municipal detention facility for reasons other than serving a sentence resulting from conviction for a criminal offense.

**Individual Rights.** Title 29, Section 794e, of the United States Code Annotated created the protection and advocacy program “to protect the legal and human rights of individuals with disabilities who . . . need services that are beyond the scope of services authorized to be provided” by other protection and advocacy programs for individuals receiving vocational rehabilitation services, individuals with developmental disabilities, and mentally ill individuals.



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Sept. 12, 1997

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**Al Harrell**

Vice President

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Treasurer

Board Members:

**Franklin Castro**

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**Linda Leon Guerrero**

**Nemi Macario**

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Mr. Peter J. Scharwark, Jr.  
Office of Inspector General,  
U.S. Dept. of Interior  
North Pacific Region,  
238 Archbishop F.C. Flores St.,  
Suite 807, Pacific News Bldg.,  
Agana, Guam 96910

Subject: Draft Audit Report on the Protection and Advocacy of the  
Marianas, Territory of Guam (Assignment No. N-IN-GUA-009-96)

Dear Mr. Scharwark:

Staff:

**Dr. Eddie del Rosario**

Exec. Director

**Bernice Franquez**

PADD Advocate

**Angela Tackney**

PAIMI Advocate

**Dave Retumalta**

**Joseph Destefano**

Admin. Support

The following is our response to the draft audit report in the order found  
in your report:

#### **A. FINANCIAL MANAGEMENT:**

1. Indirect Costs: We concur with the findings that we do not have an approved indirect cost rate for FY 1994 & 1995. We submitted a proposal to OIG/DOI Guam but the same was rejected. Subsequently, we asked for technical assistance. We also learned that our counterpart agency in Saipan (NMPASI) successfully negotiated an indirect cost rate with Region IX San Francisco. Technical assistance was also provided to them by Region IX officials. It was our understanding that after this audit, technical assistance would be provided our office by OIG/DOI Guam to come up with an acceptable indirect cost rate.



We do not concur with the findings that we “had not established an accounting system capable of identifying and documenting expenditures chargeable to the appropriate Federal and **non-Federal** programs.” We have engaged the professional expertise of Mr. John Halloran, C.P.A. for years who had set up our chart of accounts, maintained, recorded, and regularly reported our expenditures for each program. For FY 1994 and 1995, we utilized a formula to calculate indirect costs based on a running **5-year** average case load for each of the programs we administered per agreement with Region IX. Prior to that we distributed program costs based on the proportion of each grant to the total of three grants we administered. Several of our counterparts in the U.S. mainland practiced this method. Subsequently, we utilized a more precise method to calculate indirect costs based on quarterly case load per program and then we **fine-tuned** it to a weighted, monthly case load per program.

2. Non-Federal Program: We concur with the statement that “direct **financial** assistance is not an authorized use of Federal protection and advocacy grant funds.” We do not concur with the **findings** that the Advocacy Office used **funds from** three Federal grants to pay for the costs of a local **financial** assistance program. Only local funds (proceeds **from** annual Celebrity Wheelchair Race as well as local donations) were ever used for the local **financial** assistance program. The wisdom of the Board of Directors of **our** organization, past and present, provided for such assistance to deserving clients and non-clients alike who fall through the cracks just to keep body and soul together and to allow them some reprieve/relief so that they can go on to survive another day. Nowhere does it say that agencies such as ours need to be “authorized” by anybody to engage in such humanitarian and altruistic activities especially if no federal funds were utilized. For the sake of argument, even if federal **funds** were utilized, we believe this is a commendable and a very reasonable undertaking which is expected of any “helping agency” especially by those of our target population the majority of whom are mired in poverty and hopelessness. We doubt that there’s a member in the U.S. Congress who wrote these mandates mean enough to dispute this.

We should clarify that some of those recipients are regular cases handled by our caseworkers with the added dimension of needing financial assistance as part of their overall problems. Seeking financial entitlements for clients, irrespective of source (federal govt., local govt. or from non-governmental entities such as private nonprofits) are legitimate activities incorporated in our annual federal report. Human beings attended to by human service workers are ideally treated in their totality, not segmented; **wholistically**, not compartmentalized. Our caseworkers are generalists, not specialists. To infer that clients' desperate financial needs are unique and apart from their "legitimate" needs as persons with disabilities and should thus be dealt with in a separate locale at a "convenient" time by a different person is somewhat ludicrous and counter-productive. Sometimes it is so easy to nit-pick at the process and miss the obvious benefits of the outcome. In the matter of time spent by our Executive Director attending to these cases in question during office hours, those can be shifted to the considerable extra time he spends at the office after hours which are uncompensated. Likewise, we should not discount the hundreds of volunteer hours spent by the officers and members of our Board of Directors as well as other volunteers who spend time in our office. We shouldn't even be telling you this since you yourselves, as federal officials and employees, are called upon to perform volunteer work as well as contribute monetarily to worthwhile causes. In fact, we received favorable verbal comments from your auditors who observed the operation of this worthwhile local grant/loan program **firsthand**.

3. Personal Services Costs: We do not concur with these findings. All the activities of caseworkers are geared towards alleviating the problems of their clients whether done face to face, at the office, at the client's home, at other agencies, by phone, via a guardian, in institutions, etc. Similarly, time spent by caseworkers in **record-keeping**, research, in-service training, conferences, seminars, etc., all redound to the benefit of their clients. All of their hours are treated as direct costs and applied to their respective programs. Where a caseworker's time was shared by two different programs, we distributed his or her time proportionately based on actual caseload. For example, when we **first** implemented the PAIR program, we did not have a specific caseworker to handle PAIR

cases. Cases were distributed among the PADD and PAIMI caseworkers as well as the Exec. Director. Direct costs were allocated proportionately according to the actual caseloads of each employee. Thus: If PADD caseworker had a total caseload of 45 for the period comprising of 40 DD cases and 5 PAIR cases, the cost-allocation was Total Salary & Fringes of PADD caseworker multiplied by  $40/45$  charged to the PADD program (direct cost); likewise, Total Salary & Fringes of PADD caseworker multiplied by  $5/45$  charged to the PAIR program (direct cost). The same formula was applied to the PAIMI program accordingly. Thus: If PAIMI caseworker had a total caseload of 25 for the period comprising of 20 MI cases and 5 PAIR cases, the cost-allocation was Tot. Sal. & Fringes x  $20/25$  charged to PAIMI program; Tot. Sal. & Fringes x  $5/25$  charged to the PAIR program. The Exec. Dir's salary & fringes were allocated to both direct and indirect costs to all 3 programs. Thus: If Exec. Dir. Handled 5 PAIR cases, the direct cost-allocation was Tot. Sal. & Fringes of Exec. Dir. multiplied by  $5/15$  (15 being total PAIR cases handled by all employees) charged to PAIR program; indirect cost-allocation was Tot. Sal. & Fringes x  $5/85$  (85 being total cases for all 3 programs) charged to PAIR; Tot. Sal. & Fringes x  $45/85$  charged to PADD; Totl Sal. & Fringes x  $25/85$  charged to PAIMI.

We think that this method is more equitable and better reflects the proportion of effort expended by employees towards each program as compared to a single indirect cost rate figure. The fact that this was apparently acceptable to our grantor agencies which continued to release operating funds as requested should be noted.

3. Financial Reports and Budgets: We do not **fully** concur with these **findings**. SF269s were submitted to our grantors after this audit. Quarterly performance reports were routinely submitted to USDOE Region IX. There were attempts to fully withhold our payments by all 3 programs but were resolved by our submission of monthly cost-distributed expenditure reports. PAIMI and PAIR expenditures were fully reimbursed while PADD expenditures were partially reimbursed pending resolution of some questions. We believe that this tells us something that we were not as bad as painted by your audit.

In the matter of budgets, we did have budgets prepared for internal use for FY 1995 and 1996 for all 3 programs (PADD, PAIMI, PAR); For FY '97 we prepared a budget for internal used for above 3 programs plus PAAT. Likewise, budgets were prepared and submitted to SAMHSA for the PAIMI program for FY '95, '96, '97. We are in the process of preparing the FY '98 budget for submission to SAMHSA for the PAIMI program. We intend to prepare and submit to our grantors our FY '98 budget for all 4 programs plus our non-federal program. We just want to say that we never engaged in reckless and unreasonable expenditures of our funds whether federal or local funds. Most of our expenditures were fairly routine based on ten years spending pattern.

#### RECOMMENDATIONS:

1. The Board of Directors will ensure that the Executive Director advise the USDHHS and USDOE of the questioned costs and its resolution.
2. The Board of Directors will ensure that the Executive Director prepares and submits indirect cost proposal annually to the cognizant audit agency for approval in accordance with requirements of USOMB Circular A-122. He may ask for technical assistance from pertinent sources.
3. The Board of Directors will ensure that the Executive Director develops and implements an accounting system and a personnel activity system per your recommendation.
4. The Board of Directors will ensure that the Executive Director develops and implements procedures to ensure that all financial reports required by the grant agreements are submitted to the grantor agencies in a timely manner and that annual budgets are prepared and approved by the Board of Directors and submitted to the grantor agencies.

## B. PROGRAM ADMINISTRATION

1. Eligibility of Clients and Services: We definitely do not concur with the findings especially with the eligibility of clients to receive P&A services. Although there were some cases without written medical diagnosis or certification of disability (which we promptly remedied), the report assumes that we are unable to determine obvious functional disabilities among our clients. In fact, the intake form we are now using which we adopted from Hawaii P&A was part of our corrective action plan as a result of a previous Program Audit Review. This intake form has specific written instructions and definitions for caseworkers as well as others who need to know.

In the example used by the auditor regarding a client with orthopedic disability (here we are assuming that the client referred to is one of these two: 1. E.D., who in fact has cerebral palsy, a wheelchair user as long as we had known her, and had represented her many times before for various problems or 2. H.C., who had polio when she was a child), the assumption was made that because the client had a full time job and a saving/checking account, that one no longer have other functional limitations which would still make one eligible for our services. The truth is E.D. and another sibling are the only breadwinners of a large family and so when she came to us with her problem (as a co-signer she was being forced to pay off a debt incurred by a co-worker who died) she was staring at financial devastation in the face. With H.C., she was facing discrimination at her work place aside from physical and mental abuse by her spouse and in-laws. In any case, financial status was never a criteria for eligibility to our programs.

We wish to interject at this point that the program audit was suspended to allow us time to obtain medical certifications for those without, with the understanding that the auditor will come back to resume. That didn't happen. Here we are at a distinct disadvantage, left to guess which are the clients being used as examples in this report without any confidential ID. How do we explain for instance that a temporary restraining order or a divorce is a needed intervention to a very vulnerable client with disabilities to address the underlying abusive and neglectful situation? Since we don't have an in-house lawyer, we of course needed to refer to legal service agencies. We

should state here without meaning to offend anybody that we can not accept these findings because the “yardstick” used as well as the ones doing the “measuring” are not considered our program peers. The ideal situation is for us to be evaluated through a peer review process by our peers or counterparts who run similar programs. This can be arranged through our national organization, the National Association of P&A Systems (NAPAS) based in Washington, DC. This is the fair thing to do. Please remember that human services is not an exact science that can be reduced and expressed in absolute numbers. A perfect example is the medical field where doctor’s fees, medical interventions, surgical procedures, ancillary procedures, etc. are expressed in relative value units which may vary according to locale, according to specialties or even subspecialties, according to time of day or even the day of the week. We believe that our caseworkers are dedicated, knowledgeable and genuinely care for their clients. There have been but very few complaints from their clients.

In the matter of one of our caseworkers who stated that “he had not received adequate training to determine client eligibility and eligible services”, we have documentation to show that he in fact received more training both off and on-island as well as one-on-one, hands-on training with his peers as well as with the Executive Director as compared to others. To blame our office as well as others for his personal inadequacy is a pure cop-out. His previous employer had much the same problem with this fellow. Until he takes care of the chip in his shoulder and face up to reality, nobody can really help him. In addition, most of the client complaints mentioned above were attributed to this former caseworker. He has since moved on to another agency which does not take care of clients.

2. Records Maintenance: We concur with most of these findings which point out lapses in documentation. Measures have already been instituted internally to address these inadequacies. Technical assistance is being sought from NAPAS regarding written procedures for documenting eligibility as well as case file checklists to ensure needed administrative actions. The 3 case files which could not be located were located later on. A glitch in the computer report accounts for that 1 case listed as open but had in fact been closed previously.

## RECOMMENDATIONS:

1. The Board of Directors will ensure that the Executive Director advise USDHHS and USDOE of the questioned costs and its resolution.
2. The Board of Directors will ensure that the Executive Director develops and implements procedures to ensure that the Advocacy Office clients and services meet the eligibility requirements contained in Federal law and grant agreements and regulations; likewise, the Board of Directors will ensure that the Advocacy Office personnel prepare and maintain case files in accordance with guidelines issued by the NAPAS.

## C. PROCUREMENT AND PROPERTY MANAGEMENT:

1. Procurement: We can only say that we were under the impression that we were uniformly covered by the revised regulation exempting purchases of less than \$5,000.00 from prior authorization. It was not made clear to us that as a “high risk grantee”, we were not covered by it.

In the matter of the questioned procurement actions, we believe that for the most part, we did allow for open and free competition. Our problem is locating and retrieving written documentations to prove our position. Given enough time, we could very well produce them. In some cases, particularly computer purchases, we wait for the opportune time whenever there is a sale before we make the purchase.

We believe that there were written contracts particularly with the Guam Legal Services Corp. as well as with some particular lawyers in the community willing to accept our offer of \$75. Per hour which is half of the going rate in our community. Some of the legal services we obtained for our clients were on a pro bono basis.

Regarding one of the 8 procurement actions classified as cost exceptions, we purchased a computer, monitor and printer from one of our employees who had been good enough to lend us her system after

one of ours burned out due to the notoriously poor electrical power services on our island. We used our employee's system at no cost for several months before we decided to buy it outright at a discounted price equivalent to a 36.4% depreciated cost which was very reasonable. Of the other 7 procurement actions, we are at a disadvantage to address these since they were not identified in the draft report. It would have been helpful to have an itemized list.

Regarding the 10 procurement actions classified as unsupported costs because our files did not contain evidence of competition:

We did make the effort to look for other office spaces before we finally decided on our present office location consisting of actual visits to four other places, namely, the Boonsri Plaza (too small); the Thai Airways building (difficult accessibility for persons with disabilities); Martinez building recently vacated by the Police Dept. (difficult accessibility and limited parking) and the Sunroute Guam Oceanview building (too big; limited parking). We even had a committee assigned to do this consisting of 3 board members, the Exec. Director and a caseworker who is a wheelchair user. We picked the Reflection Center site because of its central location in downtown Agaña, its accessibility, elevator, covered parking for our employee and clients with disabilities, standby generator, very reasonable price which included utilities as well as initial partitioning according to our needs at no cost to us (\$1.50/square foot plus 15 cents common area expenses versus \$3.00/sq. A. which the Guam Legal Services Corp. was paying one floor down from us). The Reflection Center is a prestigious as well as a highly-visible location. High visibility was a prime factor recommended to us by Federal officials who did our program audit review when our office was located behind Hafa Adai 1 & 2 theatres. We also believe that our clients deserve to be served in the best location we can offer. In fact, price-wise, the Reflection Center location was the lowest among the five different locations we surveyed.

All six service contracts cited in the draft report were with Mr. John Halloran, CPA with whom we negotiated such contracts based on his consistent and satisfactory services with us all these years. We knew for a fact as well as other nonprofit entities on Guam that he has consistently quoted us a very fair price which is so much lower than his colleagues.



As mentioned earlier, we did have contracts with Guam Legal Services Corp.

2. Property Management:

- a. We **are** not aware of any computer monitor purchased for \$620. In any case, we have two computer monitors which we sent to U-BIX Computer Co. for repairs. Unfortunately, both were beyond repair. Our Exec. Dir. informed the auditor about this and provided him with the serial numbers.
- b. The public address system referred to as the "Karaoke System" which we used for our outreach efforts and general membership meetings was stolen several years ago when we were still in our old location behind the Hafa Adai theatres in Tamuning. Our neighbors were also burglarized at the **same** time. The p.a. system was left in the Exec. Dir.'s car which was broken into. Unfortunately, we could not **find** the police report. This was previously reported to our grantors.
- c. This computer system which was zapped during a typhoon in the early 90s was sent off-island for repairs by the local vendor since it was still covered by **warranty**. Unfortunately, we never heard from the California company again which we learned closed down **inspite** of several attempts of tracking down. We will try to obtain an affidavit from the local vendor as soon as we can.
- d. There were three window air conditioners (two not working and one in working condition) which we **left** with another nonprofit agency (Guam Vocational Training Center) when we **first** moved **from** the old Guam Memorial Hospital to another location behind the Hafa Adai theatres in 1988. That agency has since moved next to Goodwill Industries. Our Exec. Director recently spoke to the former Exec. Director of the Guam Vocational Training Center who indicated that she will write an affidavit regarding the air conditioners.
- e. The old Canon copier referred to here was traded in when we leased our present Xerox copier.
- f. The electric typewriter referred to here was turned over to the Client Assistance Program which was redesignated to another nonprofit entity.

## RECOMMENDATIONS:

1. The Board of Directors will ensure that the Executive Director advise the USDHHS and USDOE of the questioned costs and their resolution.
2. The Board of Directors will ensure that the Executive Director develops and implements procedures which provide for:
  - a. Procurement actions to be conducted in accordance with Titles 34 and 45, Section 74.40 of the Code of Fed. Regs.
  - b. All equipment purchases in excess of \$500 to be approved by the grantor agency before the procurement actions are executed while the Advocacy Office is designated a **high-risk** grantee.
  - c. Written contracts to be awarded and executed before the Advocacy Office incurs costs for goods or services, including legal services.
  - d. Personal property acquired with Fed. Funds to be documented and controlled in accordance with Titles 34 and 45, Section 74.34 of the Code of Fed. Regs.

## D. EXPENDITURE CONTROL:

1. Salary Payments: We do not concur with this **finding**. Prior to the BOD's approval of retroactive pay raises, previous Boards have discussed the subject at length **after** the Exec. Director submitted such request coupled with cost-analysis both in text and graphic forms. The basis of the request, as mentioned in the **draft** report, was the series of actions taken by the Govt. of Guam to realign the salaries of government employees across the board, culminating in the uniform pay scale following the Hay's Study. Previous Boards have approved the pay increases in principle with full implementation upon availability of funds. This resulted in the Advocacy Office trying to catch up with GovGuam pay scale with the Advocacy Office trailing behind by two to three years until it **finally** caught up with GovGuam in 1994. The Executive Director's retroactive pay represented postponed increments due to delayed performance evaluations and

unavailability of funds. Incremental pay for other staff took precedence over the Exec. Director's.

2. Travel: We concur with this finding (it was an honest mistake) although we still believe that sixty cents per mile is not unreasonable to pay our staff for local mileage given the fact that road conditions as well as environmental conditions on Guam place greater strain and accelerates wear and tear on vehicles. Gasoline prices as well as other petroleum products, maintenance & repair services, spare parts, cost of insurance and initial cost as well as financing charges for acquisition of vehicles are much higher compared to Mainland USA. Lower mileage reimbursement is proving to be a disincentive to staff and increases the pressure on management to provide official vehicle/s as an alternative. We doubt that this alternative would be affordable. We can only hope that some generous soul would donate such vehicle.

As stated in the **draft** report, this particular travel cost incurred by one of the lawyers employed by our contractor, Guam Legal Services Corp., was inadvertently charged to the PAIR program funded by USDOE when it should have been charged to PADD and PAIMI funded by USDHHS. Atty. Brian Bishop of GLSC attended a Disability Skills Workshop for Lawyers in the US mainland and per agreement between Advocacy Office and GLSC, each agency contributed half of the total cost.

3. Miscellaneous Costs:
  - a. We do not concur with the determination that the separate room rented for \$400/month (450 sq. feet total space which translates to 88.9 cents per sq. ft.- quite a steal; our landlord gave us a big break here) is idle and unused. Aside from storing old records and official files which can not be disposed of until the statute of limitations run out, it has served us well to store other things which we use for periodic events such as outsized banners, posters, lanterns, promotional materials, etc. It can hardly be called "incidental storage". It is also used for board meetings, PAIMI/PAIR advisory council meetings, Tri-Agency Consortium meetings, small group meeting area for other nonprofit organizations such as Parents-Agencies Networking, Inafa Maolek, a nonprofit mediation group, Fil-Am Society of Architects &

Engineers with whom we promote ADA-compliant design and construction of buildings, ad hoc groups such as Circle of Friends and ADA Now! Steering Committee. It is also used as a computer learning and work area for some of our volunteers, clients and members of the BOD (we have set up 3 old computers in this room). It also serves as a reading room and audio-visual room for those who avail of our small library of books, magazines, audio and videotapes.

- b. When we moved from a 3,000 square feet office (actually a large multilevel house behind Hafa Adai theatres) to Micronesia Mall, it's amazing how much materials we managed to accumulate. We had to store some of our "excess baggage" in the Board President's house. When we moved from Micronesia Mall to our present location, we ended up with a lot of more stuff we needed to store. We consolidated everything and rented a commercial storage space where we can retrieve some things we needed and to store some which we no longer needed in our daily operation. The decision to finally dispose what we can came rather late but we still ended up with some stuff which have no commercial value but still needed to be stored as mentioned above in item a. We were paying \$1.80/sq. A. for the commercial storage space as opposed to 90 cents to the extra room mentioned in a. above. We don't believe that needed storage space is unnecessary.
- c. Before one jumps into conclusion how extravagant we were with computer systems, let us consider the following: Of the 5 computer systems referred to in the draft report., 3 are obsolete models of the "286" vintage which are, for practical purposes, non-upgradable, namely, 1 ancient Wang PC with 10 megs hard drive which operates on a simulated IBM DOS, 1 Junior PC with both CPU and monitor in a single housing and 40 megs hard drive, 1 old Epson which was the granddaddy of the Equity series pulled out of production 4 years ago; we also have 1 IBM clone of the "386" vintage purchased 8 years ago but still serviceable. The fifth computer mentioned is an Epson laptop of the "486" vintage with 80 megs of hard drive space mostly used for activities outside our office. This has proven to be a lifesaver standby system everytime our unreliable electric power system does a number on our stationary units. Except for this laptop, the four other obsolete and

near-obsolete systems have limited capabilities to run new software and to convert to Windows 95 operating system. To keep up with the times such as the internet, email, management information systems, in-house bookkeeping, desktop publishing, etc., we needed to purchase an upgraded “486” system at a time when the PC Pentium state of the art systems were already in the market. That’s why our Epson Action Tower 3000 was bought at a bargain price, by Guam standards. After over a year, our office hired a new caseworker for our newest program, PAIR. It was at this time that the cost of a basic Pentium 75 system went down to almost the level of the 486’s. With its purchase, we were able to finally avail of Windows 95, the newest operating system, the new frontier opened to us via Internet, and the wonders of multimedia softwares. Please remember that we did not invent the industrial credo of “planned obsolescence”. Whether keeping up with the times is a vice or a virtue is of course debatable. We like to think that it is a virtue.

- d. If we are to be penalized for purchasing essential advertising to tell our community where persons with disabilities, our **specific** target group, can **find** us, or to tell members of our organization and the general public when and where we are going to have a general membership meeting and an election of officers, or to invite people to attend a conference on assistive technology where they can gain new, valuable and essential information which would impact their lives, then so be it. We want to say though that we accept it bitterly and under protest. On behalf of persons with disabilities, we **find** such ruling highly questionable.
- e. Regarding this “improperly paid interest of \$2,000” for a Xerox machine which we could never hope nor afford to buy outright that’s why we leased it, we can only say please forgive us. That goes as well for all the honest mistakes we made.


#### RECOMMENDATIONS:

- 1. The Board of Directors will ensure that the Executive Director advise the USDHHS and USDOE of the questioned costs and their resolution.

2. The Board of Directors will ensure that the Executive Director revises the current local mileage reimbursement rate to conform to that used by the Government of Guam. This was already done.
3. The Board of Directors will ensure that the Executive Director develops and implements procedures which provide for all charges to Federal grants to be in compliance with requirements of OMB Budget Circular A-122 and, where required by specific regulations or grant conditions, for Federal approval of planned expenditures to be obtained before costs are incurred.

Thank you very much for your attention and patience. Should you have any questions, please don't hesitate to contact us.

Respectfully yours,

  
Oleh S. Vitkovitsky

President,  
P.A.M. dba Advocacy Office

**STATUS OF AUDIT REPORT RECOMMENDATIONS**

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
A.1, B.1, C.1, and D.1	Management concurs; additional information needed.	Provide a target date to advise the U.S. Department of Health and Human Services (Administration on Developmental Disabilities and the Substance Abuse and Mental Health Services Administration) and the U.S. Department of Education (Region IX) of the questioned costs, and either resolve the questioned costs or arrange for repayment.
A.2	Management concurs; additional information needed.	Provide a target date for preparation and submission of indirect costs proposals to the cognizant audit agency for approval in accordance with requirements of U.S. Office of Management and Budget Circular A-122.
A.3	Management concurs; additional information needed.	Provide a target date for developing and implementing an accounting system that separately tracks revenues and expenditures by each Federal and non-Federal program and a personnel activity system that accounts for and reports the distribution of personal services costs (direct and indirect) among each Federal and non-Federal program.
A.4	Management concurs; additional information needed.	Provide a target date for developing and implementing procedures to ensure that all financial reports required by the grant agreements are submitted to the grantor agencies in a timely manner and that annual budgets are prepared and approved by the Board of Directors and submitted to the grantor agencies.

Finding/Recommendation Reference	Status	Action Required
B.2	Management concurs; additional information needed.	Provide a target date for developing and implementing procedures to ensure that Advocacy Office clients and services meet the eligibility requirements contained in Federal law and grant agreements and regulations and that Advocacy Office personnel prepare and maintain case files in accordance with guidelines issued by the National Association of Protection and Advocacy Systems.
C.2	Management concurs; additional information needed.	Provide a target date for developing and implementing procedures which provide for: (1) procurement actions to be conducted in accordance with Titles 34 and 45, Section 74.40, of the Code of Federal Regulations; (2) all equipment purchases in excess of \$500 to be approved by the grantor agency before the procurement actions are executed while the Advocacy Office is designated a high risk grantee; (3) written contracts to be awarded and executed before the Advocacy Office incurs costs for goods or services, including legal services; and (4) personal property acquired with Federal funds to be documented and controlled in accordance with Titles 34 and 45, Section 74.34, of the Code of Federal Regulations.
D.2	Implemented	No further action is required.
D.3	Management concurs; additional information needed.	Provide a target date for developing and implementing procedures which provide for all charges to Federal grants to be in compliance with requirements of Office of Management and Budget Circular A-122 and, where required by specific regulations or grant conditions, for Federal approval of planned expenditures to be obtained before costs are incurred.



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