



Issue Date	November 20, 1998
Audit Case Number	99-NY-241-1002

TO:

FROM: Alexander C. Malloy, District Inspector General for Audit, 2AGA

SUBJECT:

Community Planning and Development Programs

We reviewed the system of financial and management controls in use at Utica Community Action, Inc. (UCAI), a not-for-profit corporation, that has been the recipient of a substantial amount of

Housing and Urban Development (HUD). Our review was initiated by complaints provided to the Office of Inspector General (OIG). These complaints included allegations of mismanagement UCAI's operations. Accordingly, our examination was designed to evaluate the system of controls and the organizational environment in which the

administered its activities in an economical manner and in compliance with applicable Federal requirements. The review period was from January 1, 1997 through December 31, 1997, and

between January 26, 1998 and October 9, 1998.

This report contains two findings that show that UCAI did not always comply with applicable management controls over its operations. Furthermore, we found questionable practices involving UCAI's operation of its for-profit corporation.

report on: (1) the corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is not considered necessary. Also, please furnish us copies of any

Management Memorandum

Should you or your staff have any questions, please contact William H. Rooney, Assistant District Inspector General for Audit, at 212-264-8000, Extension 3976.

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Executive Summary

We reviewed the system of financial and management controls in use at UCAI, a not-for-profit corporation, regarding the various Federal, State, and Locally funded programs that UCAI administers. UCAI receives a substantial amount of funds from HUD to administer Community Planning and Development programs, such as, HOME, Youthbuild and Housing Opportunities for Persons with AIDS. The purpose of the examination was to evaluate allegations of mismanagement caused by management control weaknesses in UCAI's operations. In addition, our review was designed to determine whether UCAI administered its activities in an economical manner and in compliance with applicable Federal requirements.

Our review showed significant weaknesses in the system of controls and in the environment in which the system of controls functioned. We were unable to rely upon UCAI's financial and program records because they were not complete, current, and accurate. Additionally, we found certain inappropriate transactions indicating an inability of management to safeguard assets in an effective manner. Also, the length of our review was inordinately extended because UCAI's was unable to provide us with documents or information in a timely manner. Under the circumstances, other inappropriate transactions may have occurred and remained undetected during our audit tests of UCAI's operations.

Deficiencies Found

Appropriate controls have not been implemented or enforced because the UCAI Board of Directors have not exercised oversight and control over the operations of the agency. Weaknesses exist in UCAI's accounting controls including cash receipts, cash disbursements, budgetary controls, and support for expenditures and transactions. In addition, we found management control weaknesses regarding UCAI equipment, agency credit cards, cellular telephones, gasoline charges and the use of bank lines of credit.

UCAI has been improperly subsidizing the operations of ANKH Construction, Inc., a for-profit subsidiary of UCAI. We found questionable transactions involving conflict of interests and improper use of UCAI's State tax exemption status. As a result, public funds have been uneconomically used to benefit ANKH business activities and may have inappropriately benefited certain UCAI employees.

Recommendations to Mitigate Problems

We are recommending actions that will strengthen UCAI's future administration of HUD programs, as well as other government programs. These actions include the establishment of clear lines of authority to provide for effective Board oversight and specific actions to remedy the

identified controls weaknesses. In connection with UCAI's subsidizing of ANKH's operations, we have recommended that UCAI adopt the necessary controls to ensure that all funding received from HUD and others be used appropriately to administer approved activities. Finally, we recommend that ANKH immediately reimburse UCAI for all funds and services provided for non-programmatic work.

Exit Conference

The results of the audit were discussed with officials during the course of the audit, and an at an exit conference held on October 9, 1998 attended by:

UCAI Officials

Michael Suppa, UCAI Board Member
Michael Parker, UCAI Board Member
Fred Lomonto, UCAI Board Member
John Furman, UCAI Program Planner
Paul Martini, UCAI Controller

HUD - Office of Inspector General

William H. Rooney, Assistant District Inspector
General for Audit
Larry Magiera, Senior Auditor
John Cameron, Auditor
Richard Roseboom, Auditor

UCAI's Board of Directors agreed with our recommendations and provided written comments which are included as Appendix B to this report.

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Abbreviations

ANKH	ANKH Construction, Inc. (For-Profit subsidiary of UCAI)
CDBG	Community Development Block Grant
CEO	Chief Executive Officer
HUD	U.S. Department of Housing and Urban Development
IPA	Independent Public Accountant
OIG	Office of Inspector General
OMB	Office of Management and Budget
UCAI	Utica Community Action, Inc.

Introduction

In 1966, Utica Community Action, Inc. (UCAI), a not-for-profit corporation, was incorporated in the State of New York. The corporation was established for the purpose of, among other things, surveying community needs and developing and administering anti-poverty programs for the City of Utica, New York.

UCAI is governed by a Board of Directors that consists of seventeen members. UCAI Board members represent local neighborhoods, private enterprise, and the public sector. The implementation of policies and the administration of UCAI is the responsibility of Raymond Shanley, Chief Executive Officer (CEO). The books and records of UCAI are located at 253 Genesee Street, Utica, New York 13501.

During the audit period, UCAI administered numerous grants and awards provided by various public and private sources. HUD provided about 59 percent of all UCAI resources for Community Planning and Development programs, such as, Youthbuild, HOME and Housing Opportunities for Person with AIDS. In addition, during our audit period UCAI administered a HUD Section 8, Low-Income Rental Assistance Program. Included in Appendix A of this report is a schedule of funding sources that provided funding to UCAI during the audit period.

Audit Objectives, Scope and Methodology

The audit objectives were to: (1) evaluate UCAI's system of controls and the organizational environment in which the controls functioned; and (2) determine if UCAI administered its activities in an economical manner; and if UCAI complied with applicable Federal requirements.

The audit covered the period from January 1, 1997 through December 31, 1997. However, we reviewed activity prior and subsequent to the audit period as necessary. Based on our survey, the audit focused primarily on UCAI's management and accounting controls and the affect that UCAI's control environment had on conducting its operations and management practices. The field work was performed between January 26, 1998 and October 9, 1998.

In order to accomplish the audit objectives the following audit procedures were performed:

- Examined elements of UCAI's control environment.
- Examined UCAI records and files and interviewed staff.

- Conducted site visits to verify property and equipment.
- Tested selected transactions.

The audit was conducted in accordance with generally accepted government audit standards.

A copy of this report was provided to UCAI.

UCAI Has Not Implemented Effective Financial and Management Controls Over Its Operations

UCAI's financial and management controls cannot be relied upon to provide current and accurate information necessary to effectively account for and administer grant programs. The implementation of adequate controls is required by various grant agreements, as well as HUD regulations and Office of Management and Budget (OMB) Circulars. Appropriate controls have not been implemented or enforced because the UCAI Board of Directors have not exercised oversight and control over the operations of the agency. Consequently, there is little assurance that program assets are adequately safeguarded and used for appropriate purposes. Moreover, there is little assurance that disbursements are reasonable and necessary, and that such costs are equitably allocated between funding sources. We believe that management control weaknesses have permitted questionable transactions to remain undetected and has allowed a gradual deterioration of UCAI's financial condition to remain unaddressed.

Criteria

OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations" establishes the standards for financial management systems necessary to administer Federal grants. The standards require financial systems to provide:

- Records that adequately identify the source and application of funds.
- Effective control over and accountability for all funds, property and other assets.
- Comparison of outlays with budget amounts for each award.
- Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury.
- Written procedures for determining the reasonableness and allowability of costs in accordance with the provisions of applicable Federal cost principles and the terms and conditions of the award.
- Accounting records including cost accounting records that are supported by source documentation.

Moreover, OMB Circular A-122, "Cost Principles for Non-Profit Organizations" provides that costs must be reasonable and adequately documented. In addition, costs must be applied consistently through the application of generally accepted accounting principles.

Background and Scope

UCAI's official accounting records are maintained by UCAI's Controller. The Controller is responsible for maintaining general ledgers, journals, cash receipts and disbursement records for all Federal, State, and other programs. In addition, the Comptroller maintains the financial records for ANKH (a for-profit corporation) of UCAI.

We reviewed UCAI's financial management system including internal controls, accounting procedures, and purchasing policies to determine whether UCAI was in compliance with the aforementioned criteria. We tested selected transactions to determine whether they were accurately recorded, properly documented, and reasonable.

Results of Review

Material errors and deficiencies were found in the financial records maintained by UCAI. The errors and deficiencies have affected the accuracy of program reports and the assurance that grant funds were properly being used and safeguarded. In addition, we found flaws in management's oversight of the organization that has resulted in an environment that has allowed UCAI's system of internal controls to be circumvented.

UCAI Operations Lack Effective Board of Directors Oversight and Control

A recently released New York State Department of State monitoring report was critical of the Board of Directors and identified instances where the Board did not comply with New York State laws. Namely, the report contains findings that address violations of laws pertaining to the Board's membership composition and its failure to conduct meetings in accordance with UCAI's by-laws, and State laws including Open Meeting Laws and Roberts Rules of Order. Other deficiencies included poorly documented minutes, questionable removal and selection of Board members, and failure to properly approve certain financial transactions.

Apart from the above, the OIG has received written complaints from prior UCAI employees and Board members. These complaints alleged that UCAI's management has been instrumental in improperly structuring the Board to personally benefit management. In addition, allegations involved the alteration of Board meeting minutes, and improper voting on significant matters and transactions.

The results of our review substantiated the matters identified in the State report and some of the complaints that were forwarded to us. In particular, we found that UCAI could not produce all of the minutes supporting Board meetings, the minutes provided were not always signed, and in many instances copies of the Board minutes were given to us rather than the originals.

We believe that the Board’s failure to exercise its responsibilities to ensure that the UCAI is properly administering programs has contributed to an environment that weakens the organization’s system of controls. Some of the more significant deficiencies and errors are discussed in detail below and in the other finding in this report.

Deficient Accounting Controls

1. UCAI General Ledger is not being posted in a timely manner. Many transactions occurring in 1997 were not posted to the ledger through March 1998. For example, the November 1997, \$850,000 purchase of the Ropewalk Apartments was not fully recorded in the books and records.
2. Receipts and expenditures for Federal, State, and other programs are commingled in cash accounts that can not be readily reconciled by grant activity or grant program year.
3. Year end amounts in UCAI’s Balance Sheet accounts do not agree with amounts shown in the Independent Public Accountant’s (IPA) report for the year ended 1996. The differences remain unresolved and appear to have resulted from UCAI’s failure to post adjusting entries provided by the IPA.

Examples include:

<u>Account</u>	<u>UCAI General Ledger</u>	<u>IPA Report</u>
Cash	\$ 117,059.00	\$127,642.00
Grants Receivable	416,990.00	522,239.00
Property/Equipment	370,328.00	535,061.00

4. Budgetary controls over program funds are not effectively employed. There is no assurance that expenditures are compared to budgeted amounts at the time they are incurred and paid.
5. Payments are processed without review of source documentation. Purchase orders are not always signed, issued in

numerical order, and are prepared subsequent to vendor invoices. Vendor invoices are not stamped or canceled after payment.

6. Accounts Receivable and Accounts Payable are not reconciled on a periodic basis. UCAI's accounting personnel are unable to readily identify the make up of the accounts.
7. Transactions have been misclassified in UCAI's books and records. The misclassifications materially affect the accuracy and reliability of the books and records. For example, we found that UCAI had misclassified security deposits as an Accounts Payment/Maintenance.
8. Journal entries do not always contain adequate explanations or support to document their purposes and propriety. Journal entries are not always reviewed and approved by supervisory personnel. This is a significant deficiency because UCAI prepares and posts hundreds of journal entries each year.
9. Documentation maintained by UCAI to support bank deposits did not always agree with the actual deposit tickets maintained by the bank. This indicates that the make up of the deposits are being improperly manipulated.
10. Accounting controls over rents collected on UCAI owned units are poor. We found differences between rents purportedly collected and supported by receipts and tenant rent cards. We found that the UCAI does not use pre-numbered receipts and does not use receipts in chronological order. In addition, we found significant weaknesses in accounting controls over tenant security deposits.

Assets are not
Safeguarded

Controls over the location and use of UCAI's assets need to be improved. Significant weaknesses exist in inventory controls over equipment and in the controls over the use of credit cards, gasoline, and cellular telephones.

Deficiencies Noted During Review of Equipment Inventory Controls

1. Prior to November 1997, UCAI did not maintain a documented inventory of equipment or perform periodic inventory inspections.

2. Serial numbers, or tag numbers were not always included on inventory control logs.
3. Equipment located during inspections by OIG could not be traced to the inventory control logs.

Controls Over Credit Cards, Gasoline, and Cellular Telephones are Weak

Controls over the use of UCAI issued credit cards, cellular telephones and gasoline purchases are not sufficient to ensure that expenses incurred are reasonable and necessary for the economical operation of UCAI activities. Moreover, the poor controls provide little protection from employee abuse of UCAI assets.

Credit Cards

Our review of UCAI's credit cards showed the following:

- a. During 1997, the CEO used UCAI's credit card to charge \$30,735 in expenses. Of the amount, over \$8,282 was incurred for personal expenses and another \$4,499 was incurred for charges related to a for-profit entity of UCAI. Despite the extensive use of the card for personal or other non-related charges, UCAI did not record the amounts as due from the CEO on its books and records. Timely repayments have not been made by the CEO and fees and finance charges related to \$2,000 in cash advances paid to the CEO have not been assessed or paid.
- b. Most of the expenses charged on UCAI's credit cards were not adequately supported with documentation including bills, invoices and credit card receipts. Therefore, we were unable to determine the reasonableness and propriety of the charges. This is significant because many of the charges were for meetings held at local restaurants.
- c. UCAI has not paid its credit card debt in a timely manner, incurring interest and fees on unpaid balances.

UCAI Gas Charges

During our three month test period, UCAI was charged \$3,573 for 2,981 gallons of gasoline for six agency owned vehicles. Of that

amount, the CEO received approximately 307 gallons for use in the CEO's UCAI leased automobile. Our review found inconsistencies between vehicles and their odometer readings and gallons purchased. More significantly, we found multiple gasoline purchases for the same vehicles within minutes. For example, on August 1, 1997, Vehicle No. 00001 was refueled at 8:22 a.m. with 22.852 gallons, again at 8:53 a.m. with 29.156 gallons, and a third time at 9:06 a.m. with 49.645 gallons. It is clear that controls over the purchase of gasoline are ineffective and that the likelihood of abuse related to the purchases is significant.

UCAI Cellular Telephones

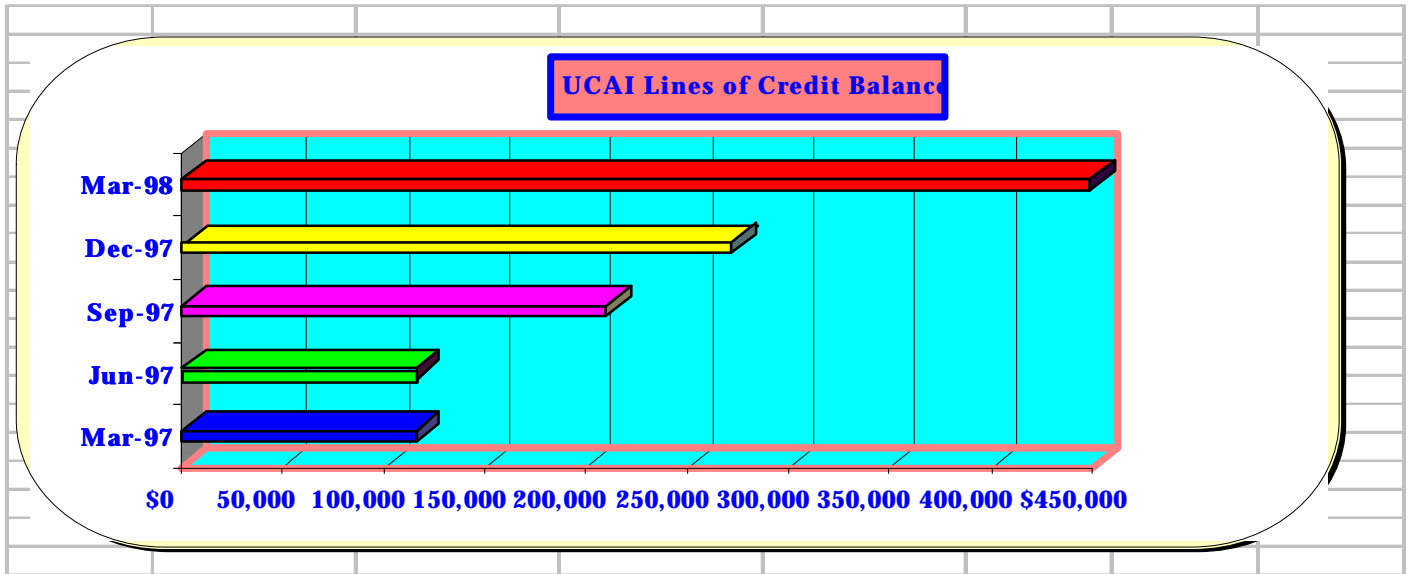
During a randomly selected three month period, we found that the seven UCAI cellular telephones were used for incoming and outgoing calls 7,520 times at a cost of \$3,232. We also note that several calls were made on Saturdays and Sundays and during non-working hours. The extensive use of the cellular phones coupled with an elaborate in house system that incurred an additional \$28,920 in costs in 1997, seems to be an uneconomical use of UCAI assets.

UCAI Line of Credit

Since February 1997, UCAI has increased the amount of funds drawn against its two lines of credit by 288 percent, from \$115,600 to \$488,436. The line of credit usage has dramatically increased the interest cost borne by UCAI because only minimal amounts of principal have been repaid. See chart as follows:

OUTSTANDING BALANCE - UCAI LINES OF CREDIT

DATE	TOTAL	ADIRANDACK BANK	UTICA SAVINGS BANK
Mar-97	\$115,600	\$65,600	\$50,000
Jun-97	\$115,600	\$65,600	\$50,000
Sept-97	\$210,000	\$160,000	\$50,000
Dec-97	\$272,000	\$222,000	\$50,000
Mar-98	\$448,436	\$398,436	\$50,000



The UCAI Controller advised that the credit lines were used as a financing bridge while waiting for funds due from governmental agencies. In addition, the Controller advised that the line of credit amounts were UCAI discretionary funds and therefore not bound by Federal guidelines or oversight. We disagree on both contentions. First, our review showed that UCAI has not been routinely repaying the outstanding credit line with grant funds when they are received, instead, UCAI has deposited the grant funds into the general fund and in turn used them for operating costs. Secondly, since the credit line amounts were used to pay commingled costs including Federal program expenses and since Federal funds were certainly used to pay interest on the outstanding credit line amounts, Federal guidelines do apply. We are concerned that the dramatic increase in the use of the lines of credit may indicate that UCAI has cash flow problems that could jeopardize its ability to continue as a viable entity.

The absence of the UCAI Board of Directors oversight and control over the operations of the agency and the ineffective system of financial and management controls are the underlying cause for the significant deficiencies included in the findings in this report. Unless effective corrective actions are taken to resolve the problems, it is unlikely that UCAI will have the capacity to adequately administer its grants and programs in the future.

Recommendations

We recommend that you require UCAI to:

- 1A. Submit a plan for your review that meets the requirements of the various program regulations and OMB Circulars.

The plan should establish clear lines of authority to provide effective Board oversight of UCAI operations. In addition, specific correctives actions should be taken to remedy the deficient accounting controls and to enhance UCAI's ability to safeguard its assets. Procedures should be implemented to stop uneconomical and inappropriate use of credit and gasoline cards, as well as excessive use of cellular telephones.

Also, we recommend that you:

- 1B. Review the plan and direct its implementation.
- 1C. Advise UCAI that unless the plan is effectively implemented in a timely manner, that remedial actions including the suspension of HUD funding will be instituted.

Questionable Practices Involving UCAI's Operation of a For-Profit Corporation

Our review found that UCAI has been improperly subsidizing the operations of ANKH Construction, Inc., a for-profit subsidiary of UCAI. In addition, we found questionable transactions involving conflict of interests and improper use of UCAI's State tax exemption status. As a result, public funds have been uneconomically used to fund ANKH business activities that are operating at a loss, and for activities that may have inappropriately benefited certain UCAI employees. We believe that the questionable practices have occurred because the UCAI Board has not exercised effective oversight of its employees and has not implemented and enforced an effective control system to safeguard UCAI assets.

Background

In 1996, UCAI created ANKH Construction, Inc., as a for-profit subsidiary. The stated purpose of the corporation was to generate profits on construction work in the City of Utica, New York. The corporation is controlled by UCAI's Chief Executive Officer (CEO) and Controller and does not have any employees. All of the corporation's work is performed by UCAI employees. Although formed in 1996, most of ANKH's business activity occurred in 1997.

Scope of Review

We reviewed ANKH's books and records for 1997, and conducted interviews with pertinent UCAI personnel to determine whether ANKH's activities were separate and distinct from those of the UCAI. In addition, the review was performed to ensure that ANKH was being used for the intended purpose and that its activities were free of potential conflicts of interest.

Review Results

Our review found that the UCAI control weaknesses discussed in Finding 1 of this report have negatively affected ANKH and UCAI's ability to appropriately account for related transactions. As a result, funds and services provided by UCAI to subsidize ANKH's operations may not be fully accounted for and transactions involving possible conflicts of interests have occurred and remained undetected. Particular weaknesses are discussed below.

UCAI Improperly Funding ANKH

Despite being a not-for-profit agency receiving the majority of its funds from governmental sources, UCAI has subsidized the activities of ANKH. At December 31, 1997, UCAI had booked receivables due from ANKH in the amount of \$44,619 dollars. We were unable to verify whether the amount was accurate and included all of the costs due to UCAI, because of the poor condition of UCAI and ANKH's books and records. However, we believe that the use of UCAI's resources to subsidize the for profit operation at ANKH does not comply with UCAI's not-for-profit status or with the intent of its funding agencies.

Conflicts of Interest and Related Party Transactions

Our review of ANKH's operations disclosed at least two less than arms length transactions involving UCAI's CEO were, in our opinion, inappropriate and represented conflicts of interest. Also, we found that ANKH performed contract work on a property owned by a relative of a UCAI management employee. These situations are explained as follows.

Unpaid Home Improvements on CEO's Residence

During 1997, ANKH performed free repairs to the CEO's residence totaling at least \$5,990. Our review of ANKH's books and records showed that an account receivable due from the CEO was not recorded in the books and records and that the CEO has not been billed nor did the CEO pay for the improvements. This is noteworthy since the majority of ANKH's costs attributed to the repairs were subsidized by UCAI.

We consider the transaction to be a conflict of interest and contrary to HUD regulations. Specifically, Section 570.611 provides that no person who exercise or have exercised any functions or responsibilities with respect to the Community Development Block Grant (CDBG) activities or who are in a position to participate in a decision making process or gain inside information with regard to such activities, may obtain a personal or financial interest or benefit from a CDBG assisted activity, or have an interest in any contract, subcontract or agreement with respect thereto, or the proceeds there-under, either for themselves or those with whom they have

family or business ties, during their tenure or for one year thereafter.

ANKH Used as an Conduit for a Questionable UCAI Advance to the CEO

On August 7, 1997, the UCAI Board approved a \$10,000 salary advance to the CEO, payable in 60 days at one percent above the prime interest rate. Subsequent to the advance, certain questionable actions were taken that relieved the CEO of the responsibility to repay the advance. A brief discussion of these questionable actions are as follows:

- a. No actions to withhold or garnish the CEO's salary was attempted after the advance became delinquent.
- b. Without UCAI Board approval, the Controller reclassified the advance to a note receivable. The Controller's justification for the reclassification was that the CEO was unable to repay the advance.
- c. Instead of reclassifying the advance as a note receivable, the Controller transferred the advance to an account titled "Disposable Inventory".
- d. On October 5, 1997, ANKH approved an arrangement that provided the CEO with \$250 a month for the use of the CEO's personal garage to store ANKH equipment. The monthly fee was to be used to repay the salary advance/receivable. Our review found that the arrangement did not result in any repayments. More importantly, our review of ANKH records, inspections, and interviews show that ANKH did not store any of its equipment at the CEO's personal garage.

We believe the above transactions benefited the CEO by permitting him to receive the \$10,000 advance without repaying it. The sequence of events occurred without scrutiny because of the poor control environment at UCAI.

Identity of Interest Contract for Building Improvements

During the review period, ANKH performed building improvements totaling at least \$20,216.74 on property owned by the brother of UCAI's Director of Construction Services. Due to the poor condition of ANKH's records we were unable to

determine the propriety and reasonableness of the cost. Also, we were unable to ascertain the scope of work performed. This is significant since UCAI advanced the majority of the money for the work performed. We believe that transactions of this nature involving related parties should not be financed by UCAI funds that are earmarked for other not-for-profit activities.

State Tax Exempt Status

Our review of ANKH vendor invoices disclosed many instances where goods and services were provided without the appropriate State tax being paid. Instead, the invoices were identified as UCAI purchases and therefor considered to be tax exempt. While the amount of unpaid taxes were relatively small in dollar amount, the problem is yet another questionable practice involving UCAI's inability to account for its transactions appropriately.

The matters discussed in this finding constitute non-compliances with HUD regulations and OMB Circulars. Specifically, the provisions of OMB Circular A-110, requiring effective control over and accountability for all funds, property, and other assets. In addition, provisions of A-122, requiring costs to be necessary and reasonable have not been met. Unless immediate corrective actions are taken to ensure that the activities of UCAI and ANKH are separate, the inefficient and inappropriate use of program funds will continue.

Recommendations

We recommend that you require the UCAI to:

- 2A. Direct the Board of Directors to adopt and implement the necessary controls and safeguards to ensure that all funding received by UCAI from HUD and other governmental agencies are only used to appropriately administer approved UCAI not-for-profit activities.
- 2B. Immediately reimburse UCAI for all funds and services provided to ANKH for non-programmatic work activities.
- 2C. Implement procedures that ensure that conflicts of interest do not occur and that employees and officials of UCAI, cannot use their positions for improper gain.

- 2D. Comply with all State tax laws and to implement procedures to ensure that UCAI's tax exemption privileges are not improperly used by others.

Management Controls

In planning and performing our audit, we considered the management controls of UCAI in order to determine our audit procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following management control were relevant to our audit objectives:

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Based on our review, we believe that significant weaknesses exist in the following areas:

A

- Program Operations - The UCAI did not use all of its funds to benefit the residents of the City Utica, New York (Finding 1).
- Validity and Reliability of Data - Receipts and expenditures of Federal, State and Local funds are commingled in cash accounts and can not be readily reconciled by activity (Finding 1).
- Compliance with Laws and Regulations - The UCAI did not follow the requirements in OMB Circular A-110, Uniform Administrative Requirements for Grants and agreements of Higher Education, Hospitals and Other Not-for-profit organizations. Also, UCAI did not follow OMB Circular A-122, Cost Principals for Non-Profit Organizations (Finding 1).
- Safeguarding Resources - UCAI has been improperly subsidizing the operations of its for-profit entity (Finding 2).

Follow Up On Prior Audits

An audit of UCAI was performed by an Independent Public Accountant (IPA) for the period ending December 31, 1996. The report contained two findings of non-compliance that cited documentation for verification of income status was not available for review.

No audits subsequent to the aforementioned were completed as of July 1998.

Schedule of UCAI Funding Sources

<u>Funding Source</u>	<u>Contract Date</u>	<u>Contract Amount</u>	<u>Percentage of Total</u>
US Dept. of Health and Human Services	Jan-97	\$322,624	3.8%
Private Donations	Jan-97	7,000	0.1%
NYS Office of Children & Family	Jan-97	28,000	0.3%
NYS Dept. of Health & Social Services	Jul-96	45,000	0.5%
NYS Dept. of Health & Social Services	Jul-97	45,000	0.5%
Central New York Development Services Office	Jan-97	45,000	0.5%
Central New York Development Services Office	Jan-97	10,000	0.1%
US Dept. of Health and Human Services	Jan-97	40,000	0.5%
US Dept. of Energy	Aug-96	296,640	3.5%
US Dept. of Energy	Apr-97	307,000	3.6%
NYS Dept. of Social Services	Apr-97	500,000	5.9%
US Dept. of Housing and Urban Development	Jan-97	240,218	2.8%
US Dept. of Housing and Urban Development	Apr-97	100,000	1.2%
US Dept. of Housing and Urban Development	Jun-97	200,000	2.3%
US Dept. of Housing and Urban Development	Apr-97	400,000	4.7%
US Dept. of Housing and Urban Development	Apr-97	498,750	5.9%
NYS Dept. of Parks and Recreation	Apr-97	61,515	0.7%
National Office of Community and National Service	Oct-96	104,000	1.2%
National Office of Community and National Service	Oct-97	147,481	1.7%
NYS Dept. of Labor	Mar-97	286,128	3.4%
US Dept. of Housing and Urban Development	Jan-97	348,720	4.1%
US Dept. of Housing and Urban Development	Apr-96	190,000	2.2%
US Dept. of Housing and Urban Development	Apr-97	190,000	2.2%
US Dept. of Housing and Urban Development	Nov-96	46,620	0.5%
US Dept. of Housing and Urban Development	Nov-97	66,400	0.8%
US Dept. of Housing and Urban Development	Jan-97	103,392	1.2%
US Dept. of Housing and Urban Development	May-97	118,548	1.4%
US Dept. of Housing and Urban Development	Jan-97	45,800	0.5%
US Dept. of Housing and Urban Development	Apr-97	2,477,868	29.1%
Tenants - Rent Receipts	Jan-97	240,000	2.8%
NYS Dept. of Social Services	Jan-97	25,600	0.3%
NYS Dept. of Social Services	Jan-97	30,000	0.4%
Oneida County Department of Health	Mar-97	30,750	0.4%
Oneida County Department of Health	Oct-97	46,000	0.5%
NYS Dept. of Labor	Sep-96	143,166	1.7%
NYS Dept. of Labor	Sep-97	143,166	1.7%
NYS Dept. of Health	Jul-96	150,000	1.8%
NYS Dept. of Health	Jul-97	150,000	1.8%
NYS Dept. of Health	Jan-97	12,000	0.1%
NYS Dept. of Health	Jul-97	13,200	0.2%
NYS Dept. of Education	Jul-96	22,261	0.3%
NYS Dept. of Education	Jul-97	38,098	0.4%
NYS Dept. of Education	Jul-96	22,950	0.3%
NYS Dept. of Education	Jul-97	18,000	0.2%
Mohawk Valley Perinatal/Prenatal Network	Dec-96	6,000	0.1%
NYS Office of Children & Family	Jan-97	75,000	0.9%
NYS Office of Children & Family	Oct-97	75,000	0.9%

TOTAL

\$8,512,895

100.0%

Total Funding - US Dept. of HUD

\$5,026,316

59.0%

Total HUD Funding - (Excluding Section 8)

\$2,548,448

29.9%

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Director, Housing & Community Development Issue Area
US GAO, 441 G Street, NW (Room 2474)
Washington, DC 20548
Attention: Judy England-Joseph)

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Director, HUD Enforcement Center
1240 Maryland Avenue, Suite 2000
Washington, DC 20024

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O'Neill House Office Building - Room 212
Washington, DC 20515
(Attention: Cindy Sprunger)

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Ranking Member
Committee on Governmental Affairs
United States Senate
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Government Reform & Oversight Committee
Congress of the United States
House of Representatives
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