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**NEWS RELEASE**

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FOR RELEASE \_\_\_\_\_ September 8, 2008 \_\_\_\_\_

Auditor of State David A. Vaudt today released a report on a review of Upper Des Moines Opportunity, Inc. (UDMO) for the period October 1, 2004 through September 30, 2007. UDMO is a non-profit community action agency which is funded primarily by Federal, State and local grants. The review was requested by the Osceola County Attorney as a result of concerns regarding certain loans made by the organization. A review was also requested by the Board of Directors of UDMO.

Vaudt reported the review identified 3 loans totaling \$64,000.00 which were not approved by the Board. UDMO does not administer any loan programs and 2 of the 3 loans were made to or involved parties with a relationship to UDMO. In addition, the loans were made with funds which include interest earned on Federal funds, which is not an allowable use of Federal funds.

Vaudt also reported UDMO earned at least \$19,346.39 of interest on Federal funds during fiscal years 2005 through 2007. Federal cash management requirements state interest earned in excess of \$250 per year is to be returned to the Federal government. UDMO has considered interest earned on all funds corporate discretionary funds which may be used for general operations, including administration, various non-federal programs and other miscellaneous uses authorized by the Executive Director or Board. Vaudt also reported additional interest has been earned on Federal funds, but the amount cannot be determined because the necessary records are not readily available.

In addition, Vaudt reported \$15,000.03 of disbursements to a former UDMO employee were identified for services provided during a 9-month period under a consulting contract. However, the consultant did not provide all documentation required by the contract and the documentation provided was not sufficient to determine what specific services were provided. The disbursements were made to the former Director of the Head Start program and paid for with Head Start funds.

Vaudt also reported UDMO's Executive Committee rather than the Board makes a significant amount of the decisions regarding UDMO's operations. While this is allowable in accordance with UDMO's current by-laws, the Executive Committee's actions are typically not ratified by the Board. In addition, the composition of the Executive Committee does not meet the representation requirements imposed on the full Board by Chapter 216A of the *Code of Iowa*.

The report also includes recommendations to strengthen Board oversight, ensure all funding sources are used appropriately and to prohibit salary and travel advances and the personal use of UDMO vehicles.

A copy of the report has been filed with the Iowa Departments of Human Rights and Human Services. A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/specials.htm>.

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**REVIEW OF  
UPPER DES MOINES OPPORTUNITY, INC.  
FOR THE PERIOD  
OCTOBER 1, 2004 THROUGH SEPTEMBER 30, 2007**

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Auditor of State's Report

To the Board Members of  
Upper Des Moines Opportunity, Inc.:

At the request of the Osceola County Attorney and the Board of Directors, we conducted a review of Upper Des Moines Opportunity, Inc. (UDMO). We reviewed UDMO's policies and procedures and applied certain tests and procedures to selected financial transactions for the period October 1, 2004 through September 30, 2007. Based on discussions with UDMO personnel and representatives from the Iowa Department of Human Rights (DHR) and a review of relevant information, we performed the following procedures.

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Interviewed UDMO staff regarding general operations, policies and procedures.
- (3) Examined documentation for loans made by UDMO to determine if the loans complied with UDMO's policies and procedures, were properly approved and were allowable for the funding sources used.
- (4) Evaluated programs administered by UDMO to determine if the programs received funds in advance or on a reimbursement basis.
- (5) Evaluated cash management procedures for the Low-Income Home Energy Assistance Program (LIHEAP) and Home Energy Assistance Program (HEAP) to determine compliance with Federal cash management requirements.
- (6) Calculated the interest earned on Federal funds advanced to UDMO for LIHEAP and HEAP and evaluated the use of the interest.
- (7) Reviewed UDMO's "corporate discretionary" funds to identify their source and any restrictions on their use. We also reviewed how the funds were actually used.
- (8) Examined vehicle usage reports to determine if the vehicles were used for personal purposes and if the required IRS 1099 forms were properly issued to UDMO staff members.
- (9) Examined purchases made with UDMO's Visa credit cards to determine if purchases were properly approved and were for appropriate purposes.
- (10) Examined supporting documentation for pay increases to determine if they were properly authorized and documented.
- (11) Reviewed minutes of UDMO Board and Executive Committee meetings to determine compliance with Chapter 21 of the *Code of Iowa*.

These procedures identified the following concerns:

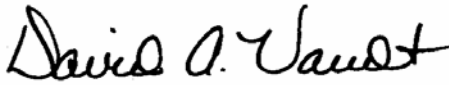
- Without the approval of the Board, 3 loans totaling \$64,000.00 were issued. UDMO does not administer any loan programs and 2 of the 3 loans were made to or involved parties with a relationship to UDMO. In addition, the loans were made with funds which include interest earned on Federal funds.
- At least \$19,346.39 of interest was earned on LIHEAP and HEAP Federal funds during fiscal years 2005 through 2007. Of this amount, \$15,535.73 was earned in UDMO's Energy account and \$3,810.66 was earned in the General account. The interest was used for UDMO's general operations rather than being returned to the Federal government in compliance with Federal Cash Management requirements.
- A former employee was paid \$15,000.03 with Federal funds over a 9-month period to provide services through a consultant contract. However, the consultant did not provide all documentation required by the contract. The limited documentation provided was not sufficient to determine what specific services were provided.
- The Executive Committee rather than the Board makes a significant number of decisions regarding UDMO's operations, which are typically not ratified by the Board. In addition, the composition of the Executive Committee does not meet the representation requirements imposed on the full Board by Chapter 216A of the *Code of Iowa*.
- A number of controls in place at UDMO and UDMO's policies and procedures need improvement.

Our detailed findings and recommendations are presented in the Review Summary and **Exhibits A** through **C** of this report.

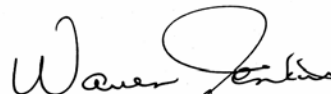
The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of Upper Des Moines Opportunity, Inc., other matters might have come to our attention that would have been reported to you.

A copy of this report has been filed with the Iowa Departments of Human Rights and Human Services and the Osceola County Attorney.

We would like to acknowledge the assistance and many courtesies extended to us by the personnel of Upper Des Moines Opportunity, Inc. during the course of our investigation.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

May 15, 2008

Upper Des Moines Opportunity, Inc.

Review Summary

**Background Information**

Upper Des Moines Opportunity, Inc (UDMO) is a non-profit community action agency (CAA) whose mission is to “build a partnership within communities to alleviate the conditions and causes of poverty”. CAAs were established under the Economic Opportunity Act of 1964 “to help fight America’s war on poverty.” Chapter 216A of the *Code of Iowa* grants CAA’s the authority to administer programs which “provide a range of services to improve the conditions of poverty” through cooperative efforts with other organizations. These programs include, but are not limited to, outreach, low income energy assistance and weatherization programs.

UDMO maintains a home office in Graettinger and serves the counties of Buena Vista, Clay, Dickinson, Emmet, O’Brien, Hamilton, Humboldt, Webster, Wright, Osceola, Palo Alto and Pocahontas. UDMO provides services directly to residents of the counties through a network of outreach offices located in each county served. A number of assistance programs are administered by UDMO, but the largest programs include Head Start, the Low Income Home Energy Assistance Program (LIHEAP), the Home Energy Assistance Program (HEAP) and the Family, Development and Self Sufficiency (FADDs).

Currently, UDMO is governed by a Board of Directors composed of 6 public officials, 6 members who represent the interest of the program participants and 6 members who represent faith, business and other private community interests. The distribution of membership among these groups is required by Chapter 216A of the *Code of Iowa*. Prior to January 2006, UDMO was governed by a 36 person Board with the same proportionate membership among the members. The Board meets every other month. In addition, an Executive Committee of the Board meets monthly to oversee operations of UDMO, such as grant authorizations, disbursement approval and personnel activities.

UDMO’s primary sources of revenue include Federal, State and local grants and discretionary corporate funds. Discretionary corporate funds include contractual service fees, program income, donations and interest earned on funds held in various bank accounts. **Table 1** shows the Federal, State and local grant revenues and discretionary corporate funds reported in UDMO’s financial audit reports for fiscal years 2004 through 2007.

**Table 1**

<b>Description</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Federal grants	\$ 8,403,823	10,002,105	8,637,983	8,508,310
State/local grants	2,186,852	1,811,630	1,379,927	1,411,314
Discretionary corporate funds	770,740	851,839	777,469	811,431
Total	\$ 11,361,415	12,665,574	10,795,379	10,731,055

As illustrated by the **Table**, the vast majority of UDMO’s funding is provided by Federal grants. The largest Federal grants received by UDMO are LIHEAP and HEAP, passed through the Iowa Department of Human Rights, and the Head Start program, passed through the Iowa Department of Human Services. The funds received for these 3 programs for the fiscal year ended September 30, 2007 total over 64% of the Federal grants received and approximately 56% of total revenues received.

LIHEAP and HEAP provide assistance to help Iowa homeowners and renters by providing a portion of their primary heating costs for the winter heating season. The Head Start program

provides preschool children of low income families a comprehensive, family-centered, child development program to meet their educational, emotional, social, health, nutritional and psychological needs.

The sources of discretionary corporate funds include:

- Donations – Funds are received from residents and businesses located within UDMO's service delivery area. Donations received at the individual outreach centers located in each county served by UDMO are restricted for use in the center where received. Donations received at UDMO's home office in Graettinger which are not restricted for a specific use or outreach center are used for any program administered by UDMO or general administrative expenditures in a specific county or for a particular function. Donors may restrict their donations for a specific purpose or use in a specific outreach center. Donations accounted for approximately 2% of UDMO's total revenue for the fiscal year ended September 30, 2007.
- Interest – Interest is earned on funds held in bank accounts and certificates of deposits. The funds in the accounts and certificates of deposit include proceeds from Federal and State grants.
- Rent – UDMO owns and maintains rental property for which rent and security deposits are collected.
- Other – UDMO also receives other funding, such as insurance proceeds and contract charges from entities for which UDMO acts as the fiscal agent.

In February 2006, UDMO's Executive Director Larry Rohert passed away unexpectedly. After his passing, the Board appointed Nancy Schmitz as Executive Director. During her tenure, she became aware of several loans which had not been formally approved by the Board of Directors.

On October 19, 2006, Nancy Schmitz was terminated by the Executive Committee. Her termination was approved by the Board on November 1, 2006. As a result of her termination, allegations began to surface concerning UDMO's operations and the loans made by UDMO with former Executive Director Rohert's approval. As a result of the concerns, the Osceola County Attorney and the Board requested assistance from the Office of Auditor of State. The procedures we performed are detailed in the Auditor of State's Report for the period October 1, 2004 through September 30, 2007.

### **Detailed Findings**

These procedures identified several concerns regarding UDMO's operations. The concerns are listed below and discussed in detail in the following sections of this report.

- Without the approval of the Board, 3 loans totaling \$64,000.00 were issued. UDMO does not administer any loan programs and 2 of the 3 loans were made to or involved parties who had a relationship to UDMO. In addition, the loans were made with funds which include interest earned on Federal funds.
- At least \$19,346.39 of interest was earned on LIHEAP and HEAP Federal funds during fiscal years 2005 through 2007. Of this amount, \$15,535.73 was earned in UDMO's Energy account and \$3,810.66 was earned in the General account. The interest was used for UDMO's general operations rather than being returned to the Federal government in compliance with Federal Cash Management requirements.
- A former employee was paid \$15,000.03 with Federal funds over a 9-month period to provide services through a consultant contract. However, the consultant did not provide all documentation required by the contract. The limited documentation provided was not sufficient to determine what specific services were provided.



- The Executive Committee rather than the Board appears to make a significant number of decisions regarding UDMO’s operations, which are typically not ratified by the Board. In addition, the composition of the Executive Committee does meet the representation requirements imposed on the full Board by Chapter 216A of the *Code of Iowa*.
- A number of controls in place at UDMO and UDMO’s policies and procedures need improvement.

**LOANS**

Former Executive Director Rohert authorized 2 loans issued to local businesses and a loan issued to an employee. UDMO does not administer any loan programs. **Table 2** summarizes information about the loans identified.

**Table 2**

Description	Date	Original Loan Amount	Balance at 09/30/07
Graettinger Drive-up	11/02/04	\$ 28,000.00	18,877.44
Graettinger Economic Development Council	09/01/05	25,000.00	22,021.09
UDMO Employee	12/30/05	11,000.00	5,400.00
Total		\$ 64,000.00	46,298.53

According to former Executive Director Nancy Schmitz, the loan to the employee had not been secured by a promissory note. We determined all loans are currently secured by promissory notes and repayment schedules have been prepared. The promissory note signed by the employee was dated July 31, 2006. Ms. Schmitz also stated she informed the Board of the loans when she learned of their existence.

Board minutes we reviewed did not indicate the Board was aware of or approved the loans at the time they were issued. According to the Board’s attorney, although the Board did not directly approve the loans, UDMO’s by-laws allowed the Board to authorize the Executive Director to act with the Board’s authority. Specifically, Article X, section 1 of the Board’s by-laws states “The Board of Directors may authorize any officer or agents of the corporation to enter into any contract, borrow funds for operating expenses on a short term basis, execute and deliver any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances.” However, the Executive Director’s authority should be limited to the normal operating transactions or processes of UDMO. Because UDMO does not administer any loan programs and making loans to small businesses or individuals is not a typical operation for UDMO, the Executive Director should not have had the authority to approve the loans.

According to UDMO’s Fiscal Officer, the 3 loans were made from discretionary corporate funds. As previously stated, discretionary corporate funds include donations and interest earned on Federal funds. The Fiscal Officer was unable to tell us what portion of discretionary corporate funds were composed of interest earned on Federal funds. As a result, Federal funds may have been used for the loans, which would be an unallowable use of the funds. Interest earned on Federal funds is required to be returned to the Federal government.

It may not be proper for the Executive Director to use donations from discretionary corporate funds for the loans without Board approval because donors would likely expect the donated funds would be used by UDMO to administer the programs specified by UDMO in its by-laws, on its website or identified in other outreach materials. These programs currently do not include loan programs. If UDMO chooses to establish a loan program, the program should be approved by the Board and appropriate funding sources should be identified.

In addition, 2 of the 3 loans were made to or involved parties who had a relationship to UDMO. Such “related party transactions” have the appearance a lack of independence at best and favoritism at worst in establishing the loans. The 3 loans were not supported by documentation which showed what criteria were met or even considered when the loans were established.

The loans listed in **Table 2** are discussed in greater detail in the following paragraphs.

Graettinger Drive-up - According to Ms. Schmitz, the \$28,000 loan to the Graettinger Drive-up restaurant was originally requested by the Graettinger Economic Development Council (GEDC). The Drive-up is a small restaurant providing dine-in and carry-out services. The Drive-up was in operation during our fieldwork and was current on its loan payments.

Graettinger Economic Development Council (GEDC) - The GEDC approached UDMO regarding a \$25,000 loan to establish a grocery store in Graettinger. It was alleged by several UDMO staff members we spoke with the loan was actually used to “reimburse the former owners for the loss on the sale of the grocery store.” **Table 3** presents a timeline showing ownership of the grocery store according to the records maintained by the Palo Alto County Recorder’s Office.

**Table 3**

<b>Ownership Transfer</b>	<b>Date Recorded</b>	<b>Sales Price</b>	<b>Additional Information</b>
Schumacher to D & B Lien	05/05/98	None	Forfeiture of Contract
D & B Lien to Main Street Market LLH	05/12/02	\$ 115,000	Includes \$80,000 in personal property
Main Street Market LLH to Johnson	09/28/05	90,000	Includes \$60,000 in personal property
Johnson to GEDC	12/15/06	None	Quit Claim Deed

At the time the \$25,000 loan was made to GEDC, the grocery store was owned by Main Street Market LLH. According to promissory notes provided to our office, an owner of Main Street Market LLH was Gina Lowman-Hall, the current Deputy Director of UDMO. At the time the loan was made, Ms. Hall was UDMO’s Community Relations Director.

We interviewed Ms. Lowman-Hall and inquired if she received any funds from the GEDC. According to Ms. Lowman-Hall, she was unaware of how the Johnsons funded the purchase of the store. She also stated the \$25,000 loan from UDMO to GEDC may have been used to help the Johnsons purchase the store. Ms. Lowman-Hall also stated she was unaware of UDMO’s loan to GEDC until Ms. Schmitz brought the loans to the Board’s attention.

According to discussions with Lloyd Peterson, President of the GEDC, the \$25,000 loan proceeds from UDMO and funds received from another business in town were used to help the Johnsons purchase the store from Main Street Market LLH. After approximately a year, the Johnsons decided to close the store and entered a quit claim deed to turn the store over to the GEDC. According to the records maintained by UDMO, GEDC is current on all loan payments.

The UDMO staff members we spoke with were unable to provide an explanation of why UDMO made the loan to GEDC. According to the staff, it was Mr. Rohert’s decision.

UDMO Employee - According to the Fiscal Officer, \$11,000 was loaned to the employee because of financial hardships the employee was facing. The interest-free loan was approved by Mr. Rohert and was made in 3 installments between June 30, 2005 and December 30, 2005. Repayments are being made to UDMO through the employee’s payroll withholding.

## INTEREST EARNED ON FEDERAL FUNDS

As stated previously, UDMO's discretionary corporate funds include interest earned on funds held in bank accounts and certificates of deposits. **Table 4** summarizes the interest earned by UDMO's bank accounts for fiscal years 2005 through 2007. The interest earned by month in each account is included in **Exhibit A**. As illustrated by the **Table**, the amount of interest earned each month in the General and Money Market accounts increased significantly between fiscal years 2005 and 2007. The amount of interest in the Home Investment account also more than doubled during this period.

**Table 4**

Account	Description of Funds Deposited to the Account	Interest Earned			
		2005	2006	2007	Total
General	Federal and non-federal funds	\$ 16,428.28	28,511.41	31,376.35	76,316.04
Money Market	Federal and non-federal funds	5,087.46	7,893.79	8,865.12	21,846.37
Energy	LIHEAP and HEAP	3,086.44	8,732.06	3,717.23	15,535.73
Payroll	Transferred as needed from General account	463.82	561.02	649.63	1,674.47
Home Investment	Rent and security deposits paid to UDMO	178.89	321.05	441.02	940.96
Total		\$ 25,244.89	46,019.33	45,049.35	116,313.57

As illustrated by the **Table**, interest is earned on accounts which include Federal funds. As stated previously, UDMO's primary funding source is Federal grants. The Federal funds for some programs are received on a reimbursement basis. For these programs, UDMO incurs the program expense and then requests reimbursement from the funding source. However, several programs provide Federal funds to UDMO in advance. For these programs, the Federal funds are placed in bank accounts until needed by UDMO to administer the program. The Fiscal Officer was unable to tell us what portion of the interest earned in the accounts was earned on Federal funds deposited to the accounts in advance of payment of the corresponding expense.

To determine if a significant portion of the interest earned in the accounts was a result of the Federal funds deposited to the accounts in advance of UDMO needing the funds, we determined the source of the funds deposited to the accounts and analyzed the account balances.

General Account - All Federal funding received by UDMO is first deposited into UDMO's General account. A significant portion of the funds deposited to the General account is funding received from the Iowa Department of Human Rights (DHR) for the Low-Income Home Energy Assistance Program (LIHEAP) and the Home Energy Assistance Program (HEAP). DHR receives the Federal funds from the U.S. Department of Health and Human Services under an agreement which sets forth the Federal program regulations. The regulations require the funds be deposited into an interest bearing account when advanced by DHR to UDMO.

The funds advanced by DHR to UDMO are electronically deposited to UDMO's General account. During the period the funds are in the General account, they earn interest. UDMO staff transfer a portion of the funds to the Energy account. The portion of the program funds used for administrative expenses incurred by UDMO remain in the General account. The transferred funds continue to earn interest while they are held in the Energy account until expended by UDMO to provide energy assistance to eligible households. The interest earned in the Energy account is occasionally transferred back to the General account where UDMO uses it for "discretionary corporate" purposes.

The Federal regulations for LIHEAP and HEAP state the requirements governing cash management apply to these programs. The overriding principle of cash management is to minimize the time between the receipt and disbursement of Federal funds. Federal cash management requirements state “interest earned on advances by local governments and subgrantees is required to be promptly, but at least quarterly, returned to the Federal agency. Interest earned by non-State non-profit entities on Federal fund balances in excess of \$250 is required to be remitted to the U.S. Department of Health and Human Services.” The requirements also provide “Pass-through entities [DHR] must monitor cash drawdowns by their subrecipients to assure subrecipients conform substantially to the same standards of timing and amount as apply to pass-through entity.”

Office of Management and Budget (OMB) Circular A-133 also states “Interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to \$100 per year may be kept for administrative expenses. Interest earned by non-State non-profit entities on Federal fund balances in excess of \$250 per year is required to be remitted to the Federal government.” UDMO qualifies as a non-profit entity and would be subject to the requirement stated in the cash management section. As a result, any interest earned on LIHEAP and HEAP in excess of \$250 per year is required to be returned to the program or a Federal agency.

As previously stated, DHR advances LIHEAP and HEAP funds to UDMO twice each year. As a result, it is likely interest will be earned on these funds. The LIHEAP and HEAP agreements between DHR and UDMO include a clause which states “interest earned on the funds is to be used to make expenditure projections as accurate as possible and processing payments to clients/vendors as expeditiously as feasible”. According to DHR personnel we spoke with, this means interest earned on Federal funds should be used for the benefit of the Federal program. However, the guidance provided by DHR is based on Federal guidelines which were in effect prior to the Cash Management Improvement Act of 1990. Current Federal guidelines require funds be provided on an immediate cash need basis and any interest earned exceeding \$250.00 per year be returned to the Federal government.

Because UDMO does not track interest earned on Federal funds, UDMO is unable to demonstrate compliance with the Federal cash management requirements.

As illustrated by **Table 4**, the majority of interest earned by UDMO is in the General account. Using the deposit dates from UDMO’s bank statements and the dates the LIHEAP and HEAP funds were transferred to the Energy account, we determined UDMO earned \$3,810.66 of interest on LIHEAP and HEAP funds held in the General account between October 1, 2004 and September 30, 2007.

As previously stated, a portion of the LIHEAP and HEAP funds remain in the General account for administrative expenses. In addition, interest earned on the Energy account which is transferred back to the General account is held by UDMO until it is needed to meet expenses. However, UDMO does not track the LIHEAP and HEAP funds remaining in the General account or the transferred interest. As a result, we are unable to determine how much additional interest has been earned on the funds because we cannot determine how long the funds remain in the account before being expended.

According to the Fiscal Officer, UDMO has always considered the interest earned on LIHEAP and HEAP to be part of UDMO’s discretionary corporate funds which are available to use for any of UDMO’s expenses.

Energy Account – As illustrated by **Table 4**, UDMO earned \$15,535.73 of interest in the Energy account during fiscal years 2005 through 2007. However, UDMO had been operating LIHEAP and HEAP for many more years prior to fiscal year 2004. As a result, we believe the total interest earned on LIHEAP and HEAP is significantly more than the \$15,535.73 included in the

**Table.** We were unable to calculate the interest earned in prior years because sufficient records were not readily available.

Representatives of the U.S. Department of Health and Human Services, the Federal agency which oversees LIHEAP and HEAP, have the authority to make the final determination of the amount of interest that may need to be returned by UDMO. In doing so, consideration would likely be given to the numerous years UDMO has administered LIHEAP and HEAP.

Cash balances are maintained by UDMO based on the source of funding. The Federal programs which provide funding on a reimbursement basis often have a negative cash balance, which represents a receivable due from the funding source. However, the Federal programs which provide funding on an advance basis often have a significant amount of cash on hand throughout the year. Cash balances are also maintained for each State and local program administered by UDMO, including its outreach centers. Interest earned by UDMO should be properly allocated to all Federal, State and local programs which provide funding on an advance basis.

## **DONATIONS**

According to discussions with the Fiscal Officer, UDMO receives donations from businesses and individuals within UDMO's 12 county area. Donations may be received at the outreach centers or at the main office in Graettinger. Donations may be restricted by the donor or they may be unrestricted.

According to the Fiscal Officer, it is UDMO's practice to use unrestricted donations given to a specific outreach center for programs or administrative expenditures at the outreach center at which the donations are received. Donations received at the main office which are not restricted for a specific use or outreach center are used for any program administered by UDMO or general administrative expenditures. These donations are accounted for as discretionary corporate funds. UDMO does not have a written policy governing how unrestricted donations are to be used or how the donations are to be accounted for. The uses of the donations as discretionary corporate funds are not tracked.

When making an unrestricted donation, the donor has a reasonable expectation funds will be used in accordance with UDMO's mission. UDMO publishes an annual report identifying the highlights of the programs administered. It is reasonable the public would expect donations made to UDMO would be used for the programs identified by UDMO or administration of the programs.

## **CONSULTANT**

Former Executive Director Rohert authorized a contract between UDMO and the former Director of UDMO's Head Start program to provide services to the organization as a consultant for the period April 1, 2005 through March 31, 2006. The contract did not identify specific projects to be completed or work to be performed by the consultant. The contract stated the consultant was to:

- perform various planning and Head Start/Early Head Start Program compliance activities,
- inform UDMO before commencement of any contracted activity of any UDMO staff requirements necessary to complete the activity,
- provide all ordinary office supplies and overhead items, such as telephone, necessary to complete contracted activities from her home in Des Moines,

- provide monthly statements indicating the number of hours worked and itemization of services provided and
- be paid \$1,666.67 per month for services provided.

The contract also provided the agreement could be terminated with a 30 day written notice. In a letter dated November 28, 2005, the consultant terminated the agreement effective December 31, 2005.

**Exhibit B** lists the amount paid to the consultant for services and travel reimbursements by month for each of the 9 months the contract was in effect. The payments were made with Head Start funds. The **Exhibit** also includes the number of hours reported by the consultant each month and the itemization of services provided by the consultant.

As illustrated by the **Exhibit**, UDMO paid the consultant \$1,666.67 per month in accordance with the contract. The monthly payments for services totaled \$15,000.03 for the 9 months. However, the consultant did not provide a monthly statement indicating the number of hours worked for the month of April 2005. In addition, the consultant did not submit an itemization of the services for 80 hours of work reported during the months of April, May, June and October 2005. For the 4 months for which an itemization of services was not submitted, UDMO paid the consultant \$6,666.68.

The Fiscal Officer and other UDMO staff members we spoke with were unable to provide additional support for the work performed by the consultant. The Fiscal Officer stated the consultant reported to Mr. Rohert and he was not provided copies of any reports submitted to Mr. Rohert or any other UDMO staff. Federal regulations require all payments with Federal funds be properly supported.

According to the documentation provided to UDMO by the consultant for the months of May through December 2005, she worked a total of 150.5 hours for UDMO. The hours worked per month ranged from 8 to 56.5 hours. The effective hourly rate for the hours reported by the consultant was approximately \$100 per hour. As illustrated by **Exhibit B**, the hourly rate per month ranged from a low of \$29.50 per hour to a high of \$208.33 per hour.

As also illustrated by **Exhibit B**, UDMO paid the consultant a total of \$673.58 during April, May and June 2005 for reimbursement of travel expenses reported by the consultant. UDMO staff were unable to locate any support for the travel reimbursements to the consultant. The consultant did not submit or receive any travel reimbursements for the remaining 6 months.

## **BOARD OVERSIGHT**

Composition of the Board of Directors - UDMO's Board of Directors is composed of representatives from the 12 counties served by the organization. The Board meets every other month unless a special meeting is called. Under regulations established for the Head Start program and section 216A.94 of the *Code of Iowa*, the Board is required to be made up of at least 9 members and have the following composition:

- 1/3 shall be elected officials currently holding office. (Appointed public officials may be Board members if elected officials are unwilling to serve.)
- 1/3 shall be chosen in accordance with the procedures established by the CAA to assure representation of the poor in the area.
- The remainder shall be members of business, industry, labor, religious, welfare, education or other major groups or interests in the community.

Prior to January 1, 2006, the Board included 36 members. Each county was represented by a member from each group previously listed. In January 2006, the Board approved reducing the

number of Board members to 15 - 20. According to the Fiscal Officer, this was done to help alleviate the difficulty of obtaining a quorum at meetings.

When the number of Board members was reduced, 4 “zone advisory boards” were created. Each zone advisory board oversees 3 counties and appoints 3 members representing each of the previously listed groups to the Board of Directors. During March 2007, the full Board again approved revising the by-laws to provide for 18 members on the Board.

Executive Committee – According to individuals we spoke with, the Executive Committee was established many years ago to help gather information and present recommendations to the Board. However, prior to the March 2007 revision of the by-laws, the Executive Committee was not specifically provided for in the by-laws.

The revisions to the by-laws made in March 2007 established an Executive Committee consisting of the Officers of the Board, Past President and a Board member at large. The powers granted to the Executive Committee were broad in nature, including the authority to “act on behalf of the full Board in situations where immediate action must be taken between regularly scheduled meetings” and the authority to oversee the operations of UDMO. The only activities the Executive Committee was prohibited from taking included altering or repealing the by-laws, amending the articles of incorporation, entering into agreements to merge with another organization or selling corporation assets.

Notwithstanding the provision in UDMO’s by-laws, committees are typically created to gather and evaluate information and present recommendations to the full Board where the final decision is to be made. In cases where the Executive Committee has been granted decision making authority by the Board, the decisions made should be reported to the full Board at the next meeting.

UDMO’s Executive Committee typically met each month to review UDMO’s operations, approve grants, accept reports, approve contracts and discuss general operations. The Executive Committee also met in the event a quorum was not present at a scheduled full Board meeting.

UDMO’s by-laws in effect prior to March 2007 provided the Executive Committee the authority “to act on behalf of the entire Board in situations where immediate action must be taken between regularly scheduled meetings.” However, when we reviewed minutes of Executive Committee meetings, we identified a number of actions taken by the Executive Committee in which immediate action was not needed and should have been addressed by the full Board. The minutes document the Executive Committee made decisions, approved grants, approved authorized check signers and made other decisions regarding UDMO’s operations. We also determined the Board typically did not ratify or discuss decisions made by the Executive Committee. Some examples of decisions made by the Executive Committee which have not been ratified by the full Board include:

- December 7, 2005 – Approved guaranteeing a construction loan of \$1.4 million for the Armstrong apartments in Clinton. According to the Fiscal Officer, because of Mr. Rohert’s death, the loan was not guaranteed.
- February 10, 2006 – Appointed an interim Executive Director. The full Board was notified of the appointment during its March 2006 meeting, but action was not taken to ratify the appointment.
- February 15, 2006 – Approved the establishment of a hiring committee for the new Executive Director.
- March 30, 2006 – Approved the All Cultures Equal (ACE) project, including construction costs totaling \$14,636.44 and a \$4,000.00 increase in the ACE Director’s salary (\$2,000.00 to be paid by ACE and \$2,000.00 to be paid by UDMO).

- March 30, 2006 – Approved payment of \$2,756.00 for consultation services related to the development of the UDMO Foundation and to put the Foundation on hold at the time of the meeting.
- June 2, 2006 – Approved appointment of Nancy Schmitz as Executive Director. The minutes of this meeting were presented to the full Board for review at its July 18, 2006 meeting. However, action was not taken by the full Board at this meeting or subsequent meetings to ratify the decision.
- October 2, 2006 – Approved the purchase of a warehouse for \$41,000.00.

Based on our review of Board minutes, the only decision made by the Executive Committee which was subsequently ratified by the full Board was the termination of former Executive Director Schmitz's employment. The termination was based on an evaluation performed by an Executive Committee member. The by-laws in effect at the time stated "The Board (meaning the full Board) shall have total responsibility for the affairs of the Corporation, including the hiring and removal of the Executive Director, and shall have the powers as are implicit in these by-laws".

According to staff we spoke with, because the full Board is not ratifying the decisions of the Executive Committee, it "gives the impression the full Board is not in control of UDMO's operations".

In addition, as previously stated, the membership of the governing board of a recognized CAA is to be composed of specific representation as established by Chapter 216A of the *Code of Iowa*. Because UDMO's Executive Committee is acting as the governing body, its membership should comply with the requirements established by Chapter 216A of the *Code*.

Minutes - According to UDMO's by-laws, UDMO is to comply with Chapter 21 of the *Code of Iowa* regarding minutes. Chapter 21 of the *Code* states, "Each governmental body shall keep minutes of all its meetings showing the date, time and place, the members present, and the action taken at each meeting. The minutes shall show the result of each vote taken and information sufficient to indicate the vote of each member present." Minutes we reviewed did not consistently include information such as the date, time and place of the meeting, members present and sufficient detail to determine the vote of each member.

Chapter 21 of the *Code* also addresses requirements regarding posting of agendas. UDMO posts agendas in advance of Board meetings. However, the agendas are not consistently addressed by the full Board. In the event a quorum is not present for a scheduled Board meeting, the Executive Committee meets in lieu of the full Board and acts on the agenda. The agendas provide the Executive Committee may meet in place of the full Board.

Financial Oversight - An important function of a Board is the financial oversight of an entity's operations. The Board's structure includes a Board Treasurer. A Treasurer's duties or functions typically include:

- being the financial voice of the Board,
- acting as liaison to the entity's auditor or serves as a member of the audit committee. He or she may monitor the progress of the annual audit and make sure the appropriate tax returns are filed on time,
- ensuring implementation of an annual operating budget and tracking or monitoring the actual revenues and expenditures in relation to the approved budget and
- implementing safeguards to protect corporate assets.

In reviewing the minutes and actions of the Board, we were unable to locate any presentations or financial information presented by the Board Treasurer. The financial information was presented by the Fiscal Officer. The minutes provided little detail regarding what the Board discussed about the financial information presented.



## **POLICIES AND PROCEDURES**

According to staff members we spoke with, there were few, if any, written policies and procedures in place during former Executive Director Rohert's tenure. UDMO's operations were based primarily on practices that had been in place.

The staff members identified concerns in the areas of pay raises, payroll advances, financial information related to the outreach centers, receipts, travel advances and vehicle usage recorded on IRS 1099 tax forms. As a result of the concerns, we reviewed the available by-laws, Policy and Procedures Manual, Human Resources Manual and the Employee Handbook to determine if policies and procedures had been established, were being followed and were reasonable.

Pay Raises - UDMO's employee handbook states "all employees should have an annual evaluation. This evaluation must be completed before an increase in salary or wages is effective." According to the Fiscal Officer and the Human Resources Director, pay raises must be approved by the Program Administrator, Fiscal Department and Human Resources.

We tested pay raises granted to 13 employees. Of the 13 raises tested, we identified 5 instances in which approval of the pay raise was not properly documented. The only documentation found for 4 pay raises was an unsigned contract stating the change in the amount of pay and a statement the change was retroactive to a specific date. The only documentation found for the remaining pay raise was an e-mail from Mr. Rohert. Based on our review of Board minutes, the Board rarely discussed personnel issues or raises of any type, including across the board raises such as cost of living increases.

Several staff members we spoke with expressed concern regarding a lack of policies on how raises are awarded. According to staff, "there appears to be favoritism regarding certain departments and personnel." Section 5.0100 of the Employee Handbook, "Determination of salary," documents how salary and wages are to be determined. In part, the Employee Handbook states "Salary shall be set in accordance with budgetary guidelines as the first consideration."

According to the Fiscal Officer, raises are controlled by funding received for each program. Based on funding limitations, it is possible some employees may receive a raise while others do not. For example, if a program is Federally funded and the Federal program did not receive an increase in funding, raises for staff working on the program are limited to the funds available for administration. If funding for administration of the Federal program increases, raises are considered for staff working on the program.

OMB Circular A-122, "Cost Principles for Non-Profit Organizations", states, in part, "compensation to individual employees is reasonable for the services rendered and conforms to the established policy of the organization consistently applied to both federal and non-federal activities." As a result, UDMO's compensation policies should provide for consistent treatment of all employees for merit increases and across the board or cost of living increases.

Salary Advances - OMB Circular A-122 defines compensation for personal services as "all compensation paid currently or accrued by the organization for services of employees rendered during the period of the award." The Circular does not allow for advances of salary for work not yet performed. As a result, salary advances are unallowable uses of Federal funds.

However, according to the Fiscal Officer, UDMO allows employees to take a salary advance of up to 1 full month's salary although we did not find a policy allowing salary advances during our review of UDMO's Policy and Procedures Manual. Advances are made with the funding sources used for the program for which the employee works. For example, a Head Start employee's advance would be from the Federal funds received to administer the Head Start program.

During our review of UDMO's payroll transactions, we identified 3 employees who each received a single salary advance. For each of the 3 instances identified, the advance was deducted from the

next payroll disbursement to the employee. In addition to not complying with Federal requirements, advancing salary to employees is not a sound business practice.

Outreach Centers - During discussions with outreach center staff, concerns were identified regarding financial information provided to the outreach centers by UDMO's home office in Graettinger. The concerns are addressed individually in the following paragraphs.

- An outreach center staff person we spoke with stated UDMO did not budget for the outreach centers.

According to the Fiscal Officer, all outreach centers were budgeted for as a single program prior to fiscal year 2008 because the outreach centers were considered a single function. As a result, the outreach center's Directors were unable to determine funding available for services at specific times.

The Fiscal Officer has recently begun to establish budgets for each individual outreach center.

- According to several individuals we spoke with, when the outreach centers request information about the centers' individual budgets and actual revenue and expenditures, the information is not provided in a timely manner and has had to be requested multiple times.

The Fiscal Officer acknowledged he had received requests from several outreach centers. While he provided the information to the centers, it was not always done in a timely manner.

- Several outreach center staff members we spoke with expressed concern about their inability to reconcile records maintained at the outreach center to information provided by the fiscal department.

Based on our review of documents maintained by the outreach centers and the information provided by the fiscal department, as well as information obtained from UDMO staff members, we determined the financial information cannot be reconciled as a result of at least 2 independent causes.

UDMO's Policy and Procedures Manual requires pre-numbered receipts be prepared by outreach center staff to record all funds collected at the centers. According to the outreach staff we spoke with, the receipts are not consistently prepared. As a result, the receipts maintained at the outreach centers do not include complete information.

UDMO's policies also require the outreach centers to remit funds received to the home office for deposit at least weekly. Each remittance is to be accompanied by a form documenting the amount and type of funds collected (donations, food pantry, client services, etc.)

According to staff we spoke with at various outreach centers, they determined the information on the form periodically did not agree with the amounts subsequently recorded in UDMO's ledger. During our review of the forms filed with the fiscal department by the 12 outreach centers, we identified 17 collections which were recorded as a different type of revenue than specified by the outreach centers. However, the changes did not cause the collection to be recorded in an account other than the outreach center where it was received.

According to the Fiscal Officer, when the collection is recorded as a different type of revenue than identified by the outreach center, the reason for the change is not consistently documented.

Receipts – As previously stated, the State of Iowa makes electronic deposits to UDMO’s account. During our review of UDMO’s ledger, we determined the electronic deposits were not posted to the ledger in a timely manner. Because the deposits are not posted in a timely manner, the ledger periodically shows a negative balance when funds are actually in UDMO’s bank account.

According to the fiscal staff and the Fiscal Officer, UDMO does not always receive timely notice of the deposit. Sometimes the notice from the State does not arrive for several weeks. According to the Fiscal Officer, UDMO has the ability to access its accounts on-line. As a result, UDMO has the ability to post the deposits in a more timely manner.

Travel Advances - While reviewing UDMO’s payroll transactions, we identified reductions to an employee’s net pay even though the employee had not received a salary advance. According to the Human Resources Director and Fiscal Officer, the reduction was for a travel advance previously received by the employee.

UDMO allows employees to request travel advances when overnight travel is required. The procedures for travel advances are included in UDMO’s Policy and Procedures Manual. When the travel is complete, the employee submits a claim and a check is issued to the employee for the full amount of travel costs and the amount advanced to the employee is withheld from the employee’s net pay to repay the advance to UDMO.

Since travel is a function of doing business, UDMO should record the travel advance as an expenditure. Once the travel is complete the advance should be closed out into the proper expense category, such as lodging, food or registration. When the travel costs exceed the amount advanced to the employee, the amount of the advance should be deducted from the travel costs to determine the reimbursement due to the employee. In cases where the travel advance exceeds actual travel costs, the excess should be repaid to UDMO. If staff fails to repay the difference between the actual travel expenses and the advanced amount, UDMO should consider withholding the excess travel advance from the employee’s pay check.

In addition, UDMO should consider the necessity of issuing travel advances to employees. Because UDMO has issued credit cards to employees who frequently travel and a credit card is available for other employees’ use, a number of travel expenses can be charged to the credit card as necessary.

Vehicle Usage/1099’s - UDMO owns several vehicles which have been assigned to staff or are used as pool cars. A concern was raised regarding employees routinely using the vehicles for personal purposes. To determine if agency vehicles were used for personal purposes, we reviewed the mileage logs for the vehicles owned by UDMO and assigned to individual staff. Many of the logs did not include detailed descriptions of the purpose of the trips taken. Because personal use of a vehicle may occur, it is up to the individual to properly report the miles used for personal purposes. We are unable to determine if the vehicles were used for personal purposes.

According to the Employee Handbook, “agency vehicles are never to be used for a personal event.” In accordance with IRS rules, the use of an agency vehicle for personal use results in a taxable benefit to the employee and an IRS form 1099 should be issued. According to discussion with fiscal staff and other employees, UDMO has never issued an IRS form 1099 for the personal use of agency vehicles or other agency property.

## **OTHER ISSUES**

Deputy Director - During Mr. Rohert’s tenure as Executive Director, the Deputy Director position was filled for a brief period. However, it was not filled once it was vacated. The position remained unfilled until after Ms. Schmitz’s termination. Gina Lowman-Hall, the former Community Relations Coordinator, is currently UDMO’s Deputy Director. According to Ms. Lowman-Hall, she was approached to become the Deputy Director in order to prevent a recurrence of the situation

where UDMO did not have an Executive Director or a Deputy Director to carry on the day-to-day business operations.

According to several staff members we spoke with, her appointment to the position did not follow the required procedures. UDMO's Personnel Manual states the following procedures are to be followed when filling a position:

- The Department Director may transfer personnel within the respective department to fill a position without posting the position in-house. In addition, if the Department Director feels there is a viable candidate in another Department, the position can be posted only in-house.
- If the Department Director posts the job, a position vacancy form is to be completed.
- Once completed, the Personnel Officer will post the job in-house, advertise out-of-house or both as instructed by the Department Director.
- Applications are then taken and the procedures stated in the HR manual regarding the interview process are followed.

Based on our review of available documentation and discussions with appropriate staff, it appears the procedures specified in the Personnel Manual were complied with. Because Ms. Lowman-Hall reported to the Executive Director as the Community Relations Coordinator and she continued to report to the Executive Director as the Deputy Director, the Executive Director had the authority to transfer her to a new position within the Department without posting the position. Based on documentation available for our review, the following procedures were performed on the dates specified.

- May 2, 2007 – Acting Executive Director Ron Graettinger completed a form requesting a change of position for Ms. Lowman-Hall to Deputy Director. The request did not include an increase in salary.
- May 11, 2007 – A new employment contract was signed by Ms. Lowman-Hall, the Fiscal Officer and the Personnel Director. The contract was for the period May 1, 2007 to September 30, 2007 and did not provide for an increase in Ms. Lowman-Hall's salary.
- July 3, 2007 – A revised contract was signed by Ms. Lowman-Hall, Executive Director Ludwig and the Chief Financial Officer. The terms of the contract were changed to the following:
  - The new period was July 1, 2007 to September 30, 2007.
  - Ms. Lowman-Hall's salary was increased from \$3,937.50 to \$4,333.34 per month.
  - Ms. Lowman-Hall received a one time payment of \$2,375.04 as a retroactive adjustment to her salary as of January 1, 2007.
  - The salary change was signed by Executive Director Ludwig, the Fiscal Officer and the Human Resources Director.

VISA Charges - UDMO issues corporate credit cards to the Executive Director and Program Directors who travel frequently to meetings, outreach centers and clients in UDMO's service area. UDMO also has additional cards located in the business office which may be signed out as needed by staff. UDMO's credit card policy requires the cards be used for business purposes only.

All purchases made with the credit cards are to be supported by a form documenting the staff person using the card, vendor, amount and purpose of the purchase. In addition, original supporting documentation, such as receipts or invoices, are required to be submitted to the fiscal

department. Any unauthorized or unsupported charges are the responsibility of the individual assigned the card.

During our review of the purchases made with UDMO's credit cards, we identified instances where the purpose of the purchase was not documented. We also identified purchases of food for various meetings, including the Board of Directors and the Executive Committee. Using the supporting documentation available for the purchases, we were unable to determine if the food was purchased for the Board members or for all people attending the meeting.

During our review, we also identified charges made by several employees which were personal in nature. The personal charges were usually incurred during an overnight trip taken by the employee and included purchases such as snacks, beverages and movies. Each personal purchase identified was repaid to UDMO by the employee.

**Exhibit C** summarizes purchases made with UDMO's credit cards by category between January 2006 and May 2007. As illustrated by the **Exhibit**, the credit cards were used for \$31,936.84 of lodging and \$19,026.25 of other travel expenses. While some claims included a detailed purpose for the travel, others just documented the destination. By discussing the charges with the Fiscal Officer, we determined the purpose of the travel. The **Exhibit** also illustrates \$4,909.11 of food was purchased for various meetings.

Because of the limited descriptions on some charge forms and lack of supporting documentation, we were unable to determine the business purpose of some of the charges. For example, UDMO purchased \$1,890.01 of gifts and incentives. The only descriptions provided were "Winter Party," "Golf Outing" and "incentive gifts". Based on discussions with staff, we were able to determine the golf outing prizes were for UDMO's annual fundraising golf event. Staff also stated some programs use incentive gifts to entice clients to attend an event or training session. These purchases were paid for with UDMO's corporate discretionary funds, which includes donations as well as Federal, State and local funds.

Without detailed descriptions, it is difficult to determine the business purpose or if the expense is an allowable use of Federal and State funding when program guidelines are considered.

UDMO Foundation - During former Executive Director Rohert's tenure, a foundation was established to raise funds for UDMO. Since Mr. Rohert's passing, the Foundation has been inactive. The Foundation currently has a cash balance of \$2,650.00 and deferred revenue of \$1,060.00. The deferred revenue is composed of employee contributions made through payroll deductions which are being held by UDMO. According to the current Executive Director, a review of the Foundation will be conducted to determine if the Foundation is needed. There is no apparent reason for the donations to be deferred.

Telecommuting - A former employee expressed a concern regarding Ms. Lowman-Hall being allowed to work at home and being provided funds to remodel a room in her home. At the time Ms. Lowman-Hall was telecommuting, she was Mr. Rohert's Executive Assistant and Community Relations Coordinator. When we spoke with Ms. Lowman-Hall, she confirmed she worked at home due to a lack of space at the UDMO offices. However, she denied receiving any funding for remodeling her home.

The alleged remodeling occurred prior to the period of our review. We were unable to review any documentation related to the alleged remodeling. In addition, we find it unusual an Executive Assistant and Community Relations Coordinator would be able to carry out duties at a location other than UDMO's office.

Other Items Beyond Scope of Review - The following concerns were brought to our attention by individuals we spoke with. However, the concerns are beyond the scope of our review and, therefore, we did not address these issues.

- Termination of Former Executive Director Nancy Schmitz – This is a personnel action based on confidential information.
- Undisclosed Related Party Transaction with Sibley One Partnership – This project was disclosed in UDMO’s audit reports in prior years. The project was approved by the Iowa Department of Economic Development.
- Improper Accounting for the Lakes Area Decategorization Empowerment Board – UDMO acts as the fiscal agent for the Lakes Area Decategorization Empowerment Board. UDMO maintains a separate set of accounts for this organization. The organization also receives an annual independent audit.
- Audit Committee – Concerns regarding changes made to the membership and effectiveness of the Audit Committee were expressed. The Board should address these concerns.

### **Recommended Control Procedures**

As part of our engagement, we reviewed the procedures used by UDMO for the overall operations of the Corporation. Based on our findings and observations detailed below, the following recommendations are made to strengthen UDMO’s internal controls.

- (A) Policy and Procedures Manual – UDMO’s Policy and Procedure Manual was last updated in March 2004. Policy and procedures manuals provide tools to:
- (1) Aid in training additional or replacement personnel.
  - (2) Help achieve uniformity in accounting and in the application of policies and procedures.
  - (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Recommendation – The Policies and Procedures Manual should be periodically reviewed and updated to address changes in UDMO’s operations and its operating environment.

- (B) Cash Management/Interest Allocation – UDMO receives funding from some Federal grants on an advance basis. The advances are deposited in interest bearing accounts. OMB Circular A-133 requires interest earned be tracked and returned to the program providing advance funding.

UDMO does not track interest earned in the General account and transfers interest earned in the Energy account to the General account. Interest earned on the Energy account for fiscal years 2005 through 2007 totaled \$15,535.73. In addition, at least \$3,810.66 of interest was earned in the General account. However, we are unable to determine how much additional interest was earned on Federal funds in the General account because UDMO does not track the Federal funds in the account. The interest is used for UDMO’s general operations, which includes expenses not allowable for the grant.

In addition, because estimated drawdown requests were prepared by UDMO, interest was earned on funds drawn down in advance of the actual expenditures. Due to the nature of the records available, we are unable to determine the amount of interest earned prior to fiscal year 2004.

Recommendation – UDMO should implement procedures to track interest earned on all programs and ensure interest earned on Federal funds are returned in compliance with Federal regulations. UDMO should work with the Iowa Department of Human Rights to determine the amount of interest to be repaid for LIHEAP and HEAP.

- (C) Loans – UDMO issued 3 loans totaling \$64,000 from discretionary corporate funds. Of the 3 loans, 2 were made to help support local businesses in Graettinger. The remaining loan was made to an employee of UDMO.

The loans were made with the former Executive Director’s authorization. However, the Board did not approve the loans. In addition, the loans were not made as a part of any loan programs administered by UDMO. UDMO did not have established procedures for selecting and approving loan applicants. In addition, 2 of the 3 loans were made to or involved parties who had a relationship with UDMO.

Recommendation – The Board should establish policies regarding the allowable use of Federal, State and local grants as well as corporate funds and approval of loans. If UDMO chooses to establish a loan program, appropriate criteria must be established for selection of successful applicants and appropriate documentation must be maintained. In addition, appropriate funding sources must be identified.

- (D) Payments to Consultant – During 2005, UDMO paid a former employee \$15,000.03 for consulting services and \$673.58 for reimbursement of travel expenses. The payments were made with Federal funds from the Head Start program. However, the payments were not sufficiently supported. Not all payments for services were supported by documentation and those that were did not contain a description sufficient to determine the services provided. None of the travel reimbursements were supported.

Recommendation – UDMO should implement procedures to ensure all disbursements are adequately supported. In addition, UDMO should consult with DHS officials to determine what portion, if any, of the Head Start funds should be repaid.

- (E) Board Oversight – According to UDMO’s by-laws, the Board “shall have total responsibility for the affairs of the Corporation, including the hiring and removal of the Executive Director, and shall have the powers as are implicit in these by-laws”. The following weaknesses in Board oversight of the internal control system and UDMO’s operations were identified:

- (1) Minutes – Minutes do not provide the information required by Chapter 21 of the *Code of Iowa*, such as the date, time and place of the meeting, members present and sufficient detail to determine the vote of each member.
- (2) Financial reports – clear financial objectives and information were not prepared or communicated to the Board.
- (3) Expenditures – Board members do not review or approve expenditures.
- (4) Personnel actions – the Board does not discuss personnel actions, including hiring, cost of living increases or other employee benefits.
- (5) Executive Committee – The Board does not review and ratify the decisions of the Executive Committee.

Recommendation – The Board should take an active role in the oversight of UDMO, including reviewing financial reports, approving actions of the Executive Committee, ensuring minutes document significant discussions and actions of the Board, reviewing and approving expenditures and approving personnel actions.

- (F) Financial Accounting Records – We identified disbursements which were not properly supported by invoices or other appropriate documentation. In addition, postings to the accounting system were not made in a timely manner for deposits made electronically to UDMO’s accounts.

Recommendation – All disbursements should be properly supported by invoices or other appropriate documentation. In addition, all collections should be properly recorded in the accounting system in a timely manner.

- (G) Executive Committee – UDMO’s full Board is composed of 18 members in accordance with requirements established by Chapter 216A of the *Code of Iowa*, UDMO’s by-laws and Section 676B of the Community Service Block Grant Act. However, UDMO’s Executive Committee routinely makes operating decisions on behalf of the full Board and the Board does not consistently ratify the Executive Committee’s actions.

Recommendation – Because the Executive Committee is acting as UDMO’s governing body, its membership should comply with requirements for the full Board established by Chapter 216A of the *Code of Iowa* and Section 676B of the Community Services Block Grant Act.

- (H) Salary and Travel Advances – UDMO provides employees salary and travel advances. The advances may not comply with requirements of various funding sources used by UDMO.

Recommendation – UDMO should establish policies and procedures which prohibit salary advances. In addition, UDMO should review policies and procedures to ensure travel advances are provided only as needed. Many of the costs associated with travel for which advances are provided may be met by the appropriate use of UDMO’s credit card.

- (I) Pay Raises – Of the 13 pay raises we tested, we identified 5 for which approval was not properly documented. In addition, according to the Fiscal Officer, some employees may receive a raise while others do not because administrative funding may be limited for certain programs. OMB Circular A-122 requires “compensation to individual employees is reasonable for the services rendered and conforms to the established policy of the organization consistently applied to both federal and non-federal activities.”

Recommendation – UDMO’s compensation policies should provide for consistent treatment of all employees for merit increases and across the board or cost of living increases. The Board should implement procedures to ensure the requirements of OMB Circular A-122 are complied with.

- (J) Personal Use of Vehicles – The mileage logs we reviewed did not include detailed descriptions of the trips taken with the vehicles. We were unable to determine if the vehicles were used for personal purposes.

Recommendation – UDMO should implement procedures to ensure UDMO vehicles are not used for personal purposes and mileage logs contain adequate descriptions. In addition, UDMO should ensure any personal use of vehicles is properly reported on an IRS form 1099.



## **Exhibits**

**Review of  
Upper Des Moines Opportunity Inc.**

Review of  
Upper Des Moines Opportunity, Inc.

Interest Earnings  
For the period October 1, 2004 through September 30, 2007

Transaction Date	Energy Amount	General Account	Home Investment Account	General Money Market Account	Payroll Account	Total
10/31/04	\$ 46.37	956.36	10.44	311.85	28.98	1,354.00
11/30/04	107.35	1,202.36	13.32	405.84	24.12	1,752.99
12/31/04	1,430.63	1,537.41	13.55	420.15	38.70	3,440.44
01/31/05	298.18	1,102.15	14.33	420.95	47.86	1,883.47
02/28/05	71.67	1,008.50	14.12	380.90	53.04	1,528.23
03/31/05	154.06	1,461.47	15.19	422.47	11.87	2,065.06
04/30/05	92.87	1,550.38	14.02	416.34	56.29	2,129.90
05/31/05	140.61	1,735.82	15.44	465.83	104.19	2,461.89
06/30/05	139.21	1,488.62	16.17	451.83	18.99	2,114.82
07/31/05	20.42	1,415.49	17.17	467.85	29.02	1,949.95
08/31/05	78.33	1,672.42	17.79	468.82	18.30	2,255.66
09/30/05	506.74	1,297.30	17.35	454.63	32.46	2,308.48
<b>FY05 Subtotal</b>	<b>3,086.44</b>	<b>16,428.28</b>	<b>178.89</b>	<b>5,087.46</b>	<b>463.82</b>	<b>25,244.89</b>
10/31/05	109.18	1,139.21	17.52	470.74	16.67	1,753.32
11/30/05	480.28	1,121.33	17.55	468.68	36.87	2,124.71
12/31/05	1,675.79	1,318.76	25.78	662.05	48.47	3,730.85
01/31/06	582.94	1,869.44	25.98	663.98	48.35	3,190.69
02/28/06	247.44	1,723.34	24.00	601.39	44.84	2,641.01
03/31/06	349.09	2,851.73	21.09	667.67	41.50	3,931.08
04/30/06	233.71	2,777.51	27.86	647.99	53.11	3,740.18
05/31/06	139.79	4,055.96	31.32	728.56	46.08	5,001.71
06/30/06	2,892.11	3,583.65	31.38	729.91	55.31	7,292.36
07/31/06	812.26	2,639.77	32.73	756.67	79.22	4,320.65
08/31/06	405.14	2,692.99	33.19	759.14	37.12	3,927.58
09/30/06	804.33	2,737.72	32.65	737.01	53.48	4,365.19
<b>FY06 Subtotal</b>	<b>8,732.06</b>	<b>28,511.41</b>	<b>321.05</b>	<b>7,893.79</b>	<b>561.02</b>	<b>46,019.33</b>
10/31/06	303.26	2,539.98	34.33	764.02	49.56	3,691.15
11/30/06	52.74	2,009.96	36.59	741.76	48.54	2,889.59
12/31/06	1,311.08	3,267.12	39.01	767.73	59.09	5,444.03
01/31/07	324.73	2,667.31	37.61	770.23	43.49	3,843.37
02/28/07	352.82	2,123.35	33.20	697.96	49.35	3,256.68
03/31/07	297.93	2,766.92	38.07	775.02	35.21	3,913.15
04/30/07	237.76	2,465.38	36.83	727.97	104.61	3,572.55
05/31/07	288.91	2,765.86	37.21	729.15	45.21	3,866.34
06/30/07	279.21	2,399.23	36.15	707.78	43.18	3,465.55
07/31/07	97.38	2,755.09	37.84	733.53	85.79	3,709.63
08/31/07	27.69	2,647.13	37.77	735.77	39.09	3,487.45
09/30/07	143.72	2,969.02	36.41	714.20	46.51	3,909.86
<b>FY07 Subtotal</b>	<b>3,717.23</b>	<b>31,376.35</b>	<b>441.02</b>	<b>8,865.12</b>	<b>649.63</b>	<b>45,049.35</b>
<b>Total</b>	<b>\$ 15,535.73</b>	<b>76,316.04</b>	<b>940.96</b>	<b>21,846.37</b>	<b>1,674.47</b>	<b>116,313.57</b>

Note: UDMO operates on a Federal fiscal year basis.

**Exhibit B**Review of  
Upper Des Moines Opportunity, Inc.Consultant Payments  
For the period October 1, 2004 through September 30, 2007

<b>Month</b>	<b>Hours Reported</b>	<b>Fee Paid</b>	<b>Effective Hourly Rate</b>	<b>Travel Reimbursement</b>	<b>Description of Projects per Timesheet</b>
April 2005	-	\$ 1,666.67	-	92.48	<i>Hours were not reported and a description was not provided</i>
May 2005	12.50	1,666.67	133.33	161.19	<i>Description not provided</i>
June 2005	56.50	1,666.67	29.50	419.91	<i>Description not provided</i>
July 2005	15.50	1,666.67	107.53	-	Iowa Head Start Assoc. (8 hrs)
August 2005	20.00	1,666.67	83.33	-	Enclosed new Child Adult Care Food Program requirements (7 hrs) , I.H.S.A Mtg. (3 hrs), IHSA Board meeting (2 hrs), strategic Planning (6 hrs), unidentified (2 hrs)
September 2005	13.00	1,666.67	128.21	-	Board meeting (9 hrs), email (2 hrs), prepare for meeting (2 hrs)
October 2005	11.00	1,666.67	151.52	-	<i>Description not provided</i>
November 2005	14.00	1,666.67	119.05	-	Empowerment meeting (4 hrs), email (1 hr), Satellite conference (3 hrs), Fatherhood Fair (3 hrs), unidentified (3 hrs)
December 2005	8.00	1,666.67	208.33	-	Prepare for I.H.S.A (5 hrs), CDC work (3 hrs)
Total	<u>150.50</u>	<u>\$ 15,000.03</u>	<u>99.67</u>	<u>673.58</u>	

Review of  
Upper Des Moines Opportunity, Inc.

Summary of Purchases Made with VISA Card  
For the period October 1, 2004 through September 30, 2007

<b>Report Category</b>	<b>Amount</b>
Travel - Lodging	\$ 31,936.84
Travel - Transportation/Misc	19,026.25
Books	9,957.88
Office Supplies	8,770.18
Registration Fees	8,756.64
Office Equipment	5,425.79
Food (Meetings)	4,909.11
Advertising	4,856.68
Training - General Supplies	4,565.39
Miscellaneous	3,663.73
Training Aids	2,167.70
Gifts/Incentives	1,890.01
UDMO Vehicles	1,537.08
Brochures	1,411.40
Flowers	795.66
Subscriptions	500.00
Postage	211.87
Client Clothing	81.30
Copies	52.06
Refunds	(166.55)
Total	<u><u>\$ 110,349.02</u></u>

Review of  
Upper Des Moines Opportunity, Inc.

Staff

This review was performed by:

Annette K. Campbell, CPA, Director  
James S. Cunningham, CPA, Senior Auditor II  
Melissa J. Knoll-Speer, Senior Auditor  
Brett C. Connor, Assistant Auditor



Tamera S. Kusian, CPA  
Deputy Auditor of State