



**AUDIT OF BUREAU OF JUSTICE ASSISTANCE
COOPERATIVE AGREEMENTS AWARDED TO
NATIONAL ALLIANCE FOR DRUG
ENDANGERED CHILDREN
WESTMINSTER, COLORADO**

U.S. Department of Justice
Office of the Inspector General
Audit Division

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EXECUTIVE SUMMARY

The U.S. Department of Justice, Office of the Inspector General, Audit Division, has completed an audit of two cooperative agreements totaling \$1,550,000 awarded by the Office of Justice Programs (OJP), Bureau of Justice Assistance (BJA) to the National Alliance for Drug Endangered Children (NADEC), as shown in Exhibit 1.

EXHIBIT 1: COOPERATIVE AGREEMENTS AWARDED TO NADEC

AWARD NUMBER	AWARD DATE	PROJECT START DATE	PROJECT END DATE	AMOUNT
2010-DB-BX-K046	09/20/2010	10/01/2010	03/31/2015	\$ 1,050,000
2012-AC-BX-K002	08/28/2012	10/01/2012	03/31/2014	500,000
Total:				\$1,550,000

Source: OJP Grant Management System (GMS)

BJA's mission is to provide leadership and services in grant administration and criminal justice policy development to support local, state, and tribal justice strategies to achieve safer communities. The mission of NADEC is to break the cycle of abuse and neglect by empowering practitioners who work to transform the lives of children and families living in drug environments. NADEC provides training and technical assistance to state Drug Endangered Children alliances and all those in the community who assist and care for drug endangered children.¹

The objective of the audit was to assess performance in the key areas of cooperative agreement management that are applicable and appropriate for the cooperative agreements under review. These areas included: (1) internal control environment, (2) drawdowns, (3) award expenditures, (4) monitoring of contractors, (5) budget management and control, (6) financial and progress reports, (7) special award requirements, and (8) program performance and accomplishments. We determined that property management, program income, matching, and post grant end-date activities were not applicable to these awards.

We tested compliance with what we consider to be the most important conditions of the cooperative agreements. Unless otherwise stated in this report, the criteria we audited against are contained in the OJP Financial Guide and the award documentation.

We examined NADEC's accounting records, financial and progress reports, and operating policies and procedures, and found that NADEC did not comply with

¹ Statements of mission and intent regarding BJA and NADEC have been taken from the agencies' website directly (unaudited).

essential cooperative agreement conditions in the areas of award expenditures and special conditions. Most significantly, NADEC charged unallowable and unsupported costs to the cooperative agreements. Based on our audit results, we make five recommendations to address dollar-related findings totaling \$819,189 and three recommendations to improve the management of the awards, which are detailed in the Findings and Recommendations section of this report. Our audit objective, scope, and methodology are discussed in Appendix I and our Schedule of Dollar-Related Findings appears in Appendix II.

We discussed the results of our audit with NADEC officials and have included their comments in the report, as applicable. In addition, we requested written responses to the draft audit report from the NADEC and OJP, which are appended to this report in appendices III and IV, respectively. Our analysis of both responses, as well as a summary of actions necessary to close the recommendations can be found in Appendix V of this report.

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INTRODUCTION

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Total:				\$1,550,000

Source: OJP Grant Management System (GMS)

Background

BJA's mission is to provide leadership and services in grant administration and criminal justice policy development to support local, state, and tribal justice strategies to achieve safer communities. BJA supports programs and initiatives in the areas of law enforcement, justice information sharing, countering terrorism, managing offenders, combating drug crime and abuse, adjudication, advancing tribal justice, crime prevention, protecting vulnerable populations, and capacity building.

In 2006, NADEC was officially incorporated as a charitable non-profit organization led by its Board of Directors. The mission of NADEC is to break the cycle of abuse and neglect by empowering practitioners who work to transform the lives of children and families living in drug environments. NADEC provides training and technical assistance to state Drug Endangered Children alliances and all those in the community who assist and care for drug endangered children. NADEC works to strengthen community capacity by coordinating efforts with state and local alliances and by providing training and technical assistance. NADEC also connects resources to practitioners through its Resource Center. NADEC believes that success begins with identifying children at risk, recognizing children as victims, and by working together and leveraging resources to provide drug endangered children

opportunities to live in safe and nurturing environments free from abuse and neglect.¹

Cooperative Agreement No. 2010-DB-BX-K046 was awarded under the National Initiatives: Addressing Substance Abuse Program. This program aims to improve the functioning of the criminal justice system and provide assistance to victims of crime (other than compensation) by providing assistance to communities in responding to substance abuse-related crime. According to BJA, throughout the criminal justice system, there are demonstrably higher rates of substance abuse among offenders than among the general population.

Cooperative Agreement No. 2012-AC-BX-K002 was awarded under the Tribal Justice System Capacity Building Training and Technical Assistance (TTA) Program, which aims to strengthen tribal governments' ability to plan, implement, and enhance tribal justice systems to be able to prevent, control, and investigate crime; to effectively administer justice; and to meet the needs of the community. The FY 2012 Tribal Justice System Capacity Building TTA Program focuses on funding national TTA efforts within five categories: enhancing tribal and state collaborations; comprehensive strategic planning; building tribal capacity to plan, develop, or enhance diversion and community corrections capacity; enhancing tribal justice information sharing efforts; and other tribal justice system capacity building TTA efforts.

Our Audit Approach

The objective of the audit was to assess performance in the key areas of cooperative agreement management that are applicable and appropriate for the cooperative agreements under review. These areas included: (1) internal control environment, (2) drawdowns, (3) award expenditures, (4) monitoring of contractors, (5) budget management and control, (6) financial and progress reports, (7) special award requirements, and (8) program performance and accomplishments. We determined that property management, program income, matching, and post grant end-date activities were not applicable to these awards.

We tested compliance with what we consider to be the most important conditions of the cooperative agreements. Unless otherwise stated in our report, the criteria we audited against are contained in the OJP Financial Guide and the award documentation. We tested NADEC's:

- **internal control environment** to determine whether the internal controls in place for the processing and payment of funds were adequate to safeguard award funds and ensure compliance with the terms and conditions of the awards;

¹ Statements of mission and intent regarding BJA and NADEC have been taken from the agencies' website directly (unaudited).

- **drawdowns** to determine whether drawdowns were adequately supported and if NADEC was managing award receipts in accordance with federal requirements;
- **award expenditures** to determine the accuracy and allowability of costs charged to the awards;
- **monitoring of contractors** to determine how NADEC administered and monitored contracted funds;
- **budget management and control** to determine NADEC's compliance with the costs approved in the award budgets;
- **Federal Financial Reports (FFR) and progress reports** to determine if the required reports were submitted in a timely manner and accurately reflect award activity;
- **special requirements** to determine NADEC's compliance with the awards' special conditions; and
- **program performance and accomplishments** to determine if NADEC is capable of meeting the award objectives and whether NADEC collected data and developed performance measures to assess accomplishment of the intended objectives.

The results of our analysis are discussed in detail in the Findings and Recommendations section of this report. Our audit objectives, scope, and methodology are discussed in Appendix I.

FINDINGS AND RECOMMENDATIONS

We found NADEC did not comply with essential cooperative agreement conditions in the areas of award expenditures and special conditions. Most significantly, NADEC charged unallowable and unsupported costs to the cooperative agreements. Based on our audit results, we make five recommendations to address dollar-related findings totaling \$869,199 and three recommendations to improve the management of the awards.

Prior Audits

The Office of Management and Budget Circular A-133 requires that non-federal entities that expend \$500,000 or more per year in federal funding have a single audit performed for that year. We reviewed the three most recent single audits for NADEC, which were for fiscal years (FYs) 2009 through 2011.

In each of the single audit reports for FYs 2009 through 2011, NADEC received unqualified opinions. The independent auditor did not identify any deficiencies in internal controls over financial reporting or compliance that were considered to be material weaknesses and concluded that NADEC complied, in all material respects, with the requirements that are applicable to each of its major federal programs for FYs 2009 through 2011. The independent auditor did not identify any findings in the FYs 2009 through 2011 single audit reports.

Internal Control Environment

We reviewed NADEC's internal control environment, including procurement, receiving, and payment procedures; the payroll system; and monitoring of contractors to determine compliance with the terms and conditions of the awards, and to assess risk.

NADEC does not maintain its own written accounting and financial policies and procedures. However, NADEC officials were able to describe many of the procedures they had in place. We determined that employees are paid semi-monthly. According to NADEC officials, they do not utilize timesheets since they always know what everyone is working on as a result of daily communication and weekly staff meetings. NADEC officials also stated that verification of time worked is confirmed with the completion of the deliverables described in each award narrative. NADEC officials further explained that in the past, NADEC tried to utilize timesheets; however, they found that the work they do to complete the deliverables for each award may cover multiple awards and may not be isolated to a single award. Therefore, NADEC developed monthly payroll percentages to allocate personnel costs to each award. These percentages were determined monthly by a supervisor using staff calendars; award activity reporting in BJA's Training and Technical Assistance Reporting System; NADEC's in-house database,

CiviCore; tracking for quarterly award progress reports; agendas and notes from monthly calls with Drug Endangered Children Leaders; notes from staff meetings and calls; website, webinar, e-communications data, registration and participant information; evaluations for trainings and presentations; and daily conversations and emails between staff members. However, the percentages were not based on time and effort reports that are signed by the employee and approved by a supervisor as required by the OJP Financial Guide. In addition, without timesheets, we could not confirm the hours worked by staff or the funding source for staff activities. As a result, we make an appropriate recommendation in the Personnel Costs section of this report.

NADEC officials stated that general award expenses are initially approved by the Vice President because the President resides in another state; however, the President has final approval. The President's expenses are approved by the volunteer board, and his receipts are emailed to the contract Accountant, and the originals are brought to the office during the President's monthly visits. For debit card and travel expenses, standard forms are completed and the receipts are attached. Overall, we did not note any issues with NADEC's processes for general expenses.

Finally, during our interviews, NADEC officials stated that the best Train the Trainer participants are selected as contractors to assist in training outside of their territory. The contractors are monitored through evaluations and feedback collected from training participants. Additionally, NADEC officials stated that the Train the Trainer contractors are usually accompanied by a NADEC staff member. However, we noted that NADEC did not always utilize formal contracts signed by both parties for its contractor and we make an appropriate recommendation in the Contracts section of this report.

Drawdowns

From interviews with NADEC officials, we determined that the drawdowns are made on a reimbursement basis. According to the OJP Financial Guide, recipients should time their drawdown requests to ensure that federal cash on hand is the minimum needed for disbursements or reimbursements to be made immediately or within the next 10 days. We analyzed drawdowns for Cooperative Agreement Nos. 2010-DB-BX-K046 and 2012-AC-BX-K002 to determine if the total actual costs recorded in the accounting records were equal to, or in excess of, cumulative drawdowns. We found that as of August 19, 2013, cumulative expenditures exceeded cumulative drawdowns.

Expenditures

We reviewed 59 transactions, which included 13 personnel and 46 other direct cost transactions, to determine whether cooperative agreement expenditures were allowable, reasonable, and in compliance with the terms and conditions of the awards.

Personnel Costs

During our initial review of 13 personnel transactions totaling \$84,022 from Cooperative Agreement Nos. 2010-DB-BX-K046 and 2012-AC-BX-K002, we found that NADEC allocated personnel costs to the cooperative agreements and other funding sources based on a monthly payroll percentage determined by a supervisor. However, as stated previously in the Internal Control Environment section of this report, the percentages were not based on time and effort reports that are signed by the employee and approved by a supervisor. The OJP Financial Guide requires that supporting documentation for personnel and payroll costs allocated to federal awards must include Time and Attendance records for all full and part-time individuals reimbursed under the award that are signed by the employee and approved by a supervisor. As a result, we questioned all salaries and fringe benefits charged to the cooperative agreements as unsupported, as shown in Exhibits 2 and 3.

EXHIBIT 2: UNSUPPORTED SALARIES

GENERAL LEDGER ACCOUNT	2010-DB-BX-K046	2012-AC-BX-K002
7010 - Salaries & Wages	\$462,755	\$95,107
Total Unsupported Salaries:	\$557,862	

Source: NADEC accounting records

EXHIBIT 3: UNSUPPORTED FRINGE BENEFIT COSTS

GENERAL LEDGER ACCOUNT	2010-DB-BX-K046	2012-AC-BX-K002
7020 - Payroll Taxes	\$37,095	\$7,753
7050 - Benefits	13,726	3,126
7055 - 401K Match	13,032	2,547
Total Unsupported Fringe Benefit Costs:	\$77,279	

Source: NADEC accounting records

Therefore, we recommend that BJA coordinate with NADEC to remedy the \$557,862 in unsupported salaries. Additionally, we recommend that BJA coordinate with NADEC to remedy the \$77,279 in unsupported fringe benefits. Finally, we recommend that BJA ensure that NADEC maintain timesheets for all full and part-time individuals reimbursed under the awards.

Other Direct Costs

During our initial review of 46 other direct cost transactions totaling \$44,169, we determined that one \$10,000 expense in the 8090 – Contract Services general ledger account for Cooperative Agreement No. 2012-AC-BX-K002 was not supported by the invoice. Therefore, we questioned this \$10,000 expense as unsupported.

Additionally during our review, we found that NADEC allocated some costs to the cooperative agreements and other funding sources based on the monthly payroll percentage. However, as stated previously, the monthly payroll percentages were not supported by timesheets or other documentation; therefore,

we could not confirm the accuracy of the percentages that were used to allocate some of the other direct cost expenditures. NADEC officials provided a list of general ledger accounts that were allocated based on a monthly payroll percentage. As a result, we questioned all other direct costs as unsupported that were allocated to Cooperative Agreement Nos. 2010-DB-BX-K046 and 2012-AC-BX-K002 based on a monthly payroll percentage, as shown in Exhibit 4.

EXHIBIT 4: UNSUPPORTED ALLOCATED OTHER DIRECT COSTS BASED²

GENERAL LEDGER ACCOUNT	2010-DB-BX-K046	2012-AC-BX-K002
7090 - Contract Labor	\$27,300	\$4,338
8090 - Contract Services	15,818	1,370
8110 - Rent	30,949	6,352
8120 - Office Supplies	6,884	893
8130 - Phone	9,009	1,539
8150 - IT Services	6,289	1,230
8160 - Postage, Fax & Copier	2,428	162
8210 - Accounting Services	35,155	6,490
8230 - Payroll Services & 401K Fees	7,556	1,403
Total Unsupported Other Direct Costs:	\$165,165	

Source: NADEC accounting records

Overall, we identified unsupported other direct costs totaling \$175,165. Therefore, we recommend that BJA coordinate with NADEC to remedy the \$175,165 in unsupported other direct costs.

Further, during our initial review of 46 other direct cost transactions, we identified 8 transactions totaling \$1,031 that were not allowable in the approved budgets or by an approved Grant Adjustment Notice (GAN). Seven of these questioned transactions were from Cooperative Agreement No. 2010-DB-BX-K046, and one transaction was from Cooperative Agreement No. 2012-AC-BX-K002.³

During our review of NADEC’s general ledger, we identified \$2,686 in other direct costs that were not allowable in the approved budgets or by an approved GAN, for which we questioned all of the expenses in the general ledger accounts, as shown in Exhibit 5.

² NADEC officials explained that the general ledger accounts 8090 - Contract Services, 8120 - Office Supplies, 8150 - IT Services, and 8160 - Postage, Fax & Copier may include a few transactions that were not allocated based on a monthly payroll percentage. However, NADEC officials explained that it would be problematic to identify such amounts; therefore, we questioned the entire general ledger account. We did remove any expenses we identified during our initial review of 59 transactions that were not allocated based on a monthly payroll percentage.

³ One of these transactions from Cooperative Agreement No. 2010-DB-BX-K046 was for parking when NADEC assisted the Department of Homeland Security with the development of some curriculum. NADEC should have been reimbursed by the Department of Homeland Security, not the Department of Justice.

EXHIBIT 5: UNALLOWABLE OTHER DIRECT COSTS

GENERAL LEDGER ACCOUNT	2010-DB-BX-K046	2012-AC-BX-K002
8300 - Staff Development	\$ 156	-
8600 - Insurance	1,889	313
8800 - Bank Fees & Finance Charges	316	12
Total Unallowable Other Direct Costs:	\$2,686	

Source: NADEC accounting records

Overall, we identified unallowable other direct costs totaling \$3,717. Therefore, we recommend that BJA coordinate with NADEC to remedy the \$3,717 in unallowable other direct costs.

Contracts

Of the 46 other direct cost transactions totaling \$44,169, 13 of these transactions were later identified as contract costs from a list of contractors provided by NADEC officials. During our initial interviews, NADEC officials stated that they did not enter into formal contracts with its contractors. Therefore, we expanded testing and reviewed all contracts awarded by NADEC for Cooperative Agreement Nos. 2010-DB-BX-K046 and 2012-AC-BX-K002.

For Cooperative Agreement No. 2010-DB-BX-K046, we reviewed contracts awarded to 17 contractors, with expenses totaling \$99,229. We identified seven contractors for which no contract was awarded or there was no valid contract that was signed by both parties. As a result, we identified unsupported questioned costs totaling \$47,806 for Cooperative Agreement No. 2010-DB-BX-K046.

For Cooperative Agreement No. 2012-AC-BX-K002, we reviewed contracts awarded to 10 contractors, with expenses totaling \$25,477. We identified four contractors for which no contract was awarded or there was no valid contract that was signed by both parties. As a result, we identified unsupported questioned costs totaling \$7,370 for Cooperative Agreement No. 2012-AC-BX-K002.

The OJP Financial Guide requires a grantees accounting system to be supported with source documentation, including contracts. Additionally, in our opinion, unsigned contracts are not valid agreements and all contracts should be signed by NADEC and the contractor to fully document the agreement between both parties. Therefore, we questioned the expenses without a contract and expenses related to contracts without signatures as unallowable. Expenses that are outside the terms of the contract, including those incurred in excess of an approved contract are also unallowable.

As a result of our review of NADEC contracts awarded under Cooperative Agreement Nos. 2010-DB-BX-K046 and 2012-AC-BX-K002, we identified unsupported questioned contract costs totaling \$55,176. Therefore, we recommend that BJA coordinate with NADEC to remedy the \$55,176 in unsupported

contract expenditures. In addition, we recommend that BJA coordinate with NADEC to ensure that it uses formal contracts that are signed by both parties.

Budget Management and Control

For each cooperative agreement, NADEC received an approved budget broken down by categories including Personnel, Fringe Benefits, Travel, Equipment, Supplies, Contractual, and Other. If changes are subsequently made, the OJP Financial Guide requires that the recipient initiate a GAN for budget modification if the proposed cumulative change is greater than 10 percent of the total award amount.

For Cooperative Agreement Nos. 2010-DB-BX-K046 and 2012-AC-BX-K002, we conducted detailed analysis of expenditures by budget category and found that NADEC expenditures were within the 10 percent threshold allowed for each budget category.

Reporting

We reviewed the Federal Financial Reports (FFRs) and Categorical Assistance Progress Reports (progress reports) to determine if the required reports had been submitted accurately, and within the timeframes required by the OJP Financial Guide.

Financial Reports

The OJP Financial Guide requires that grant recipients report expenditures online using the SF-425 FFR no later than 30 days after the end of each calendar quarter. The final report must be submitted no later than 90 days following the end of the grant period. We evaluated the timeliness of the FFRs for the last four quarters for Cooperative Agreement No. 2010-DB-BX-K046 and the last three quarters for Cooperative Agreement No. 2012-AC-BX-K002 and found that the FFRs were generally submitted in a timely manner.

Additionally, according to the OJP Financial Guide, recipients shall report the actual expenditures and unliquidated obligations incurred for the reporting period, including cumulative data, on each financial report. We evaluated the accuracy of the FFRs for the last four quarters for Cooperative Agreement No. 2010-DB-BX-K046 and the last three quarters for Cooperative Agreement No. 2012-AC-BX-K002 and found that the reported were supported by the general ledgers.

Progress Reports

According to the OJP Financial Guide, progress reports are due semiannually on January 30 and July 30 for the life of the award. To verify the timely submission of progress reports, we reviewed the last four progress reports submitted for

Cooperative Agreement No. 2010-DB-BX-K046, and the last two progress reports for Cooperative Agreement No. 2012-AC-BX-K002 and found that the progress reports were submitted in a timely manner.

Additionally, according to the OJP Financial Guide, the funding recipient agrees to collect data appropriate for facilitating reporting requirements established by Public Law 103-62 for the *Government Performance and Results Act*. The funding recipient should ensure that valid and auditable source documentation is available to support all data collected for each performance measure specified in the program solicitation. In order to verify the information reported, we selected a sample of statistical data from the last two progress reports covering the period July 1, 2012, through June 30, 2013, for Cooperative Agreement Nos. 2010-DB-BX-K046 and 2012-AC-BX-K002. Overall, we found that the progress reports covering July 1, 2012, through June 30, 2013, for Cooperative Agreement Nos. 2010-DB-BX-K046 and 2012-AC-BX-K002 were generally supported and accurate.

Special Requirements

During our initial review of 59 transactions from Cooperative Agreement Nos. 2010-DB-BX-K046 and 2012-AC-BX-K002, we found that NADEC violated some of the special conditions of the cooperative agreements. For Cooperative Agreement Nos. 2010-DB-BX-K046 and 2012-AC-BX-K002, we found 2 transactions violated special conditions 17 of supplement 00 and 19 of supplement 01 of Cooperative Agreement No. 2010-DB-BX-K046, and special condition 18 of Cooperative Agreement No. 2012-AC-BX-K002. The special condition for each cooperative agreement or supplement has slight differences, but these special conditions generally state:

The recipient agrees to submit to BJA for review and approval any curricula, training materials, proposed publications, reports, or any other written materials that will be published, including web-based materials and web site content, through funds from this grant at least thirty (30) working days prior to the targeted dissemination date. Any written, visual, or audio publications, with the exception of press releases, whether published at the grantee's or government's expense, shall contain the following statements: "This project was supported by Grant No. 2010-DB-BX-K046 (or 2012-AC-BX-K002, if applicable) awarded by the Bureau of Justice Assistance. The Bureau of Justice Assistance is a component of the Office of Justice Programs, which also includes the Bureau of Justice Statistics, the National Institute of Justice, the Office of Juvenile Justice and Delinquency Prevention, the Office for Victims of Crime, the Community Capacity Development Office, and the Office of Sex Offender Sentencing, Monitoring, Apprehending, Registering, and Tracking. Points of view or opinions in this document are those of the author and do not necessarily represent the official position or policies of the U.S. Department of

Justice.” The current edition of the OJP Financial Guide provides guidance on allowable printing and publication activities.

For Cooperative Agreement No. 2010-DB-BX-K046, some of the handouts referenced the award that the handouts were originally developed under, while other handouts did not include any reference to the award. For Cooperative Agreement No. 2012-AC-BX-K002, the Core Drug Endangered Children manual did not include a reference to the award. NADEC officials stated that they did add the logos of all the agencies that fund and assist them. However, in our opinion the handouts and manual were printed and used for trainings funded by Cooperative Agreement Nos. 2010-DB-BX-K046 and 2012-AC-BX-K002, and therefore, NADEC should have complied with these special conditions.

Additionally, we found that NADEC violated special condition 21 for Cooperative Agreement No. 2012-AC-BX-K002, which states that “Approval of this award does not indicate approval of any consultant rate in excess of \$450 per day. A detailed justification must be submitted to and approved by the Office of Justice Programs (OJP) program office prior to obligation or expenditure of such funds.” For one transaction, we found that NADEC paid a consultant rate that was \$100 in excess of the approved rate and did not receive any prior approval. However, we do not question this \$100 as unallowable, because the entire \$800 for this transaction was already questioned as unallowable in the Contracts section of this report. Therefore, we recommend that BJA coordinate with NADEC to ensure compliance with special conditions.

Program Performance and Accomplishments

The purpose of the cooperative agreements awarded to NADEC is dependent upon the program. As previously noted, NADEC received cooperative agreements under BJA’s National Initiatives: Addressing Substance Abuse Program, and Tribal Justice System Capacity Building Training and Technical Assistance Program. In order to assess program performance and accomplishments, we requested that NADEC provide evidence demonstrating that the goals and objectives of the awards had been met, or are sufficiently in progress. The goals and objectives identified by NADEC for Cooperative Agreement No. 2010-DB-BX-K046 were as follows:

- Improve responses for children living in dangerous drug environments.
- Develop discipline-specific drug endangered children training program that uses a multidisciplinary collaborative approach, and increase awareness and access to the training program.
- Increase the knowledge and expertise of criminal justice practitioners, child welfare, medical, and other professionals working with drug endangered children through delivery of multidisciplinary drug endangered children training.

- Improve outcomes for drug endangered children by working with criminal justice and other practitioners to develop greater awareness and more effective responses, by helping agencies problem-solve, modify policies and practices, and analyze effectiveness.
- Strengthen the infrastructure for drug endangered children efforts across the nation, including local, state, and tribal drug endangered children alliances, criminal justice and other agencies, and non-profits and associations.

Additionally, the primary goal for Cooperative Agreement No. 2012-AC-BX-K002 was to improve responses for native children living in dangerous drug environments. This was to be accomplished through the following objectives: (1) increase the knowledge and problem-solving skills of tribal justice system professionals, child welfare workers, educators, and others through the delivery of Tribal Core Drug Endangered Children Training and the dissemination of relevant resources; (2) increase awareness of the Tribal Core Drug Endangered Children training program; and (3) expand the capacity of tribal jurisdictions (task forces, Drug Endangered Children teams, and practitioners) who respond to drug endangered children cases across the country.

For Cooperative Agreement Nos. 2010-DB-BX-K046 and 2012-AC-BX-K002, in addition to the progress reports and 59 transactions we reviewed, NADEC provided documentation including a list of training events and presentations, and training handouts and manuals for each cooperative agreement. As mentioned previously, during our review of progress reports, we found that progress reports were generally supported and accurate. Therefore, by reviewing the additional supporting documentation along with the information in the progress reports, we concluded that there was no indication that NADEC is not on track to complete the goals and objectives.

Conclusion

The purpose of this audit was to determine whether reimbursements claimed for costs under the cooperative agreements were allowable, supported, and in accordance with applicable laws, regulations, guidelines, terms and conditions of the awards, and to determine program performance and accomplishments. We examined NADEC's accounting records, financial and progress reports, and operating policies and procedures, and found:

- \$557,862 in unsupported salaries;
- \$77,279 in unsupported fringe benefits;
- timesheets were not utilized for full or part-time individuals reimbursed under the awards;
- \$175,165 in unsupported other direct costs;

- \$3,717 in unallowable other direct costs;
- \$55,176 in unsupported contract expenditures;
- contracts were not administered, nor were they signed by both parties; and
- the special conditions for the cooperative agreements were not always followed.

Recommendations

We recommend that BJA coordinate with NADEC to:

1. Remedy the \$557,862 in unsupported salaries.
2. Remedy the \$77,279 in unsupported fringe benefits.
3. Maintain timesheets for all full and part-time individuals reimbursed under the awards.
4. Remedy the \$175,165 in unsupported other direct costs.
5. Remedy the \$3,717 in unallowable other direct costs.
6. Remedy the \$55,176 in unsupported contract expenditures.
7. Ensure that NADEC uses formal contracts that are signed by both parties.
8. Ensure compliance with special conditions.

APPENDIX I

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of the audit was to assess performance in the key areas of cooperative agreement management that are applicable and appropriate for the cooperative agreements under review. These areas included: (1) internal control environment, (2) drawdowns, (3) award expenditures, (4) monitoring of contractors, (5) budget management and control, (6) financial and progress reports, (7) special award requirements, and (8) program performance and accomplishments. We determined that property management, program income, matching, and post grant end-date activities were not applicable to these awards.

We tested compliance with what we consider to be the most important conditions of the cooperative agreements. Unless otherwise stated in this report, the criteria we audited against are contained in the OJP Financial Guide and the award documentation.

Our audit concentrated on, but was not limited to, September 20, 2010, the award date for Cooperative Agreement No. 2010-DB-BX-K046, to August 19, 2013, the date the most recent drawdown. This was an audit of BJA Cooperative Agreement Nos. 2010-DB-BX-K046 and 2012-AC-BX-K002. NADEC has drawn a total of \$906,435 in cooperative agreement funds as of August 19, 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In conducting our audit, we performed sample testing in three areas, which were cooperative agreement expenditures (including personnel expenditures), financial reports, and progress reports. In this effort, we employed a judgmental sampling design to obtain broad exposure to numerous facets of the awards reviewed, such as dollar amounts, expenditure category, or risk. However, this non-statistical sample design does not allow a projection of the test results for all cooperative agreement expenditures or internal controls and procedures.

In addition, we evaluated internal control procedures, drawdowns, monitoring of contractors, budget management and controls, program performance and accomplishments, and special cooperative agreement requirements. However, we did not test the reliability of the financial management system as a whole, and reliance on computer based data was not significant to our objective.

APPENDIX II

SCHEDULE OF DOLLAR-RELATED FINDINGS

DESCRIPTION	AMOUNT	PAGE
Questioned Costs ⁴		
Unallowable Other Direct Costs:	\$3,717	8
<i>Total Unallowable:</i>	<i>\$3,717</i>	
Unsupported Personnel:	\$557,862	6
Unsupported Other Direct Costs:	\$175,165	7
Unsupported Fringe Benefits:	\$77,279	6
Unsupported Contracts:	\$55,176	8
<i>Total Unsupported:</i>	<i>\$865,482</i>	
<i>Total (Gross):</i>	<i>\$869,199</i>	
Less Duplication ⁵ :	<i>(\$50,010)</i>	
Net Questioned Costs:	\$819,189	

⁴ **Questioned Costs** are expenditures that do not comply with legal, regulatory, or contractual requirements, or are not supported by adequate documentation at the time of the audit, or are unnecessary or unreasonable. Questioned costs may be remedied by offset, waiver, recovery of funds, or the provision of supporting documentation.

⁵ Some of the unsupported other direct costs and unsupported contract costs were questioned for more than one reason. Net questioned costs exclude the duplicate amount.

**NATIONAL ALLIANCE FOR DRUG
ENDANGERED CHILDREN'S RESPONSE**



May 12, 2014

David M Sheeren
Regional Audit Manager
Denver Regional Audit Office
Office of the Inspector General
U.S. Department of Justice
1120 Lincoln Street, Suite 1500
Denver, Colorado 80203

Re: National Alliance for Drug Endangered Children – Official Response to OIG Draft Audit Report on two Bureau of Justice Assistance Cooperative Agreements

Dear Mr. Sheeren:

This letter is the official response of the National Alliance for Drug Endangered Children (National DEC) to the OIG draft report on the audit of two Bureau of Justice Assistance (BJA) Cooperative Agreements with National DEC.

When your office called me last September to notify us about the audit, the auditor indicated that the goal of auditing two grants in the middle of their term is to identify any concerns and to make any necessary changes in practice or procedure while the grant is active. We feel that the fine-tuning of our grant administration in response to this audit has made our organization stronger and in an even better position to advance the drug endangered children mission nationwide.

National DEC is extremely grateful for the grant support from the Bureau of Justice Assistance for our mission to identify, protect, and serve drug endangered children. In reviewing the draft audit report, **we are very pleased with OIG's finding that confirms that National DEC is fulfilling all of the goals and objectives for these two BJA grants and is on track to complete the commitments made in our grant proposals and cooperative agreements.** Program performance and accomplishing grant deliverables has always been a top priority for National DEC for all of our grants.

All of our expenditures under these two grants have been dedicated to fulfilling the BJA program goals of improving the functioning of the criminal justice system by providing assistance to communities in responding to substance abuse-related crime as well as the goal of enhancing Tribal Justice System capacity through training and technical assistance.

The following accomplishments would not have been possible without the support of BJA:

- The development of Drug Endangered Children (DEC) training curricula;
- The training of thousands of law enforcement, child welfare, prosecutors, medical, and other professionals in our collaborative and multidisciplinary DEC approach;
- The training of hundreds of Tribal Community members representing more than 40 Federally recognized Tribes;
- National DEC's program to certify DEC trainers to help spread the DEC mission;
- National DEC's on-line resource center with 1,400 DEC-related resources;
- National DEC's professional development webinar series which reaches hundreds of practitioners each month;
- National DEC's network of State, Tribal, and Local DEC alliances which provide training and resources for the DEC mission.

National DEC takes the responsibility for administering grant funds very seriously and is absolutely committed to fully complying with all grant administration requirements. **We are pleased with the OIG audit findings that our internal controls, drawdowns, budget management and control, processes for expenses, quarterly financial reports and grant deliverable progress reports are all being administered in compliance with Office of Justice Programs requirements.**

Documentation of Allocation of Expenditures: The concerns raised in this draft audit report largely relate to the level of documentation for how National DEC allocated personnel time and related overhead costs to each grant. The largest category of questioned costs relates to Personnel and Fringe Benefits due to the lack of activity reports signed by each employee. This amount of \$635,141 is approximately seventy-eight percent of the total. When the Other Direct Costs that were allocated based on Payroll percentages are added in, – an additional \$175,215 – the combined amount of \$810,356 constitutes ninety-eight percent of net questioned costs. Thus, we are confident that the corrective action already taken for documentation of our allocations resolves these issues.

Allocation of Payroll and Fringe Benefits: As outlined in the draft audit report, National DEC previously used the following resources and information to make “a reasonable allocation of costs to each activity” charged to each grant:

- staff calendars,
- award activity reporting in BJA’s Training and Technical Assistance Reporting System (TTARS),
- our in-house CiviCore database,
- our quarterly grant progress reports,
- agendas and notes from our monthly calls with DEC leaders,
- notes from staff meetings and calls,
- website, webinar, and e-communications data,
- event registration and participant information,
- evaluations from trainings and presentations,
- and daily conversations and emails between staff members

This allocation reflected an after-the-fact distribution of the actual activity of each employee, which accounted for the total activity for which each employee is compensated. The allocation was made by a supervisory official having firsthand knowledge of the work performed. These are the main criteria listed in the OJP Financial Guide.

The component identified as missing is the requirement of specific monthly activity reports signed by each employee. OIG has consequently labeled all of the salaries and associated fringe benefits allocated to these two grants as “Unsupported”. From National DEC’s perspective, these allocations were supported by the various records listed above, but we have enhanced our procedures and **we agree with OIG’s recommendations #’s 1-3 to maintain timesheets and to work with OJP to remedy the unsupported salaries and benefits.**

National DEC has corrected this omission and has taken the additional step of having each employee track their time each day on specific grant deliverables and on activities that are common to all of our grants. These daily activity reports are signed by each employee and reviewed each month by a supervisor. We implemented this system starting in January of 2014.

Allocation of Other Direct Costs: The questioning of other direct costs that were charged to our grants based on the undocumented allocation of payroll expenses is an example of one omission having significant collateral impact. Tying allocation of costs – essentially

operating expenses – to percentage of payroll made sense to us. If employees spent 35 percent of their time in a particular month on one grant, then it made sense to allocate 35 percent of operating expenses to that same grant. This is how we listed those expenses in the budgets of our grant proposals which became part of the budgets in our cooperative agreements. They are supported by invoices, checks, and financial records. The bottom line is that we spent the amount we said we would on the people and programs we said we would, and we maintained documentation with which to demonstrate what we did. Therefore, we did not believe that our expenses were “unsupported”.

Your office has suggested we have two choices to correct this issue – continue to link other direct costs to payroll percentage allocations which are now properly documented, or detach the allocation of these costs from payroll allocations altogether. **We have now detached how we allocate these costs to our grants from our payroll allocations. We agree with the OIG recommendation #4 to work with OJP to remedy the unsupported other direct costs.**

Contract Expenditures: The next largest category of questioned costs is Contract Expenditures with OIG concluding that there has been \$55,176 in unsupported contract expenditures. This is based on the lack of a formal signed contract in connection with these expenditures. There is a statement made on page 8 of the draft audit that suggests that National DEC does not enter into formal contracts with its contractors. Actually, National DEC has acted under the belief that contractual obligations can arise through a variety of means, including the common practice of purchasing software on-line (such as database services); a clear agreement of terms and compensation delineated in emails, invoices that delineate services provided, etc. We have treated the agreement by both parties of the terms as a contractual obligation. There is not a clear statement in the OJP Financial Guide that a contractual obligation requires a hard-copy contract with two signatures.

For example, one of the larger items listed in the Contract Cost chart is \$35,000 for the payments to our Financial Manager who has worked for us as an independent contractor since February of 2010. When we engaged him, we agreed on the work that he would perform and the monthly compensation. There has been no uncertainty as to the terms of our agreement. Our liability (obligation to pay) is defined and limited and can be terminated with 30-day notice. Our Financial Manager submits a basic invoice to me each month for my approval. The performance of his obligations each month is clear. In addition, we define his responsibilities and specific compensation in our grant proposals reflected in our approved grant budgets.

However, now that we understand that documentation of contracts requires a hard copy contract with two signatures, **we are correcting this omission by executing such contracts for our contractual obligations. We agree with the OIG recommendation #6 to work with OJP to remedy unsupported contract expenditures and #7 to use formal contracts that are signed by both parties.**

Unallowable Other Direct Costs: OIG identified \$3,717 in other expenditures charged to these two grants that are not allowed in the approved grant budgets or by an approved Grant Adjustment Notice. These are primarily items which are allowable grant expenditures, but which National DEC did not delineate in our grant budgets or request a GAN. The majority of this amount consists of normal operating expenses such as liability insurance, 501(c)(3) annual filing fees, dues for a non-profit association membership, etc. Not having these spelled out in our grant budget proposals was an oversight. We agree that these expenditures should be delineated in our grant budget proposals and approved as part of our cooperative agreements.

We agree with the OIG recommendation #5 to work with OJP to remedy the unallowable other direct costs. We will submit GANS for these items so they become specific components of our approved budgets. In the future, we will delineate each of these operating expenditures in our grant budget proposals.

Special Conditions: This audit revealed two or three instances where National DEC did not provide accurate or sufficient attribution on publications of the support of BJA for the production and distribution of these DEC-related resources. We are proud of the support of BJA and we would not be able to produce and distribute these publications without that support. These were inadvertent omissions on our part and we will ensure that all publications contain proper attribution going forward.

There was also one instance in which National DEC paid a consultant a daily rate of \$550 instead of the authorized \$450. This was also an inadvertent mistake which we have not and will not repeat.

We agree with the OIG recommendation #8 to work with OJP to ensure compliance with all cooperative agreement special conditions.

Conclusion: The National Alliance for Drug Endangered Children has as its mission, making a difference in how cases involving drugs and children are handled in order to break cycles of neglect and abuse. Careful administration of federal funds and fulfillment of

grant deliverables are key components of this effort. It is our commitment to comply with all grant and cooperative agreement requirements.

We have learned from this audit and we truly believe it will make us a better and stronger organization. We will take all necessary steps to correct all errors, omissions, or misunderstandings about how we administer grants funds.

OIG has enhanced our understanding of what is expected and we are confident we will be in full compliance going forward.

Please let me know if you have questions or would like additional information.

Sincerely,



Chuck Noerenberg
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National Alliance for Drug Endangered Children
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OFFICE OF JUSTICE PROGRAMS' RESPONSE



U.S. Department of Justice

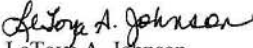
Office of Justice Programs

Office of Audit, Assessment, and Management

Washington, D.C. 20531

MAY 21 2014

MEMORANDUM TO: David M. Sheeren
Regional Audit Manager
Denver Regional Audit Office
Office of the Inspector General

FROM: 
LeToya A. Johnson
Acting Director

SUBJECT: Response to the Draft Audit Report, *Audit of Bureau of Justice Assistance Cooperative Agreements Awarded to National Alliance for Drug Endangered Children, Westminster, Colorado*

This memorandum is in reference to your correspondence, dated April 21, 2014, transmitting the above-referenced draft audit report for the National Alliance for Drug Endangered Children (NADEC). We consider the subject report resolved and request written acceptance of this action from your office.

The draft report contains **eight** recommendations and **\$819,189¹** in net questioned costs. The following is the Office of Justice Programs' (OJP) analysis of the draft audit report recommendations. For ease of review, the recommendations are restated in bold and are followed by our response.

- 1. We recommend that the Bureau of Justice Assistance (BJA) coordinate with NADEC to remedy the \$557,862 in unsupported salaries.**

OJP agrees with the recommendation. We will coordinate with NADEC to remedy the \$557,862 in unsupported salaries that were charged to cooperative agreement numbers 2010-DB-BX-K046 and 2012-AC-BX-K002.

- 2. We recommend that BJA coordinate with NADEC to remedy the \$77,279 in unsupported fringe benefits.**

OJP agrees with the recommendation. We will coordinate with NADEC to remedy the \$77,279 in unsupported fringe benefits that were charged to cooperative agreement numbers 2010-DB-BX-K046 and 2012-AC-BX-K002.

¹ Some costs were questioned for more than one reason. Net questioned costs exclude the duplicate amounts.

- 3. We recommend that BJA coordinate with NADEC to maintain timesheets for all full and part-time individuals reimbursed under the awards.**

OJP agrees with the recommendation. We will coordinate with NADEC to obtain a copy of policies and procedures developed and implemented to ensure that timesheets are maintained for all full and part-time individuals reimbursed under Federal awards.

- 4. We recommend that BJA coordinate with NADEC to remedy the \$175,165 in unsupported other direct costs.**

OJP agrees with the recommendation. We will coordinate with NADEC to remedy the \$175,165 in unsupported other direct costs that were charged to cooperative agreement numbers 2010-DB-BX-K046 and 2012-AC-BX-K002.

- 5. We recommend that BJA coordinate with NADEC to remedy the \$3,717 in unallowable other direct costs.**

OJP agrees with the recommendation. We will coordinate with NADEC to remedy the \$3,717 in unallowable other direct costs that were charged to cooperative agreement numbers 2010-DB-BX-K046 and 2012-AC-BX-K002.

- 6. We recommend that BJA coordinate with NADEC to remedy the \$55,176 in unsupported contract expenditures.**

OJP agrees with the recommendation. We will coordinate with NADEC to remedy the \$55,176 in unsupported contract expenditures that were charged to cooperative agreement numbers 2010-DB-BX-K046 and 2012-AC-BX-K002.

- 7. We recommend that BJA coordinate with NADEC to ensure that NADEC uses formal contracts that are signed by both parties.**

OJP agrees with the recommendation. We will coordinate with NADEC to obtain a copy of policies and procedures developed and implemented to ensure that future contracts are fully executed by all parties.

- 8. We recommend that BJA coordinate with NADEC to ensure compliance with special conditions.**

OJP agrees with the recommendation. We will coordinate with NADEC to obtain a copy of policies and procedures developed and implemented to ensure compliance with award special conditions.

We appreciate the opportunity to review and comment on the draft audit report. If you have any questions or require additional information, please contact Jeffery A. Haley, Deputy Director, Audit and Review Division, on (202) 616-2936.

cc: Jeffery A. Haley
Deputy Director, Audit and Review Division
Office of Audit, Assessment, and Management

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OJP Executive Secretariat
Control Number IT20140421151456

**OFFICE OF THE INSPECTOR GENERAL ANALYSIS AND
SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT**

The Office of the Inspector General (OIG) provided a draft of this audit report to the National Alliance for Drug Endangered Children (NADEC) and the Office of Justice Programs (OJP). NADEC's response is included as Appendix III and OJP's response is included as Appendix IV of this final report. The following provides the OIG analysis of the responses and a summary of actions necessary to close the report.

Recommendation Number:

1. Remedy the \$557,862 in unsupported salaries.

Resolved. OJP agreed with our recommendation to remedy the \$557,862 in unsupported salaries. OJP stated in its response that it will coordinate with NADEC to remedy the \$557,862 in unsupported salaries that were charged to cooperative agreement numbers 2010-DB-BX-K046 and 2012-AC-BX-K002.

While NADEC agreed with our recommendation, it also stated that it believes it properly supported the salaries charged to the awards. NADEC stated that it used a number of resources, including calendars, computer data, and evidence of staff communication, in order to reasonably allocate employee compensation. NADEC stated that the allocation reflected an after-the-fact distribution of actual activity, which met the allocation requirements outlined in the OJP Financial Guide. However, we note that the OJP Financial Guide requires that salaries and fringe benefits must be allocated to federal awards based on time and effort reports that are signed by the employee and approved by a supervisor. As stated in this report, NADEC did not maintain timesheets during the period we audited. As a result, we questioned all salaries and fringe benefits charged to the cooperative agreements as unsupported.

NADEC stated that each employee now uses daily activity reports to track time dedicated to specific grant deliverables and activities that are common to all grants. However, this procedural update does not provide any additional support for the \$557,862 in unsupported salaries.

This recommendation can be closed when we receive documentation demonstrating that OJP has remedied the \$557,862 in unsupported salaries.

2. Remedy the \$77,279 in unsupported fringe benefits.

Resolved. OJP agreed with our recommendation to remedy the \$77,279 in unsupported fringe benefits. OJP stated in its response that it will coordinate with NADEC to remedy the \$77,279 in unsupported fringe benefits that were charged to cooperative agreement numbers 2010-DB-BX-K046 and 2012-AC-BX-K002.

While NADEC agreed with our recommendation, for the same reasons outlined in Recommendation 1, NADEC believes that it properly supported the fringe benefits charged to the awards. Again, NADEC did not maintain timesheets during the period we audited as required by the award criteria. As a result, we questioned all salaries and fringe benefits charged to the cooperative agreements as unsupported.

As discussed in Recommendation 1, the daily activity reports NADEC stated it now uses do not provide any additional support for the \$77,279 in unsupported fringe benefits.

This recommendation can be closed when we receive documentation demonstrating that OJP has remedied the \$77,279 in unsupported fringe benefits.

3. Maintain timesheets for all full and part-time individuals reimbursed under the awards.

Resolved. OJP agreed with our recommendation to maintain timesheets for all full and part-time individuals reimbursed under the awards. OJP stated in its response that it will coordinate with NADEC to obtain a copy of policies and procedures developed and implemented to ensure that timesheets are maintained for all full and part-time individuals reimbursed under Federal awards.

NADEC agreed with our recommendation. NADEC stated in its response that each employee now uses daily activity reports to track time dedicated to specific grant deliverables and activities that are common to all grants. However, NADEC did not provide any documentation to support its statement.

This recommendation can be closed when we receive documentation from OJP demonstrating that NADEC maintains timesheets for all full and part-time individuals reimbursed under the awards.

4. Remedy the \$175,165 in unsupported other direct costs.

Resolved. OJP agreed with our recommendation to remedy the \$175,165 in unsupported other direct costs. OJP stated in its response that it will coordinate with NADEC to remedy the \$175,165 in unsupported other direct costs that were charged to cooperative agreement numbers 2010-DB-BX-K046 and 2012-AC-BX-K002.

While NADEC agreed with our recommendation, it also stated that it reasonably allocated operating costs based on the same allocation used for payroll and that the costs were supported by invoices, checks, and financial records. Again, NADEC did not maintain timesheets during the period we audited as required by the award criteria. As a result, we questioned all expenses charged to the awards that were based on payroll allocations as unsupported.

NADEC stated that it is using a new methodology to allocate operating costs independent of payroll allocations. However, this procedural update does not provide any additional support for the \$175,165 in other direct costs.

This recommendation can be closed when we receive documentation demonstrating that OJP has remedied the \$175,165 in unsupported other direct costs.

5. Remedy the \$3,717 in unallowable other direct costs.

Resolved. OJP agreed with our recommendation to remedy the \$3,717 in unallowable other direct costs. OJP stated in its response that it will coordinate with NADEC to remedy the \$3,717 in unallowable other direct costs that were charged to cooperative agreement numbers 2010-DB-BX-K046 and 2012-AC-BX-K002.

NADEC agreed with our recommendation. NADEC stated in its response that it plans to submit GANs to include the unallowable items in the approved budget. However, we note that one of the expenditures charged to Cooperative Agreement 2010-DB-BX-K046 totaling \$63 was for parking when NADEC assisted the Department of Homeland Security with the development of curriculum. NADEC should have been reimbursed by the Department of Homeland Security, and not charged the expense to a Department of Justice award.

This recommendation can be closed when we receive documentation demonstrating that OJP has remedied the \$3,717 in unallowable other direct costs.

6. Remedy the \$55,176 in unsupported contract expenditures.

Resolved. OJP agreed with our recommendation to remedy the \$55,176 in unsupported contract expenditures. OJP stated in its response that it will coordinate with NADEC to remedy the \$55,176 in unsupported contract expenditures that were charged to cooperative agreement numbers 2010-DB-BX-K046 and 2012-AC-BX-K002.

While NADEC agreed with our recommendation, it also stated in its response that it believes contractual obligations can arise through a variety of means, such as agreements made through email and invoices that delineate the services provided. However, for the contracts in question, NADEC did not provide sufficient documentation to support a contractual agreement between NADEC and the contractors prior to provision of the contracted services, such as an email outlining agreed upon terms. In addition, many of the invoices submitted did not contain sufficient detail to demonstrate the actual services provided by the contractor.

NADEC also states that the OJP Financial Guide does not explicitly require a contractual obligation to be supported by a hard-copy contract with two signatures. The OJP Financial Guide requires a grantees accounting system to be supported with source documentation, including contracts. Additionally, in our opinion, unsigned or undocumented contracts are not valid agreements and all contracts should be signed by NADEC and the contractor to fully document the agreement between both parties.

In the example cited in NADEC's response related to financial services, NADEC states that there was no uncertainty about the terms of the agreement. However, NADEC did not have any written agreement with the contractor. Additionally, the invoices did not contain detail to indicate what services were performed. While NADEC described the performance of the services as "clear," the work performed was not clear in the supporting documentation provided.

This recommendation can be closed when we receive documentation demonstrating that OJP has remedied the \$55,176 in unsupported contract expenditures.

7. Ensure that NADEC uses formal contracts that are signed by both parties.

Resolved. OJP agreed with our recommendation to ensure that NADEC uses formal contracts that are signed by both parties. OJP stated in its response that it will coordinate with NADEC to obtain a copy of policies and procedures developed and implemented to ensure that future contracts are fully executed by all parties.

NADEC agreed with our recommendation. NADEC stated in its response that it now understands that a properly documented contractual obligation includes a hard copy contract with two signatures. NADEC also stated that it is correcting this issue by executing contracts for its contractual obligations.

This recommendation can be closed when we receive documentation from OJP demonstrating that NADEC has implemented policies to ensure that formal contracts are signed by both parties.

8. Ensure compliance with special conditions.

Resolved. OJP agreed with our recommendation to ensure compliance with special conditions. OJP stated in its response that it will coordinate with NADEC to obtain a copy of policies and procedures developed and implemented to ensure compliance with award special conditions.

NADEC agreed with our recommendation. NADEC stated in its response that it mistakenly violated some of the awards' special conditions and that it will ensure the mistakes will not be repeated going forward.

This recommendation can be closed when we receive documentation from OJP demonstrating that NADEC has implemented policies to ensure it complies with special conditions.