



State of Louisiana

**OFFICE OF
STATE INSPECTOR GENERAL**

**NEW ORLEANS EDUCATIONAL
TALENT SEARCH PROGRAM**

Report by
Inspector General Bill Lynch

Prepared for
Governor M.J. "Mike" Foster, Jr.

May 1, 2000

File No. 1-00-0023



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**OFFICE OF
STATE INSPECTOR GENERAL**

New Orleans Educational Talent Search Program

Report by

A handwritten signature in black ink, appearing to be "BL", written over a horizontal line.

Inspector General Bill Lynch

Prepared for

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New Orleans Educational Talent Search Program

False claims, apparent false claims, and multiple billings totaling \$43,480 were found in an audit of state and federal funds disbursed by state agencies to the New Orleans Educational Talent Search Program (Talent).

In addition, Talent failed to provide canceled checks or invoices in support of cost reimbursement claims totaling \$222,773. Without records explaining the unsupported claims, it cannot be determined whether these claims are false or bad record keeping.

Talent had contracts with the Louisiana departments of Social Services, Health and Hospitals, and Education. Under the contracts, it was to provide welfare recipients in New Orleans with job readiness and job search services, as well as drug awareness and abatement services. Talent would be reimbursed for the costs it incurred providing these services. Its requests for reimbursement were submitted to and paid by the state agencies' Baton Rouge offices.

Although subject to the federal requirements of a single audit of all of its revenues and expenditures, neither Talent nor its independent auditors disclosed \$938,700 in direct federal funds received during the audit period.

A full audit could not be completed because of Talent's failure to cooperate and poor record keeping. Talent's bank statements were not reconciled, and its financial records were disorganized and incomplete. Talent refused to provide full access to the records and information required. Furthermore, it refused to provide any of the records for a bank account into which some monies were transferred, without explanation, from the organization's Whitney National Bank checking account.

The audit covers the period July, 1996, through June, 1999, state fiscal years 1997 through 1999. The amount of money in the audit that was disbursed to Talent by state agencies totaled \$666,696 and does not include direct federal funds to Talent.

Background

The New Orleans Educational Talent Search Program is a non-profit organization incorporated on Oct. 11, 1971, which provides social services in the New Orleans area.

Talent's executive director is Robert McFarland. Warren Webb is the program director, and reports to Mr. McFarland.

According to Talent's Independent Auditor's Reports and state contracts, its sources of revenue during the audit period were as follows:

<u>Fiscal Year</u>	<u>Source of Revenue</u>	<u>Revenue Reported</u>	<u>Disbursements Made by State</u>	<u>% Federal</u>
June, 1997	La. State Department of Social Services	\$198,822	\$198,822	72%
	La. Department of Education	47,106	47,106	100%
June, 1998	La. State Department of Social Services	184,768	184,765	73%
	La. State Department of Health & Hospitals	118,000	117,973	100%
June, 1999	La. State Department of Health & Hospitals	118,000	115,894	0%
	<i>Total</i>	<u>\$666,696</u>	<u>\$664,560</u>	

Additionally, according to the United States Department of Education, Talent has been awarded direct federal grants since 1977 to provide counseling to young adults who are first generation college applicants. The funding received during the audit period totals \$938,700.

False, Apparent False Claims

Talent submitted false and apparent false reimbursement claims to the Louisiana departments of Social Services, Health and Hospitals, and Education totaling \$35,686 for which it was reimbursed \$34,036.

Independent Contractors' Payroll Taxes

Talent submitted false claims totaling \$15,551 on cost reimbursement requests to the departments of Social Services, Health and Hospitals, and Education for the employer's portion of Social Security and Medicare taxes on nine individuals identified as independent contractors in Talent's records. Talent was reimbursed for all of these claims.

Talent failed to produce canceled checks for these claimed tax payments. In addition, Talent's filings with the Social Security Administration and the Internal Revenue Service did not include these nine individuals as employees. There are no Social Security or Medicare taxes applicable to services of independent contractors.

General Expenditures

Talent submitted eight false invoices totaling \$13,885 as supporting documentation with cost reimbursement requests to the Department of Social Services during the audit period. Talent was reimbursed for all of these claims.

- Talent submitted a \$1,750 invoice from SourceBooks, Inc. of Bush, La., as supporting documentation for a reimbursement request. The invoice was reimbursed. Talent failed to produce a canceled check documenting payment to SourceBooks. Robert Jahncke, SourceBooks' owner, stated his company has never done business with Talent. He provided a copy of his invoice form, which was entirely different from the invoice submitted by Talent.
- Talent submitted four invoices totaling \$4,901 from Wintergreen Orchard House, Inc. as supporting documentation for reimbursement requests. All four

invoices were reimbursed. Talent failed to produce canceled checks documenting payment to Wintergreen. The Dallas, Texas, address for Wintergreen on the invoices does not exist, and the company is not registered with the State of Texas. An inactive company of the same name was registered in Louisiana. The owner of the company, Allan Corderman, said the invoice was not his company's invoice, and that the products listed on it were not items sold by his company. He said that the salesperson's name entered on the invoice was not one of his employees. He also noted that the invoice did in fact list his company's actual New Orleans post office box number in the nonexistent Dallas address.

- Talent submitted three invoices from Creative Images Instructional Supplies and Video totaling \$7,234 as supporting documentation for reimbursement requests. All three invoices were reimbursed. These invoices had the same style, font, format, and color scheme as the Wintergreen Orchard House invoices. Talent failed to produce canceled checks documenting payment to Creative Images. The Richmond, Va., address for the company on the invoices does not exist, and the company was not registered with the State of Virginia.

Talent submitted fifteen apparent false invoices totaling \$6,250 as supporting documentation for cost reimbursement requests to the Department of Social Services during the audit period. The department reimbursed Talent \$4,600 on these claims.

- Talent submitted claims for six invoices from Johnson Income Tax and Accounting Service totaling \$2,650 as supporting documentation for reimbursement requests and was reimbursed \$1,400. These claims were for bookkeeping services and covered fiscal years 1997 and 1998. These claims were apparently false for the following reasons:
 1. Talent failed to produce canceled checks payable to Johnson Income Tax and Accounting Services.
 2. Although the company's owner, Joe Henry Johnson, and general manager, Carl Johnson, said they provided some bookkeeping services to Talent, they could not provide an example of the invoice form for comparison to the invoices submitted by Talent.
 3. The owners of Johnson Income Tax also said they could not provide evidence that the firm had ever received payment from Talent.

4. During the same fiscal year Talent paid another CPA. who performed bookkeeping services.
- Talent submitted claims for nine invoices from Larry Jones Bookkeeping totaling \$3,600 as supporting documentation for reimbursement requests and was reimbursed \$3,200. These claims were for bookkeeping services and covered fiscal year 1998. Larry Jones was a member of Talent's board of directors during the audit period. These claims were apparently false for the following reasons:
 1. Only one check was made to Mr. Jones for \$200, but the date was five months before the date of the first Larry Jones invoice.
 2. Johnson Income Tax and Accounting Service invoices and Larry Jones Bookkeeping invoices are questionable because other than the first Johnson invoice and the first Jones invoice, these invoices have the same style, font, format, and color scheme, and the word "bookkeeping" is misspelled as "bookeeping." These invoices list both vendors' addresses as 2642 Tulane Ave., New Orleans.
 3. During the same fiscal year Talent paid another CPA. who performed bookkeeping services.
 4. In addition to the invoices, Talent also submitted a claim based on a copy of an \$800 check payable to Larry Jones, which was never cashed. This claim was not reimbursed by DSS.

Mr. Jones did not return the Office of Inspector General's phone calls.

Multiple Billings

Talent submitted cost reimbursement requests that contained multiple billings totaling \$7,794. Talent was reimbursed for all of these claims.

During the audit period, reimbursement requests examined contained multiple billings to the Department of Social Services totaling \$6,892. That is, the same invoice or charge was included on two or more reimbursement requests and was paid more than once.

In another instance, two receipts from Office Depot totaling \$902 were submitted to and reimbursed by both the Department of Social Services and the Department of Education.

Unsupported Claims

Talent submitted unsupported reimbursement claims totaling \$222,773 to the Louisiana departments of Social Services, Health and Hospitals and Education. Talent was reimbursed for all of these claims. Unsupported claims are those claims that cannot be verified by records such as canceled checks or invoices. These unsupported claims include general expenditures, payroll, employee payroll taxes and benefits. Without records explaining the unsupported claims, it cannot be determined whether these claims are false or bad record keeping.

These amounts are not included in the amounts of false claims, apparent false claims, or multiple billings discussed above.

General Expenditures

Talent failed to produce canceled checks or invoices as supporting documentation of general expenditure claims totaling \$45,629 which were included on reimbursement requests submitted to the departments of Social Services, Health and Hospitals, and Education. Of this amount, \$22,723 was not supported by canceled checks, \$9,429 was not supported by invoices and \$13,477 was not supported by either canceled checks or invoices. Talent was reimbursed for all of these claims.

Payroll

Talent submitted claims for payroll totaling \$390,966 on reimbursement requests to the departments of Social Services, Health and Hospitals, and Education. Talent was reimbursed for all of these claims. However, Talent did not produce canceled checks supporting \$121,676 of these claims.

- Talent failed to produce canceled checks supporting \$24,611 in payroll claims for seven individuals named on reimbursement requests which were submitted to the Department of Social Services for fiscal years 1997 and 1998.
- Talent failed to produce canceled checks supporting \$96,025 in payroll claims which were included on reimbursement requests submitted to the Department of Health and Hospitals for fiscal years 1998 and 1999.

The reimbursement requests did not list the amount requested per individual, or the individuals' names. However, the budgets for the fiscal years 1998 and 1999 contracts did list payroll per individual. Although, the contracts are supposed to be cost reimbursed, one-twelfth of the budgeted payroll was submitted on each reimbursement request.

Talent's program director, Warren Webb, said the people listed in the budget did not perform the services indicated on the reimbursement requests, other people did. Mr. Webb said he would provide supporting documentation on the individuals who performed these services, but failed to do so.

- Talent failed to produce canceled checks supporting \$1,040 in payroll claims for one individual named on reimbursement requests which were submitted to the Department of Education for fiscal year 1997.

Employee Payroll Taxes and Benefits

Talent submitted \$55,468 in unsupported claims with reimbursement requests to the departments of Social Services, Health and Hospitals, and Education for employee payroll taxes and benefit costs. Talent was reimbursed for all of these claims. However, in most instances Talent failed to produce canceled checks showing that the monies had actually been paid by Talent to the designated entities.

- Talent failed to produce canceled checks totaling \$13,190 as supporting documentation for unemployment compensation claims which were reimbursed by all three state departments.
- Talent failed to produce canceled checks totaling \$9,577 as supporting documentation for retirement contribution claims which were reimbursed by the Department of Social Services.

- Talent failed to produce canceled checks totaling \$2,212 as supporting documentation for special assessment tax claims which were reimbursed by the Department of Health and Hospitals.
- Talent submitted unsupported reimbursement claims totaling \$14,519 for the employer's share of Social Security and Medicare taxes for four individuals identified as employees in Talent's records. All three state departments reimbursed these claims. These taxes would have been paid to the Internal Revenue Service. However, Talent failed to produce canceled checks designating specific payments to the Internal Revenue Service.

NOTE: There was a series of checks issued to the IRS totaling \$27,800, but the tax liabilities paid could not be determined from the records available. The payments may have been for other tax liabilities such as the employees' share, back taxes for prior years, and/or penalties and interest, but Talent's records provided no explanation of the reasons for these payments.

A comparison of payroll to tax reporting records indicates that the amount claimed for the employer's share of taxes was owed. In fact, the wages reported to the Internal Revenue Service were less than actual wages paid on eight of 10 quarterly tax reports, indicating that Talent may have an additional tax liability. Quarterly tax reports should reconcile to canceled checks for payroll.

- Talent failed to produce canceled checks totaling \$6,602 as supporting documentation for worker's compensation insurance claims which were reimbursed by the departments of Social Services and Education.

NOTE: Talent submitted a total of \$7,341 in workers compensation claims but could only produce canceled checks totaling \$739 to support these claims.

- Talent submitted unsupported claims for health insurance totaling \$9,368 which were reimbursed by the departments of Social Services and Education. Talent failed to provide auditors access to its employee health insurance policies and coverage information to support these claims.

NOTE: Records show Talent paid a total of \$59,299 to two health insurance companies. However, without reviewing the policies, it is

impossible to determine whether any of the insurance cost was an allowable expense by the state agencies

Undisclosed Direct Federal Funds

Talent failed to disclose all funding sources to the Office of Inspector General and refused access to bank account records which document receipt and expenditure of these funds.

The Office of Management and Budget's Circular A-133 requires a single audit for all entities receiving over \$300,000 per year in federal funds. A single audit would cover all receipts and expenditures.

The Office of Inspector General discovered contracts between Talent and the U.S. Department of Education that had not been disclosed in Talent's financial statements and Independent Auditor's Reports.

The U.S. Department of Education confirmed that its TRIO-Talent Search Program has been awarding grants directly to Talent since 1977.

Funds received during the audit period beginning July, 1996, through June, 1999, were as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Grant Funds</u> <u>Awarded</u>
June 30, 1997	\$314,700
June 30, 1998	\$252,000
June 30, 1999	<u>\$372,000</u>
<i>Total</i>	<u>\$938,700</u>

Considering Talent's state contracts, which consist primarily of federal funds, and the direct federal grant, Talent's total federal funds per year exceed \$300,000. Therefore, Talent is required to have a single audit.

Access to information concerning all of Talent's funding, including its direct federal funding, is necessary in order to perform a complete audit of the state programs. Review of the federal program records may help explain some of Talent's state reimbursement claims. Review of the federal program records also would be necessary to determine whether Talent properly assigned and allocated expenses between the state and federal programs.

Cooperation With Audit

The initial request by auditors of the Office of Inspector General for access to Talent's records for review was denied. After the Department of Health and Hospitals threatened to suspend funding, Talent provided limited access to its financial records, but requested the review be conducted at the office of Charles Webb, Talent's CPA.

Bank statements and canceled checks for a checking account with Whitney National Bank were provided. Records for an account with Omni Bank were not provided.

A letter dated May 28, 1999, requested additional financial records and supporting documentation be made available by June 3, 1999. By Aug. 6, 1999, after three extensions of time, Talent failed to provide the specific documents requested as follows:

- Bank statements and canceled checks from July, 1996, to June, 1999, on an account with Omni Bank. It was noted that transfers were made from Talent's checking account with Whitney National Bank to the Omni account;
- Copies of deposit slips and items deposited on the Whitney National Bank account from July, 1996, to May, 1999. It was noted that deposits were made to the Whitney account from unknown sources and all disbursements to Talent from the state contracts were not deposited in the Whitney account;
- The original financing agreement between United Credit Patriot Funding and Talent. Payments had been noted to Patriot Funding from the Whitney account. Charles Webb stated that Talent had an accounts receivable financing agreement with Patriot Funding in fiscal year 1997. Only three assignment agreements for March, April, and May, 1997 were available; and

- Loan agreements made with Liberty National Bank, Whitney National Bank, Robert McFarland and Warren Webb.

On Aug. 6, 1999, a meeting was held between auditors and Talent's executive director, Robert McFarland, and program director, Warren Webb. Mr. McFarland and Mr. Webb stated that the documents previously requested would be made available for review, as well as some additional documents requested during the meeting. A faxed memorandum dated Aug. 9, 1999, followed up the request during the meeting. The following additional financial records and supporting documentation were requested by Aug. 13, 1999:

- Missing checks from the March, 1998, bank statement with Whitney National Bank;
- Proof of payment in the form of canceled checks on claims for expenditures that were reimbursed and could not be traced to canceled checks drawn on the Whitney account;
- Missing invoices on claims for expenditures that were reimbursed;
- Health insurance agreements indicating persons covered under the policies;
- Lease agreements on equipment; and
- A list of employees and their job titles, as well as payroll timesheets or other supporting documentation indicating which state program they were employed under.

Talent once again failed to provide the requested documents.

On Nov. 12, 1999, a request for a list of board members was made. Talent's CPA, Charles Webb, stated that Mr. McFarland directed him to provide the list of board members only if auditors of the Office of Inspector General reviewed supporting documentation put together by Charles Webb's staff for reimbursements made to Talent from state contracts from July, 1996, to June, 1999.

On Nov. 19, 1999, Charles Webb brought the documents to the Office of Inspector General for review. The documents consisted of worksheets for state contracts from July, 1996, to June, 1999, which compared expenses for each contract to the budgeted expenses per contract. The expenses per contract were supported with copies of canceled checks only. Mr. Webb stated that he and his staff were unable to trace canceled checks to actual invoices. Upon the auditors' review of the worksheets, it was noted that not all state contracts were presented for each year and the state contracts were not presented in

the correct years. Because of the lack of invoices, and the incorrect and insufficient worksheets, the documentation was not useable.

Charles Webb did not provide the list of board members and stated that Mr. McFarland instructed him not to provide the list unless some credit was given for the documents presented.

On Nov. 22, 1999, a request to Charles Webb was made for copies of the federal Return of Organization Exempt from Income Tax forms for the years ended December, 1996, to December, 1998. Allowing the public inspection of this document is a requirement of Internal Revenue Code, Title 26, Sec. 6104(d). Again, these documents were not provided.

Condition of Records

Talent's financial records were in poor condition. As noted above, many expenses Talent claimed to have incurred lacked invoices, canceled checks, or other supporting documentation. Bank statements were not reconciled, and checks were not written in sequential order. Checks that cleared Talent's Whitney checking account in March, 1998, were missing.

Talent provided general ledgers for fiscal years ending June, 1997, and June, 1998. The accounting records did not segregate revenues and expenditures by programs.

Independent Contractor Issue

Our review disclosed several instances of individuals being classified as independent contractors. In each of these instances the classification is questionable because of a combination of the manner of payment, nature of work, work hours and location, and nature of supervision received. This is a matter for the Internal Revenue Service.

Audit Reports

Since at least fiscal year ending June, 1996, Charles Webb, CPA, and Carl Johnson, CPA, failed to disclose funds received directly from the U.S. Department of Education in their Independent Auditors' Reports of Talent. The reports were submitted to the Louisiana Office of Legislative Auditor and to the various state departments under contract with Talent. According to the U.S. Department of Education, Talent has been awarded direct federal grants since 1977. Talent's state contracts require the filing of Independent Auditor's Reports in accordance with Governmental Auditing Standards and the Single Audit Act of 1984.

Charles Webb stated that other than funds received through state contracts with the Louisiana departments of Social Services, Health and Hospitals, and Education, Talent's only other source of funding was from donations which were an immaterial amount.

However, the following indicators led auditors with the Office of Inspector General to search for additional funding sources:

- Unexplained deposits in Talent's checking account with Whitney National Bank.
- Unexplained transfers from Talent's checking account with Whitney National Bank to an account with Omni Bank.
- Unexplained funds in Talent's financial statements.
- Numerous notes on canceled checks drawn from Talent's checking account with Whitney National Bank referencing the TRIO-Talent Search Program, a federal aide program of the U.S. Department of Education.
- A reference to invoices billed to the U.S. Department of Education in a letter from United Credit Patriot Funding to Talent dated Sept. 2, 1997. (*Talent had an accounts receivable financing agreement with Patriot Funding.*)

Charles Webb and Carl Johnson did not question the above indicators in their Independent Auditors' Reports of Talent.

In January, 1997, Charles Webb failed to disclose the direct federal funds from the U.S. Department of Education in his audit report of Talent for fiscal year ending June, 1996. His report was submitted to both the Legislative Auditor and the Department of Social

Services. However, the Legislative Auditor rejected the audit report, because Mr. Webb had previously been suspended from performing audits of governmental entities and/or quasi-public agencies in Louisiana. The Department of Social Services rejected the report, because Mr. Webb did not conduct the fiscal year 1996 audit in accordance with generally accepted auditing standards. Mr. Webb has also been performing accounting and bookkeeping services for Talent.

In May, 1998, Carl Johnson resubmitted the audit report for fiscal year ending June, 1996, and at the same time submitted a separate audit report for fiscal year ending June, 1997 to both the Legislative Auditor and the Department of Social Services. The report resubmitted for fiscal year ending June, 1996, was similar in format and content to the one submitted by Mr. Webb. For this reason, the Department of Social Services rejected both the fiscal years ending June, 1996, and June, 1997, audit reports. Mr. Johnson then rescinded his fiscal year ending June, 1996, report. A report was not reissued for fiscal year ending June, 1996. Mr. Johnson also submitted an audit report on Talent to the Legislative Auditor for fiscal year ending June, 1998, dated Feb. 8, 1999.

All of the audit reports submitted by Mr. Johnson failed to disclose the direct federal funds from the U.S. Department of Education.

Conclusions:

1. Talent submitted requests for reimbursement that contained \$29,436 in false claims, \$6,250 in apparent false claims and \$7,794 in multiple billings. Talent was reimbursed for all but \$1,650 of these claims.
2. Talent submitted and was paid for unsupported claims totaling \$222,773.
3. Talent failed to disclose to the Office of Inspector General \$938,700 in direct federal funds from the U.S. Department of Education.
4. Numerous requests were made to Talent for additional financial records and supporting documentation. However, Talent failed to produce the specific records requested.
5. Talent failed to provide auditors federal income tax documents. Allowing the public inspection of these documents is a requirement by Internal Revenue Code, Title 26, Sec. 6104(d).

6. Talent failed to segregate program costs and revenues. Expenses lack the appropriate supporting documentation, checks are not written in sequential order and bank statements have never been reconciled.
7. Questions are raised regarding whether certain individuals should be classified as independent contractors or employees.
8. Charles Webb, CPA, and Carl Johnson, CPA, submitted financial statements and Independent Auditor's Reports on Talent to the various state departments and to the Louisiana Office of Legislative Auditor which did not disclose direct federal funds from the United States Department of Education as required by OMB A-133.

Recommendations:

9. The report will be referred to the appropriate law enforcement authorities and investigatory agencies for appropriate action.
10. The report will be referred to the Louisiana Office of Legislative Auditor for review of the work of the contracted independent auditors and the lack of disclosure of financial transactions.
11. The report will be referred to the Louisiana Departments of Social Services, Health and Hospitals, and Education for review.
12. The report will be referred to the United States Department of Education for review.
13. All federal and state agencies should desist from providing funds to Talent until the problems addressed in this report are resolved.

Management's Response:

Responses from Talent, Carl R. Johnson, CPA and Johnson Income Tax and Accounting Service are attached.

Charles F. Webb, CPA, requested and was granted an extension from the Dec. 23, 1999, response deadline until Jan. 3, 2000. However, his response was not received.

IG Comments:

Talent requested additional time to respond and was given to Jan. 14, 2000. However, Talent has not submitted any further comments. In large part the response focuses on attacks on this agency and our auditor. The audit was conducted in a professional manner.

In brief response to the specific attacks:

- The length of the audit was due largely to Talent's difficulty and delay in producing basic financial records.
- Talent complains we did not review records they offered, including canceled checks. However, we extensively reviewed all canceled checks available. Other records they offered were briefly reviewed, but did not support the expenditures at issue.
- We appropriately referred information concerning Talent to the United States Department of Education after we learned Talent received funding, which was not disclosed in its audits, as required by federal regulations from that agency.

BL/CS/lk

File No.: 1-00-0023



NEW ORLEANS EDUCATIONAL TALENT SEARCH PROGRAM, INC.

4215 SOUTH CLAIBORNE AVENUE

NEW ORLEANS, LOUISIANA 70125

(504) 821-8844

December 22, 1999

Mr. Bill Lynch
State Inspector General
Division of Administration
State of Louisiana
P.O. Box 94095
Baton Rouge, Louisiana 70804-9095

Re: NOETSP, Inc.

Dear Mr. Lynch:

In reply to a draft report received by our Agency on December 17, 1999, the Board of Directors of NOETSP, Inc. have requested me to issue our initial response.

In the first place, we find the procedure to be very strange, namely, only affording us four working days with a deadline of December 23, 1999, to reply to a document that your staff has been working on for more than six (6) months. (e.g. the 15 plus pages of graphs and charts claim to be an accurate depiction or financial representation related to NOETSP, Inc. are themselves grossly inaccurate and require a reasonable time period to strongly refute).

Secondly, our Agency's position is that NOETSP, Inc. has accounted for every dollar of funds allocated to us by the State of Louisiana for the period of review (June 1996 through June 1999). These volumes of documents were presented to your representative, Ms. Cindy Summers, the first week of December 1999. We also offered to make these documents available to you at our site or by copy at your expense.

Thirdly, your "Hallmark" finding of \$265,000.00 in fraud through false invoicing and double billing is the most ludicrous and ridiculous accusation that could ever be imagined. This would mean that our Agency was able to get approved for payments on all those individual monthly invoices (36 each for the two state agencies over the period involved). This is notwithstanding the fact our experience has been that every state invoice ever submitted on a monthly statement was pre-reviewed and approved

prior to being paid with all proper report documentation required to be contained in the invoice package. This process and our experience has on occasion taken as much as three to four months causing much grief in operating the program.

The corollary to this accusation of course is that somebody has pocketed \$265,000.00 of these claimed fraudulent funds obtained, when in fact, this Agency struggles month to month, often by borrowing cash flow needed to remain operational with the basic program funds allocated.

Fourthly, during our thirty years of operating experience, having been audited on many dozens of occasions (including each year for each of these state programs in question), we have never encountered auditors that have operated on such a non-professional, contentious "on some other mission basis".

To start with Ms. Summers, within a few week of the six months inquiry, started contacting, writing, telephoning and emailing and even harassing other funding sources around the country (not just state agencies) making all kinds of wild and unsubstantiated accusations about the Agency. Some were written, others were verbal. Ms. Summers revealed discontent with the salaries of some of the staff members of the Agency as well as other charges.

It was at this point we concluded that we were not dealing with a normal objective review effort, but with an entity that was on a witch-hunt. It was at this point in the process that we lost confidence in the integrity of the State Inspector General's office.

Our experience in the past thirty years is that anyone interested in conducting an objective and fair review would not be going around castigating a small community based agency in the early stages in their review, while at the same time requesting that agency to provide them with additional information.

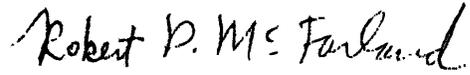
Over the past thirty years we have successfully placed over 10,000 high school youths into college and other post-secondary training programs at a cost of approximately \$275.00 per youth.

We have also been successful in operating numerous state, city and independent agency projects including computer training, job placement, academic enrichment after school, teen pregnancy prevention and drug prevention. Several thousand additional primarily low income and disadvantaged persons have benefited from our efforts.

In conclusion Mr. Lynch, you are not dealing with an entity that has ripped that state off for \$265,000.00 but to the contrary with a small community based agency that has struggled for thirty years to be an asset of an important and needed community service.

We respectfully request that the time being allowed for response to this document be extended until January 15, 2000 so that we may respond appropriately.

Yours truly,

A handwritten signature in black ink that reads "Robert P. McFarland". The signature is written in a cursive style with a large, stylized initial 'R'.

ROBERT P. MCFARLAND
Executive Director

GENERAL EXPENDITURES

Lack of checks showing payment – \$36,300

Response: N.O.E.T.S. has compiled a complete set of books which contain copies of canceled checks to support 100% of all state funds received. The books were presented to Ms. Summers, who initially agreed to review them but later declined. Ms. Summer's attempted to tie the monthly cost report expenses directly to canceled checks. This cannot be done because the reimbursements were never timely, therefore, many invoices or partial invoices were paid to a particular vendor based on cash availability.

Lack of invoices supporting cost – \$9,429

Response: N.O.E.T.S. submitted monthly cost reports to DSS for reimbursement. During the contract period in question, N.O.E.T.S. had many program monitors who were responsible for verifying the accuracy of the cost reports and approving them for reimbursement. DSS had no standard policy which outlines what documents were to be submitted with the cost report in order to be reimbursed. Consequently, each program monitor had different requirements for reimbursement, *i.e.*, some wanted invoices only, some wanted invoices and canceled checks, some wanted canceled checks only, some wanted neither, some wanted canceled checks for some line items and invoices for the other line items. N.O.E.T.S. complied with whatever the program monitor at the time required for the cost reports.

Secondly, the program records under review go back nearly five years and have been handled by many different auditors, including DSS, two independent auditors, and the I.G.'s office. This also makes it more difficult to keep track of every document.

Finally, all of the cost reports in question were reviewed and approved for reimbursement by DSS staff, which included their Accounting Division prior to being paid.

Double billed – \$7,794

Response: N.O.E.T.S. operated three different programs. The cost of some expenses, *i.e.*, rent, telephone, postage machine, Entergy, and copier rental were divided on a percentage of use basis. N.O.E.T.S. has compiled by vendor a list of canceled checks that refutes this accusation of double billing. N.O.E.T.S. was unable to provide computer-generated charts for our response because we were only given four working days to respond.

False Invoices – \$18,483

Response: Item you list in your report as false invoices were in fact purchases orders or requests for supplies from vendors that you name. N.O.E.T.S. completed purchase orders and included them in invoices so that the money would be there when they received the supplies. As you are aware, but failed to mention, DSS routinely was 90 to 120 days late in reimbursing N.O.E.T.S. payments. Many would not allow us to buy supplies on credit because of the amount of time it took to get paid. Therefore, we went to the purchaser system in an attempt to resolve that problem. It was then discovered in the case of examples you used in your exhibit 1, 2, & 3 that N.O.E.T.S. did not purchase the equipment. However, we reimbursed DSS 100% for overpayment.

Items 3 and 4, pages 7, 8, and 9

Response:

When we terminated our contract with DSS in September 1998, we had payables for accounting, taxes, and other services that had not been paid because DSS never paid its invoices in a timely manner.

Johnson Income Tax Service and Larry Jones both performed and are still due payment for the invoices you mention in your reports.

DSS withheld the \$3,200 reimbursement thru previous for accounting services to Larry Jones out of N.O.E.T.S.' final payment. Therefore, we were not paid for the accounting services that were provided to us by Larry Jones so that Mr. Jones can be paid.

Payroll taxes and related employee benefits

Response: All costs for payroll taxes and related benefits can be substantiated. Payroll taxes were not paid in a timely manner because the agency was never paid in a timely fashion.

N.O.E.T.S. was forced to make a decision on what bills to pay in order to maintain the integrity of the program. It is easy to question why certain decisions were made years ago when you don't have the responsibility of making sure staff was paid for labor and that rent, utilities, and supply bills were paid so that the program could progress smoothly in spite of inadequate cash flow.

The monthly cost reports that were submitted reflected actual costs incurred during a particular month. We did not have cash to pay all the expenses up front and wait for months to be reimbursed.

The health insurance policy is available for review. No independent contractors received health care benefits.

Retirement, unemployment, and special assessment taxes – \$24,979

Response: As mentioned above, taxes payable were put on the monthly cost reports and aid when funds were available. At the end of the contract, DSS owed N.O.E.T.S. over \$30,000, part of which would pay our tax liability and part which would pay accounts payable.

Social Security and Medicare taxes for independent contractors – \$15,551

Response: N.O.E.T.S. charged the appropriate amount of FICA, etc. where such benefits applied. The computer-generated chart on page 13 of your report reflect individuals were not hired in one case or individuals who's taxes were re-programmed to other needy areas of the program.

We would elaborate with charts also, but we were only given four working days to respond.

Health Insurance – \$9,368

Response: No independent contractors were covered under the health plan. The policy is available for inspection.

Worker's Compensation – \$6,602

Response: N.O.E.T.S. billed for the exact amount of the worker's compensation expenses and excess was reprogrammed to other cost categories. We have copies of canceled checks that support 100% of program expenses.

Payroll

Response: You report that N.O.E.T.S. has \$121,676 of undocumented payroll. N.O.E.T.S. has compiled a payroll register that shows which employees were charged to

each program and the amounts paid. This information is the set of books presented to Ms. Summers in November, 1999 that she declined to review.

N.O.E.T.S. can account for 100% of the payroll costs charged to the state programs.

The charts in your report (DHH, page 15) have people listed who did not work in the program but were listed as potential employees initial proposal.

Department of Education

Response: N.O.E.T.S. has compiled the canceled checks to document payroll expenses for this program. They were included in the books that Ms. Summers declined to review.

Department of Social Services

Response: DSS had more employees working in the program than the cost reports reflect. The payroll cost you describe in your report was used to compensate those part-time teacher assistants. This information is contained in the books that Ms. Summers declined to review.

Condition and availability of records

Response: N.O.E.T.S. was contacted and given a notice asking to conduct a "routine" review of our records. She also wanted to meet with the Executive Director. I was unavailable for an impromptu meeting. I requested that Ms. Summers come later when I would be in town. When Ms. Summers contacted me later, she tried to explain the exact nature and scope of her so-called routine review. Therefore, as a matter of procedure, I refused her access to the records until I consulted with our agency attorney. After that consultation, I gave her total access to the accounting records that had been reviewed by two (2) CPA's, the Department of Social Service's Internal Auditor, and the local accounting and program monitors who were responsible for approval cost reimbursement.

Ms. Summers and her associate spent several days reviewing canceled checks and looking over documents. After completing their review at our office, our agency's CPA, Ms. Summers and her associate made a pop visit to our office for a meeting without speaking to me and making arrangements. I was out of the office at another meeting and was paged by my assistant who informed me that they were back, wanted to meet with me and were making inquiries about personnel matters that those staff members were not involved with.

I returned to the office and met Ms. Summers, her associate and Talent Search Program Director, Warren Webb, for about an hour. It was during this meeting that Ms. Summers requested that she be provided with certain documents. We asked that she send a written list of documents that she needed and we would comply. In the meantime, Ms. Summers obtained the phone number of our federal funding officer and called alleging that we were paying ourselves salaries in the range of \$125,000 to \$150,000 per year and a host of other charges. She also led them to believe that she completed her review that had only just begun and suggested to them to investigate our agency. The request that she sent them was in a letter outlining her concerns. She requested that they forward the letter to us for our reaction.

It was at this time that we realized that Ms. Summers was dealing with us in total bad faith and was trying to destroy our agency that has been in existence for more than 30 years, an agency who has assisted 20,000 minority and economically disadvantaged youth to enter college and receive financial aid, and who has also assisted over 1,000 welfare recipients get a new start in life. We ranked number one in the state by DSS for two years in a row for our program and administrative performance

The lack of cooperation written in your report stems from the fact that we are convinced that Ms. Summers is out to hurt our agency and not help correct alleged deficiencies that our agency has.



Johnson Income Tax and Accounting Service

Since 1950

2642 Tulane Ave.
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(504) 822-3084
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JOE H. JOHNSON
Accountant

CARL R. JOHNSON, EA, MST
Accountant/Gen. Mgr.

ANDREA JOHNSON
Mgr. Asst.

DECEMBER 20, 1999

STATE OF LOUISIANA
DIVISION OF ADMINISTRATION
OFFICE OF STATE INSPECTOR GENERAL
PO BOX 94095
BATON ROUGE, LA. 70804-9095

DEAR MS. SUMMERS

RE: FILE NO. 1-999-0023

IN RESPONSE TO YOUR DRAFT REGARDING NEW ORLEANS EDUCATIONAL TALENT SEARCH PROGRAM, MY OFFICE DID PROVIDE SOME ACCOUNTING SERVICES FOR NEW ORLEANS EDUCATIONAL TALENT SEARCH PROGRAM; HOWEVER, AFTER RESEARCHING OUR RECORDS, WE HAVE NOT BEEN ABLE TO VERIFY RECEIVING PAYMENTS FOR THOSE INVOCISES YOU LISTED. THIS DOES NOT MEAN THAT THEY WERE NOT PAID. BECAUSE OF THE TIME INVOLVED, WE MAY HAVE MISPLACED RECORDS SHOWING THAT THEY WERE PAID.

IF WE CAN BE OF FURTHER HELP, PLEASE DON'T HESITATE TO CONTACT OUR OFFICE.

JOE H. JOHNSON
SENIOR ACCOUNTANT
/aj

CARL R. JOHNSON

Certified Public Accountant

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December 23, 1999

State of Louisiana
Division of Administration
Office of State Inspector General
P.O. Box 94095
Baton Rouge, La. 70804-9095

Re: File No. 1-999-0023

Dear Ms. Cindy Summers

This letter is our official response to your report on New Orleans Educational Talent Search Program (NOETS) as it pertains to Carl R. Johnson, CPA and Carl R. Johnson (the individual).

- 1) In October of 1997, I became licensed as a Certified Public Accountant in the state of Louisiana and began practicing as Carl R. Johnson, CPA. Shortly thereafter, I was contacted by Warren Webb to perform the annual financial statement audit of NOETS. Prior to my licensing as a CPA, I serve as the general manager of Johnson Income Tax and Accounting. Currently we share office space, but maintain separate clients and equipment.
- 2) According to our records, I compiled financial statements for New Orleans Educational Talent Search under Johnson Income Tax and Accounting. I also performed financial statement audits for the fiscal years ended June 30, 1997 and 1998. To our knowledge, all fees have been paid for both services.
- 3) Under the current OMB Circular A-133, Single Audit guidelines under Subpart C—Auditees § 310, a Schedule of Federal Awards Expenditures is required reflecting the total federal awards **expended** by each program. In our audits, a statement of functional expenses provided all the information required under the current guidelines.

If you have any other questions regarding this matter, please do not hesitate to contact us.

Thanks For Your Prompt Attention,

A handwritten signature in black ink, appearing to read 'Carl R. Johnson', with a stylized flourish extending to the right.

Carl R. Johnson
Certified Public Accountant