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◆ Monitoring Report of ◆

Neighborhood Justice Center (Mediation, Inc.)

Issued by



**Office of Support Services
Division of Grants Monitoring**

Fred Adom, CPA
Director

LaShawn Barber,
Lead Auditor

September 12, 2002

BILL PURCELL
MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

DEPARTMENT OF FINANCE
OFFICE OF SUPPORT SERVICES
DIVISION OF GRANTS MONITORING
222 THIRD AVENUE NORTH, SUITE 650
NASHVILLE, TENNESSEE 37201

September 12, 2002

The Honorable Judge Marietta Shipley
Chair, Board of Directors
Neighborhood Justice Center/Mediation, Inc.
501 Metro Courthouse
Nashville, Tennessee 37201

Dear Judge Shipley:

Please find attached the Monitoring Report of the Neighborhood Justice Center/Mediation, Inc. This report explains the results of our review of the grant contract with the Metropolitan Government of Nashville and Davidson County (Metro) for the fiscal year ending June 30, 2002. The Division of Grants Monitoring (DGM) is responsible for monitoring grant funds from Metro Government to any nonprofit organization that receives grant appropriations. Staff from our office conducted the on-site review on May 30-31, 2002.

We appreciate the assistance provided by your agency during the course of the review. If you have any questions, please call me at (615) 862-6170.

Sincerely,

Fred Adom, CPA
Director

cc: Reverend James Thomas, Former Chair, Board of Directors
Joseph Ingle, Executive Director
David Manning, Director of Finance
Nancy Whittemore, Assistant Director of Finance
Joe Holzmer, Division of Accounts
Kim McDoniel, Internal Audit
LaShawn Barber, Division of Grants Monitoring

**MONITORING REPORT
FOR
NEIGHBORHOOD JUSTICE CENTER (MEDIATION, INC.)**

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OBJECTIVES, SCOPE AND METHODOLOGY

The Division of Grants Monitoring (hereinafter “DGM”) within the Metropolitan Government of Nashville and Davidson County (hereinafter “Metro”) is charged with the responsibility for monitoring the grant awards to all nonprofit organizations that receive a direct appropriation from Metro. DGM is also responsible for monitoring the federal and state grants to the various departments within the Metro Government.

A monitoring review, which is substantially less in scope than an audit, does not involve an audit of the agency’s financial statements. As such, DGM does not express an opinion or any assurance regarding the financial statements. The monitoring review process determines an entity’s compliance with the requirements of Federal, State, and Local government programs, adherence to applicable laws and regulations, and measures progress toward expected results and outcomes. It is the responsibility of the DGM to review each grant recipient to ensure adherence to the specific intents, restrictions, and requirements of the Metro Council.

We have completed our monitoring review of the grant to the Neighborhood Justice Center (hereinafter “NJC”) for the year ended June 30, 2002. The specific objectives for this review were:

- 1) To determine whether the agency has the resources and capacity to administer the grant funds
- 2) To determine the reliability of internal controls
- 3) To determine if costs and services are allowable and eligible
- 4) To determine whether program objectives are being met
- 5) To determine contractual compliance
- 6) To determine the reliability of financial reports

The NJC is a local nonprofit organization that engages in mediation efforts for the Nashville community based on referrals from the court system for misdemeanor or felony cases and the general public for disputes with neighbors, businesses, etc. Based on the report submitted to Metro, the agency received 263 case referrals as of the quarter ended March 31, 2002. An Executive Director and Administrative Assistant staff the agency and, along with several volunteer mediators, mediate each case referral.

The scope of our review included only the Metro contract with the NJC, contract #L-325, for \$90,630. The period of review was consistent with the grant period per the contract, July 1, 2001 through June 30, 2002. Our review focused on operational revenues and expenses as of April 30, 2002. The NJC received 83% of its support from a Metro grant for the fiscal year ended June 30, 2001.

The DGM conducts its reviews in accordance with the generally accepted auditing standards. Our review covered all of the core compliance areas identified by OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations.” To perform a monitoring review, the DGM generally conducts site visits to review the necessary documentation and interview key staff of the agency. To accomplish our objectives for this review, the DGM obtained an understanding of the agency’s operations and records to support the request and use of the grant funds through the following:

- Interviewed the staff responsible for financial oversight.
- Identified and reviewed a sample of non-personnel cash disbursements as of April 31, 2002.
- Reviewed controls and supporting documentation for disbursements for allowability, necessity, and reasonableness.
- Reviewed operations and activities of the NJC to evaluate compliance with intents of the grant.
- Reviewed the NJC’s measures taken to ensure compliance with required civil rights and ADA regulations regarding the prohibition of discriminatory practices and accessibility of services to employees and clients.
- Reviewed the financial reports submitted as requests for reimbursement.

RESULTS OF MONITORING

The overall results of the monitoring review for the Neighborhood Justice Center are provided in this section. The results are based on tests performed and include conclusions regarding the specific review objectives and, if applicable, recommendations for improvement and an action plan for implementing the conclusions. Where applicable, the Findings and Recommendations section of the report provides more insight into the problem identified in the results below.

1. Possess necessary resources and capacity to administer the grant funds

Our review of the agency's accounting system, the qualifications of the individual assigned to manage the accounting records, and other available resources, indicates that the NJC possesses the necessary resources and expertise to administer the grants funds. The staff at the NJC has limited accounting experience, however the part-time bookkeeper is experienced with nonprofit accounting. The agency uses the QuickBooks accounting system software to maintain and record financial transactions and an independent Certified Public Accounting firm audits the agency each fiscal year.

2. Reliability of internal controls

Based on our review of the agency's internal controls, the agency should make several improvements to its internal controls over operational procedures. Currently, the NJC has a staff of two (2), which increases the responsibilities of both the Executive Director and the Administrative Assistant, which both contributes to and complicates efforts toward segregation of duties. As it is, both staff is responsible for answering client calls, obtaining and responding to mail, conducting mediations, handling walk-in clients, supervising and scheduling volunteer mediators, handling deposits, making payments to vendors, and maintaining documentation. The DGM realizes the difficulty in managing an entire organization with only two staff persons, however reliable internal controls help to maintain the integrity of operations, both financial and programmatic. Finding #3 in the Findings and Recommendation section provides further discussion of the agency's need to improve internal controls.

3. Allowable and eligible costs and services

The contract between Metro and the NJC is general in nature, indicating that the funds should be used for "the general welfare of the residents of Metropolitan Davidson County." Our review did not include a comprehensive review of all cash disbursements. The DGM normally performs a more detailed review of personnel expenses for hourly employees that are required to maintain time and attendance records. Based on our review of the sample of cash disbursements, it appears that agency funds were used for the general operational purposes. The use of the funds did not violate the terms and conditions of OMB Circular 122, Cost Principles for Non Profit Organizations nor was the funds' use in violation of any Federal, State, or local laws and regulations.

Although it is generally a good business practice, the Metro contract does not specifically require separate accounting for Metro grant funds to prohibit commingling with other sources of funding. Our review of the agency's general ledger indicated that the Metro funds were not maintained separate from other agency funds, however the Chart of Accounts listed a specific "Metro Grant" revenue account. Expenses relative to the Metro grant were not charged to an account(s) separate from other operational expenses. Our tests included a review of expenses reported in the request for reimbursement. The problems with verifying the reports are discussed further in Item #6 in this section and Finding #4 in the Findings and Recommendations section. Because of the difficulty with tracing the expenditures charged to the Metro grant, the DGM will recommend enhancements to future Metro contracts for direct appropriations to enhance the accountability of grant funds.

RESULTS OF MONITORING

4. Program objectives being met

As stated previously, the NJC is an agency that engages in mediation efforts for the Nashville community based on referrals. Based on a review of the reports submitted to Metro and observation of a mediation in progress by DGM, it appears the agency is meeting its mediation objectives.

5. Contractual compliance

Based on our review, it appears the NJC complied with the intents of the appropriation. Metro awarded the funds for the purposes outlined in the agency's annual report, which include mediation efforts for cases referred by both the Metro courts and the general public. No specific grant budget or cost requirements were included as conditions of the grant contract, so the DGM could not test for specific costs. The DGM determined that Metro funds were used for the agency's normal operations. The DGM will recommend that Metro consider revising the provisions of the direct appropriation contracts to include more stringent guidelines for the use of the funds.

The Metro grant contract only specifically requires an audited financial statement performed by a certified public accounting firm and invoices for reimbursement. The financial statement should be provided no later than three (3) months after termination of the grant, according to the contract. As of the DGM monitoring site visit, the current financial statement was not yet due to Metro, so no problem was noted. The DGM verified that the NJC provided Metro Government with quarterly reports of the use of the funds, also considered invoices for reimbursement, and occasionally for program progress.

The contract also states that payment would be "made only after receipt of invoices and any supporting information as may be requested." The quarterly invoices were submitted timely. Since the contract did not require any other specific financial or programmatic reporting, the NJC did not violate the contract, however the DGM will include a general recommendation regarding reporting requirements for nonprofit grant recipients.

Our review of the grant contract also revealed a requirement to post notices of nondiscrimination in conspicuous places. The NJC's noncompliance with this requirement is discussed in Finding #4 in the Findings and Recommendations section.

6. Financial accuracy of reports

Our review of the quarterly requests for reimbursement revealed several problems with the agency's financial reporting. The NJC provided Metro with the specific costs (i.e., salaries, postage, supplies, etc.) that comprise the total reimbursement request. The costs, however, could not be verified as reported by the DGM. Finding #4 discusses further the specific problems encountered with tests for financial reporting. The agency should improve its reporting efforts and Metro should enhance its requirements for financial reporting to ensure financial accountability of the grant funds.

FINDINGS AND RECOMMENDATIONS

1. Written policies and procedures were either not provided, not available, or inadequate.

Finding

The NJC does not have written policies and procedures for all operations. The NJC provided policies for civil rights and check signing and procedures for personnel and accounting. Policies and/or procedures for other operations, including procurement, were not provided to DGM. In addition, the NJC uses several volunteer mediators in the course of business, but no formal policy regarding who is eligible to be a volunteer or the specific job requirements (including training requirements, mediation commitments, background checks, confidentiality agreements, etc.) were provided to the DGM. A review of the accounting policies and procedures provided revealed that several key controls were missing or the policy did not adequately address the issue. For example, the accounting policies provided by the NJC did not include a discussion of mail receipt, restitution receipts, check safeguarding, the bookkeeper's responsibilities,

In addition, individual policy statements that were provided either do not have effective and/or revision dates. The civil rights policy provided by the agency did not include an effective date, although the personnel policy did. The accounting policies provided by the agency were effective May 23, 2002, one week prior to the site visit. The auditor could not verify whether these policies were in effect prior to this date.

Good business practices dictate that businesses develop and maintain a written, comprehensive manual that describes the current operational policies and procedures of the business. This reduces the risk of fraudulent or fictitious transactions, conflicts of interest, and misappropriation. The lack of a basic manual to direct the operations of the agency could lead to inefficient and inconsistent actions by employees, which affects the effectiveness of operations. Without clear indications of the revision and/or effective dates, there is no assurance that the procedures have been implemented or updated to reflect current operations.

Recommendations

Management should immediately ensure that all agency policies and procedures for various operational processes are documented in writing and compiled into a readily available manual. At a minimum, the comprehensive manual should include policies for human resources, accounting, and procurement procedures. Such a manual should be available to all company employees and outside reviewers.

Management should also ensure that the manual is maintained and that updated on a regular basis. As such, the manual should clearly indicate the revision date(s).

2. Nondiscrimination notices are not posted as required.

Finding

The Neighborhood Justice Center has not posted the required nondiscrimination notices. During our site visit, the DGM did not observe the usual posters for nondiscrimination in employment practices. Per NJC staff, the agency did not replace the postings in public areas of their office upon completion of a renovation project and did not purchase/retain new notices after realizing that the postings had been misplaced.

According to the Metro contract, Section D.6, no individual is to be excluded from participation in, or be denied benefits of, or be subjected to discrimination based on race, creed, color, national origin, age, or sex while 'performing' the grant. The contract also requires that the grantee "post in conspicuous places, available to employees and applicants, notices of nondiscrimination."

FINDINGS AND RECOMMENDATIONS

Recommendation

The Neighborhood Justice Center should immediately obtain the necessary nondiscrimination postings, as required by law, and post immediately in prominent place(s) in the office space.

3. Accounting controls need improvement.

Finding

Our review revealed several weaknesses in controls over accounting functions. Through tests of a sample of cash disbursements and/or observation, the following weaknesses in accounting controls were noted during fieldwork:

- *Segregation of duties*

Although the agency only has a staff of two (2), there is a need for improving segregation of duties. The DGM found that the check-writing, check-signing, cash receipt and cash deposit responsibilities are not always independent. During our review, the DGM noted the audit for the years ended June 30, 2001 and June 30, 2000 conducted by a certified public accounting firm that included a material weakness (reportable condition) such accounting duties were not properly segregated. Management responded to the finding indicating that a bookkeeper was hired to facilitate segregation and that “complete segregation of functions is not realistic.” Since the part-time bookkeeper merely records what is provided by the agency, these basic accounting functions need more defined segregation.

- *Poor record keeping*

Based on our observations while testing cash disbursements, it appears the agency should improve its record keeping system. Our review revealed vendor files are not readily available, volunteer files are not maintained, deposit slips and/or invoices are missing or misfiled, travel claims and mileage records are not used, and no standard accounting forms are used (i.e., purchase orders or purchase requisitions, check request forms, or cash receipt log).

- *Poor documentation*

Our review of cash disbursements revealed that supporting documentation is not consistently maintained or is organized such that the information is not readily available. The agency currently maintains cancelled checks as support for expenses, however invoices or statements are not always attached to support the purchase. For example, a \$5,000 disbursement for a juvenile court mediation project, which is supported by a State of Tennessee grant, had no documentation attached to support the expense. Also, the DGM found some instances where reimbursements to agency staff were not supported by original receipts and/or the purpose of the purchase. Further, contract agreements are not in place for key business relationships. The DGM identified three business relationships that are not supported by a formal contract agreement: part-time bookkeeper, mediation trainer, and juvenile mediator.

Good business practices dictate that proper accounting controls should be established and implemented to assure the financial integrity of operations.

Recommendation

Management should take the appropriate measures to ensure that proper accounting controls are implemented to provide better segregation of duties and adequate documentation of activities.

FINDINGS AND RECOMMENDATIONS

4. Financial and programmatic reporting efforts need improvement.

Finding

Tests performed on a sample of financial and programmatic reports to Metro revealed the following:

- *Costs and program results reported to Metro were not adequately documented.*
The DGM received no documentation, such as accounting ledgers or case logs, to support the costs and program results reported to Metro. During testing, the DGM had to assume the general ledger was the original source used to accumulate the costs reported and, subsequently, encountered problems tracing the amounts in total (see below).
- *Amounts reported to Metro could not be readily traced to agency's general ledger.*
The DGM experienced difficulty in tracing costs to the general ledger because no supporting documentation was provided, as described above. The amounts for some expenses per the financial report to Metro did not agree with the related general ledger account. For example, the DGM found that the "payroll taxes" line item on one report did not trace to the payroll taxes expense account in the general ledger. It appears the line item includes both the employees' and the NJC's portion of Social Security, Medicare, Federal and State unemployment and federal withholding taxes, when in fact only the NJC's portion of these expenses should have been included. Overall, our review of the agency's general ledger revealed that the NJC incurred adequate total expenses for the total payments received.
- *Financial and programmatic reports were not accurate.*
The NJC did not always accurately tabulate the totals reported. For example, the total costs as reported to Metro for one quarter were \$ 23,387.27, but an accurate calculation of the report would have shown the total as \$ 24,812.27. As a result, the agency was reimbursed \$1,425.00 less than the reported costs for that quarter. Also, the program report for one quarter, which included total number of cases referred, status of cases, and sources of cases, did not reconcile between each category. Again, because no supporting documentation was provided for the report, the DGM could not determine whether the numbers were accumulated in error, or if the report was incomplete. We did not pursue this further because the Metro contract did not hold NJC to any specific performance.

Good business practices dictate consistent and accurate financial and programmatic reporting to ensure reliable financial information.

Recommendation

Management should establish consistent and effective procedures for reporting and monitoring reported data that ensures reliable and accurate information. At a minimum, the agency should establish policies and procedures for reporting cost data and should ensure that all information reported to outside entities is fully traceable to source data and adequately supported.

RECOMMENDATIONS

- 1) Metropolitan Government of Nashville and Davidson County should develop a Grants Manual that outlines the minimum expectations and requirements of all nonprofit recipients of Metro appropriations. This manual should be comprehensive and address, at a minimum, allowable and unallowable costs and cost principles, reporting requirements, and monitoring guidelines.

- 2) Metropolitan Government of Nashville and Davidson County should revisit and revise the contract provisions for nonprofit organizations. The contract should include, at a minimum, the following:
 - a) Expected program goals and outcomes;
 - b) Specific financial and programmatic reporting requirements, which include report format, reporting frequency, and type of allowable costs or program information;
 - c) Reference to compliance requirements to which nonprofits are subject.

- 3) Metropolitan Government of Nashville and Davidson County should revisit the methodology for disbursement of grant funds to nonprofit grant recipients. At a minimum, the procedure(s) for requesting grant funds, whether by advance or reimbursement basis, should:
 - a) Include a standard invoice/reimbursement request format;
 - b) Include the required frequency for requests;
 - c) Include provisions for use of advanced funds, including expenditure reporting, supporting documentation requirements, and record keeping.