

**Office of Inspector General
Corporation for National and
Community Service**

**Audit of Costs Incurred under the
Corporation's Training and Technical
Assistance Cooperative Agreement with
America's Service Commissions
(Agreement No. 00CADC0011)**

OIG Report Number 04-23

Prepared by:

**Office of Inspector General
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Corporation for
**NATIONAL &
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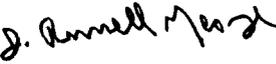
This report was issued to Corporation management on September 20, 2004. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than March 20, 2005, and complete its corrective actions by September 20, 2005. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

OFFICE OF INSPECTOR GENERAL

September 20, 2004

TO: Peg Rosenberry
Director, Office of Grants Management

FROM: J. Russell George 
Inspector General

SUBJECT: Final Audit Report 04-23, Audit of Costs Incurred under the Corporation's Training and Technical Assistance Cooperative Agreement with America's Service Commissions (Agreement No. 00CADC0011)

Attached is the Final Audit Report 04-23, *Audit of Costs Incurred under the Corporation's Training and Technical Assistance Cooperative Agreement with America's Service Commissions* (Agreement No. 00CADC0011).

If you have any questions pertaining to this report, please contact me at extension 390.

Enclosure

cc: Andrew Kleine, Acting Chief Financial Officer



**Audit of Costs Incurred under the Corporation's
Training and Technical Assistance Cooperative Agreement with
America's Service Commissions
(Agreement No. 00CADC0011)**

Ms. Margaret Rosenberry
Office of Grants Management
Corporation for National and Community Service
1201 New York Ave., NW.
Washington, DC 20525

Dear Ms. Rosenberry:

The Office of Inspector General (OIG) performed an audit of costs incurred by America's Service Commissions (ASC) under the Corporation's Cooperative Agreement No. 00CADC0011 for the period June 1, 2000, through December 31, 2003. The primary objectives of the audit were to express an opinion on whether the Schedule of Incurred Costs fairly presents expenditures incurred under this award for the period under audit, in conformity with the terms and conditions of the cooperative agreement. In planning and performing the audit, we also considered the recipient's internal controls over financial reporting and its compliance with applicable Federal laws, regulations, and award provisions. We conducted our audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States.

The Corporation for National and Community Service (Corporation) and ASC provided written comments on our draft audit report. We considered these comments in finalizing the audit report and have included them as appendices to the report.

Results in Brief

The Office of Inspector General's audit showed that, after receiving \$1.2 million of Federal grant funding over a three-and-a-half year period, ASC had not established and maintained the financial systems and management controls required to properly account for Federal funds. As a result, we were unable to express an opinion on the costs incurred as recorded in ASC's general ledger and summarized in the Schedule of Incurred Costs (included as Schedule A of this report). While the audit noted that ASC conducted extensive training activities under the cooperative agreement, we are questioning \$582,131 of the \$1,188,455 of expenditures incurred under the agreement due to poor accountability of Federal funds and noncompliance with Federal cost principles. The \$582,131 of questioned costs includes salary allocated to the cooperative agreement without required supporting documentation, extensive consulting costs, duplicative reporting of certain costs, and several instances of lobbying costs.

An exit conference was held with representatives of ASC and the Corporation on May 28, 2004. ASC provided written comments on information presented at the exit conference, which were considered in the preparation of the draft report. The official ASC response and the Corporation response to the draft audit report are included as Appendices A and B, respectively.

In response to the audit, the Corporation has suspended funding to ASC and will review the questioned costs along with ASC's comments. The Corporation also revised several control procedures. Specifically, the Office of Grants Management intends to: (1) more closely monitor all first-time recipients of Federal grant funding; and (2) document its review of financial reports when determining whether recipients are required to undergo audits in accordance with Office of Management and Budget Circular A-133. To further strengthen related controls, the Corporation is recompeting its training and technical service cooperative agreements later this year, with accountability as a key selection factor. Future cooperative agreements will also incorporate more stringent budget plans that are directly linked to performance objectives and supported by detailed periodic expense reporting.

In its response to the draft audit report, ASC management acknowledged certain deficiencies in the implementation of its management control systems and advised that ASC's Executive Director had recently resigned. ASC noted that management control systems had been established and codified as formal policy, and it had established a detailed corrective action plan to address systemic deficiencies found during the audit. The management of ASC concurred with the recommended disallowance of \$159,488 in grant costs and provided additional documentation and explanations regarding the remaining questioned costs. Management of ASC also proposed \$55,137 in additional expenses based on a reallocation of certain administrative costs. As part of the audit resolution process, the Corporation's Office of Grants Management will determine whether the remaining questioned costs are allocable and allowable under the cooperative agreement.

Background

America's Service Commissions is a nonprofit organization with tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. Its stated purpose is to represent, strengthen, and advocate for the State commissions established under the National and Community Service Act of 1990, as amended, as these commissions administer each State's AmeriCorps programs. To accomplish this purpose, ASC receives the majority of its funding from the Corporation, with additional support provided by various foundations.

The Corporation provides financial support to ASC both directly and indirectly. The direct support is provided through a Corporation-awarded cooperative agreement.¹ The indirect support is provided through Corporation-funded membership fees paid to ASC by State commissions. The cooperative agreement restricts associated funding to specific agreed-upon purposes, while the income from Corporation-funded membership fees is administered separately as unrestricted funding. We limited our audit to funding provided under the cooperative agreement.

In June 2000, the Corporation awarded a cooperative agreement to ASC to support training and technical assistance of State service commissions throughout the United States. This training is largely designed as a peer-to-peer program, where commissioners or State commission staff with specific expertise instruct their counterparts in other State commissions. Under the cooperative agreement, ASC has developed standard curricula, identified individuals to serve as trainers, established a mechanism for State commissions to request specific training, and paid associated travel costs. The program has also evolved to include additional training components, such as leadership development programs and regional and national training conferences.

The Corporation awarded the cooperative agreement under Subtitle H, *Investment for Quality and Innovation*, of the National and Community Service Act of 1990, as amended.² Subtitle H funding is intended to improve the quality of national service programs, as well as support innovative and model programs. As of December 31, 2003, obligations and expenditures under this award totaled \$1,314,902 and \$1,188,455, respectively.

Office of Inspector General Report on the Schedule of Incurred Costs

We audited costs incurred by ASC under Corporation Cooperative Agreement No. 00CADC0011 for the period June 1, 2000, through December 31, 2003. These amounts are summarized in the Schedule of Incurred Costs shown below. Accounting for and reporting these costs is the responsibility of ASC management.

America's Service Commissions failed to establish and maintain adequate financial systems and management control over: (1) recording transactions in the general ledger; (2) assigning costs to specific funding sources and cost objectives; and (3) assessing expenditures for consistency with applicable Federal cost principles³ and the cooperative agreement's terms and conditions. As a result, the audit questioned \$582,131 of the \$1,188,455 reported as incurred under the award. Details of these questioned costs and associated control deficiencies are presented in our accompanying Report on Internal Controls and Compliance.

¹ Cooperative agreements are used to award Federal funding when substantial involvement is anticipated between the Federal agency and the recipient during performance of the contemplated activity.

² 42 U.S.C. § 12653.

³ The cost principles for nonprofit organizations are set forth in Office of Management and Budget Circular A-122.

We are not able to express an opinion on the Schedule of Incurred Costs shown below because ASC did not establish and maintain adequate financial systems and management controls over its recording of transactions. Through alternative auditing procedures, we could not ensure that the costs, as recorded, were allowable under the cooperative agreement's provisions without examining virtually all individual costs allocated to the cooperative agreement. For those reasons, no opinion on the Schedule of Incurred Costs is expressed.

**Schedule of Incurred Costs
Cooperative Agreement No. 00CADC0011 for the Period June 1, 2000
through December 31, 2003**

Cost Category	Budget	Actual	Questioned	Report Reference
Salaries & Benefits	\$ 412,157	\$ 426,446	\$ 426,446	Finding No. II
Travel & Conferences	531,400	446,846	29,378	Finding Nos. III, IV, VII & VIII
Contracted Services	61,979	117,594	65,462	Finding No. VI
Website Development	27,000	66,175	55,880	Finding Nos. III & V
Other Operating Costs	155,761	131,394	4,965	Finding No. III
Total	\$ 1,188,297	\$ 1,188,455	\$ 582,131	

**Office of Inspector General Report on
Internal Controls & Compliance**

In planning and performing our audit, we obtained an understanding of ASC's internal control over financial reporting to determine audit procedures for the purpose of expressing our opinion on the financial schedule and not to provide assurance on internal control over financial reporting. We noted, however, certain matters involving internal control over financial reporting that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect ASC's ability to record, process, summarize, and report data in its financial schedules that is consistent with the assertions of ASC's management.

A material weakness is a condition in which the design or operation of one or more of the internal control elements does not reduce, to a relatively low level, the risk that material amounts on the financial schedules being audited may be misstated and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that would be considered material weaknesses. We consider the reportable conditions in Finding Nos. I, II, and III below to be material weaknesses.

As part of obtaining reasonable assurance on whether the financial schedule is free of material misstatements, we also performed tests of compliance with certain provisions of laws, regulations, and the cooperative agreement. Noncompliance with these provisions could have a direct and material effect on the determination of financial schedule amounts. Providing an overall opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. Results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. These are included as Finding Nos. I, II, III, and IV below.

Management Control Deficiencies, Instances of Noncompliance, and OIG Recommendations

I. Financial Management Systems

Federal grant recipients are required to maintain financial systems and management controls sufficient to ensure accurate and verifiable accountability over Federal funding. For the entire period under audit, ASC did not establish and maintain such systems. Instead, ASC management placed a low priority on complying with the requirements that accompany the receipt of Federal grant funds. The management of ASC stated that they did not understand applicable accountability standards and received erroneous advice from their external accountants. As a result, financial reporting of expenditures under the cooperative agreement could not be reconciled with the underlying accounting records, non-grant costs were charged to the cooperative agreement, and a significant portion of claimed expenditures could not be verified through independent audit.

Office of Management and Budget (OMB) Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, sets forth standards for financial management of nonprofit organizations, such as ASC, that receive Federal grant funding. These recipients must maintain accurate, current, and complete records of the financial results of each Federally-sponsored project or program. The recipient's financial management system must identify the source and application of funds, provide effective control over and accountability for all funds, compare outlays with budget amounts for each award, and document procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of applicable Federal cost principles and the terms and conditions of the award.

The financial systems and management control processes of ASC did not meet Federal standards required by OMB. Specifically, ASC did not:

- (1) accurately allocate costs among funding sources and respective cost objectives;
- (2) provide accurate, supported, and auditable expenditure reports for its Federally-sponsored program; and
- (3) maintain effective controls to ensure the reasonableness, allocability, and allowability of costs incurred under the cooperative agreement.

Specific instances of these conditions include the absence of required support for salary costs allocated to the cooperative agreement, the duplicate reporting of expenditures to the Corporation and another funding source, and extensive budget overruns for consulting costs. These are described in more detail later in this report.

As a result of system and control deficiencies, a substantial portion of the costs attributed to the Corporation's cooperative agreement are questioned in this audit report. Moreover, we are unable to express an opinion on the Schedule of Incurred Costs. Therefore, the Corporation lacks necessary assurances that funds provided to ASC were used for allowable purposes, as specified under the terms and conditions of the cooperative agreement. Given ASC's legislative advocacy activities, this lack of segregation and accountability over Federal grant funds creates additional concerns and risks of misuse.

As discussed below, the cause of these systemic problems extends back to the inception of the cooperative agreement in June 2000. Noncompliance with auditing requirements established by OMB, as well as weak monitoring by the Corporation's Office of Grants Management, allowed the problems to perpetuate without timely corrective action.

Lack of Financial Systems

When the Corporation originally awarded the cooperative agreement in 2000, ASC's financial management and accounting was performed by another nonprofit organization⁴ that served as its fiscal agent (i.e., ASC's staff implemented programmatic aspects of the cooperative agreement, while fiscal management was performed by an established organization under a separate administrative services agreement with ASC). The Corporation assessed the financial management capabilities of this fiscal agent during the award process and concluded that it had the capacity to manage, in accordance with OMB standards, the Federal funds that would be made available to ASC under the cooperative agreement.

Subsequent to the award of the agreement but prior to drawing funding, ASC advised the Corporation of its intention to manage and account for the grant funding through ASC's newly established offices in Washington, D.C. The Corporation's award

⁴ ASC's original fiscal agent was the Texas Foundation for Volunteerism & Community Service.

files show that the grant officer requested ASC to perform a self-assessment and certification of its financial and accounting systems prior to approving this change in fiscal management. ASC completed the Corporation's detailed Financial Management Survey, acknowledging that all required systems and controls were in place, and certified its capability to manage the funds in accordance with required standards. ASC also provided the grant officer a copy of the policies and procedures that it would follow in administering its personnel and programs.

The audit showed that ASC never implemented the key financial systems and controls that it certified to the Corporation and documented in its policies and procedures manual. For example, ASC certified that its accounting system: (1) completely and accurately tracked the receipt and disbursement of funds by each grant or funding source; (2) recorded actual grant costs according to categories of the approved grant budget and provided current and complete disclosure of grant costs; and (3) reported salary allocations by grant or project and supported these allocations by time and activity reports accounting for 100 percent of total hours of employment. However, none of these assertions was correct; such systems and procedures were, in fact, never implemented.

In response to these findings, ASC advised that the Financial Management Survey provided to the Corporation was intended to report on the financial capabilities of the prior fiscal agent in Texas, not the capabilities of the newly established office in Washington. This is an implausible assertion because the second assessment was specifically intended to determine the financial capabilities of ASC's newly established Washington office. Management at ASC also explained that key procedures contained in the policy and procedures manual that it provided to the Corporation's grant officer were not implemented because: (1) ASC officials were fully occupied in carrying out activities under the grant; (2) ASC officials did not fully understand financial management requirements for Federal grant funding; and (3) ASC management relied on guidance from outside accountants. While we note these explanations, all Federal grant recipients have the basic responsibility to ensure accountability over Federal funding. In the case of ASC, where national representation and legislative advocacy are primary missions of the organization, this lack of accountability over restricted funding sources and associated expenditures results in an unacceptable risk of misuse of grant funds for unallowable advocacy work.

The Corporation's grant officer also should have done more to ensure accountability of these Federal funds. Corporation procedures require that cognizant grant officials assess a new recipient's financial management capabilities, systems, and controls. The recipient organization provides a self-assessment and certification in a standardized Financial Management Survey form. This survey is to be supplemented by additional information, clarification, or technical assistance, as deemed necessary by the grant officer.

On ASC's survey form, the Corporation's grant officer noted in the grant files that ASC still needed to establish additional policies and procedures required for recipients of Federal funds. This indicates that the Corporation was aware that ASC had not yet

implemented the required controls for Federal funds in its Washington office. Despite this knowledge, there is no indication that the Office of Grants Management followed up to verify that acceptable policies and procedures to account for Federal funds were ever implemented. A site visit would have uncovered ASC's lack of adherence to OMB standards for internal controls. Though the Corporation's risk-based monitoring process did not require such a site visit, this lack of oversight is particularly noteworthy given that ASC's offices are located only two city blocks from the Corporation's office.

In response to the draft report, the Corporation has changed its policy. All new grantees are considered "High Risk" and will receive a follow-up site visit.

Failure to Ensure Required Audits

The Single Audit Act Amendments of 1996⁵ and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, establish annual audit requirements for such organizations receiving Federal funding. Both require that recipients with annual Federal expenditures in excess of \$300,000 be audited to ensure the accuracy of their financial reporting, the adequacy of their internal controls, and compliance with applicable laws, regulations, and provisions of their Federal awards.

While significant variances exist between ASC's financial reporting to the Corporation and its internal books and records, its actual drawdowns of Federal funds and expenditure reports to the Corporation show that ASC expenditures exceeded \$300,000 for 2002 and 2003. Expenditures for calendar years 2000 and 2001 appear to fall below the threshold for mandatory audits.

However, no audits of ASC's accounts, financial statements, or expenditure reporting were conducted from inception of the program in 2000 through December 31, 2003. Thus, ASC has not complied with the Single Audit Act Amendments of 1996 and OMB Circular A-133 for 2002 and will likely not comply for 2003 (this latter audit is required to be completed by September 30, 2004).

Management of ASC explained that they were unfamiliar with these Federal audit requirements. They further contended that, while expenditures reported to the Corporation for 2002 clearly exceeded the \$300,000 threshold, their internal books and records, upon reexamination and revision, may show a figure below that threshold. Notwithstanding the dollar threshold, ASC recently advised the OIG that it intends to audit its general ledger and restated financial reports for the entire grant period in order to substantiate costs incurred under the cooperative agreement. Management of ASC also pointed out that it was already in the process of engaging accounting and auditing services when the OIG initiated this audit of costs incurred under the cooperative agreement.

⁵ 31 U.S.C. § 7502(a).

Again, the Corporation's grant officer should have done more to ensure accountability over these Federal funds. Grant officers are responsible for reviewing funding levels and monitoring required audit coverage of grants and cooperative agreements. A key control in this monitoring process is that each time incremental funding is made available under the grant, the cognizant grant officer reviews funding levels and documents in the grant file whether an audit is required. If an audit is required, the grant officer must determine whether it has been completed and whether the recipient has satisfactorily addressed problems identified by the audit.

The Corporation grant officer responsible for the ASC award consistently noted in the grant files that funding levels did not meet the threshold for mandatory audit requirements, even though funding levels clearly exceeded the \$300,000 threshold in 2002 and 2003. This error demonstrates the need for Corporation management to reemphasize the importance of this requirement to the cognizant grant officer.

As a result of neither ASC nor the Corporation ensuring required audit coverage, ASC's weak financial management and accounting systems were not identified and corrected early in the program's implementation.

Recent Attempts to Correct Accounting Records

In January 2004, the OIG notified ASC that it intended to audit costs claimed for reimbursement under the cooperative agreement. The ASC management responded that it was undertaking a major review and revision of its books and records extending back to the inception of the cooperative agreement. Management of ASC further advised that the expenditure reports submitted to the Corporation should be disregarded and requested that the proposed audit be postponed until the accounting revisions were completed. After meeting with ASC officials and representatives of their accounting firm, the OIG agreed to delay this audit for one month (resulting in a seven-week lapse between announcement of the audit and commencement of fieldwork) to allow ASC to internally review and revise its accounts.

The financial reports, associated general ledger, and supporting records presented to the OIG auditors showed that the internal review was not completed with sufficient accuracy to produce a materially correct and auditable accounting of Federal expenditures. ASC management attributed these accounting errors and misallocations of expenditures to poor advice from a prior accountant and inadequate understanding of the default settings in the automated accounting system. ASC also maintained that the OIG provided insufficient time to revise ASC accounts and prepare for an audit. Management of ASC also noted the progress made prior to the OIG audit, such as reconciling bank records, training personnel in the use of an automated accounting system, preparing accrual adjustments for income and expenses, creating journal entries supporting payroll and benefits costs, and reviewing and coding American Express charges. The OIG notes these actions as steps towards improvement. Yet, the fact that ASC has drawn \$1.2 million of Corporation funding over a period of three-and-a-half years-without producing

supported and auditable financial reports-shows that ASC lacks the financial management capabilities to administer Federal grant funding.

Management of ASC proposes developing a corrective action plan in order to overcome its management control deficiencies. However, its history of correcting such deficiencies is not promising when one considers the organization's incorrect assertions that its financial management systems fully met OMB standards, followed by its failure to implement documented policies and procedures, its noncompliance with audit requirements, and its inability to correct known deficiencies prior to this audit.

- 1. We recommend that the Corporation's Office of Grants Management require America's Service Commissions to:**
 - 1.1 strengthen its financial systems to produce materially correct and auditable financial reports;**
 - 1.2 prepare a final accounting of its expenditures under the Corporation's cooperative agreement that reconciles to the organization's general ledger; and**
 - 1.3 undergo an audit of the entity's financial statements and Federal grant expenditures in accordance with OMB Circular A-133.**

In response to the draft audit report, ASC provided a detailed narrative of the evolution of its accounting systems and procedures, as well as an explanation of the origins of various deficiencies. To address systemic deficiencies, ASC is developing comprehensive grant accounting procedures. It is also working with a public accounting firm to ensure that improved procedures are correctly implemented. The management of ASC advised that their public accountants stated that grant expenditures during 2002 did not reach the \$300,000 audit threshold established in OMB Circular A-133. Thus, no audit was required for that year and none is delinquent. Since both the general ledger and ASC's Financial Status Reports show 2002 grant expenditures in excess of \$300,000, the basis for this conclusion is not clear. Nevertheless, ASC intends to engage the public accountants to perform a complete audit of its financial reports and grant expenditures extending back to the inception of the grant.

II. Unsupported Allocations of Salaries and Benefits

For the period June 1, 2000, through December 31, 2003, salary costs charged to the cooperative agreement totaled \$426,446. These costs, amounting to 36 percent of total claimed grant costs, comprised a partial allocation of salaries and benefits for ASC's three staff members and its Executive Director.

OMB Circular A-122 sets forth standards for timekeeping documentation when allocating salary costs to Federal grants. These requirements include periodic reports for each individual employee whose compensation is charged in whole or in part to Federal

funding, and differentiating between each employee's grant and non-grant activity to support an allocation of salary based on actual activities rather than on budget estimates of effort. The reports must reflect total activity for which the employees are compensated, must be signed by the individual employee or by a supervisor with first-hand knowledge of the employee's activities, and must be prepared at least monthly.

Instead of complying with this requirement, ASC charged salary costs to the Corporation's cooperative agreement based on the budgeted salary allocations (i.e., ASC charged the grant 100 percent of the budgeted salary allocations, with no further effort to determine and document actual levels of effort applied to activities authorized under the cooperative agreement). For example, the authorized budget for 2003 estimates a 90 percent level of effort for three staff members and a 10 percent level of effort for the Executive Director on Corporation-supported activities. The recipient charged the grant these pre-determined budget allocations of salary and benefits without regard to actual activities.

Using a budgetary allocation of salary costs and not maintaining required activity and timekeeping records renders the salary expenses unauditible. This practice is expressly prohibited under OMB standards. Attempts to retroactively recreate activity reports or other accounting of these Federal grant funds extending back to the inception of the award in 2000 would be an uncertain and subjective exercise. While noting that our review of records and discussions with personnel show a substantial level of effort by ASC staff in support of award activity, the audit is questioning all salary and benefits charged to the grant, totaling \$426,446, due to the absence of required procedures and documentary support of the actual levels of effort.

The origins of ASC's unsupported allocations of salaries and benefits dates back to 2000. In 2000, ASC certified that it had a salary allocation system in place that complied with cost principles set forth in OMB Circular A-122. ASC also provided the Corporation's grant officer with a copy of its procedures manual, which required employee activity reports to be prepared. However, these required procedures were never implemented. Furthermore, the Corporation's program monitoring did not identify the problem, which prevented timely corrective action.

In January 2004, subsequent to the period under audit, ASC did adopt timekeeping procedures to comply with OMB requirements. Nevertheless, more than three years of salary and benefits costs lack documentation to support their allocation to the Federal award.

2. We recommend that the Corporation's Office of Grants Management:

- 2.1 require America's Service Commissions to establish and maintain procedures and underlying documentary records supporting its allocation of salary and benefits costs to the Corporation's cooperative agreement and other cost objectives in accordance with OMB Circular A-122; and**

2.2 resolve the \$426,446 of salary and benefits costs questioned by the audit.

In its response to the draft audit report, ASC stated that, while time sheets and activity reports were not prepared from 2000 through 2003, sufficient documentation of work effort exists. It provided copies of affidavits by staff whose salaries were partially allocated to the Corporation's cooperative agreement, together with individual calendars and other documentation. While this documentation does not meet the requirements of OMB Circular A-122, the Corporation's Office of Grants Management is responsible for reviewing these records and resolving the questioned salary costs. According to ASC's response, it has also introduced new timekeeping and activity reporting procedures designed to ensure that future salary costs are supported in accordance with OMB cost principles for nonprofit organizations.

III. Inaccurate and Duplicative Expenditure Reporting

Recipients of Federal grants are required under OMB Circular A-110 to maintain accurate, current, and complete records of the financial results of each Federally-sponsored project or program. The recipient's financial management systems must identify the source and application of funds, provide effective control over and accountability for all funds, and compare outlays with budget amounts for each award. In conjunction with these requirements, recipients also must submit Financial Status Reports (SF-269) to the Corporation, reporting periodic and cumulative expenditures of grant funds. These Financial Status Reports are a primary source of information for Corporation officials in their financial monitoring of funding recipients.

ASC did not maintain an integrated and self-balancing system of accounts that allocated expenses among funding sources and supported its reporting of expenditures. As a result, its financial reporting to the Corporation was inaccurate, and certain costs were reported to both the Corporation and a non-Federal funding source.

Inaccurate Expense Reporting

As shown in the table below, the Financial Status Reports submitted by ASC to the Corporation bore little relationship to the organization's general ledger. The management of ASC recognized this deficiency and advised at the outset of the audit that all Financial Status Reports should be disregarded by the auditors. As an explanation, the Executive Director of ASC stated that he had used his own methodology in preparing the Financial Status Reports with the intention of deliberately undercharging the Corporation's cooperative agreement in order to avoid any potential overcharges or unallowable costs. Nevertheless, ASC advised that it would seek reimbursement for all expenditures under the Corporation's cooperative agreement as recorded in its general ledger.

Table I: Comparison of General Ledger And Financial Status Reports		
<u>Period</u>	<u>General Ledger Expenditures</u>	<u>Financial Status Report Expenditures</u>
7/1/00 - 3/31/01	\$ 108,083	\$ 3,094
4/1/01 - 9/30/01	158,283	222,009
10/1/01 - 3/31/02	143,212	98,021
4/1/02 - 9/30/02	197,533	312,600
10/1/02 - 3/31/03	191,277	137,400
4/1/03 - 9/30/03	332,011	198,850
Totals	\$ <u>1,130,399</u>	\$ <u>971,974</u>

Duplicative Financial Reporting

The W.K. Kellogg Foundation (Kellogg) granted \$242,250 to ASC in 2002 and 2003 to support ASC's training activities, including a redesign of its training curriculum with the support of specialized consultants.

The auditors noted a number of cost items charged to the Corporation's cooperative agreement that were clearly identified in the supporting documentation as expenses under the Kellogg grant. When questioned about this, ASC management explained that the two grants had a parallel and mutually supportive objective and that these costs were correctly allocated to the Corporation's grant.

To verify this assertion, the auditors requested copies of the Kellogg grant agreement, as well as ASC's performance and financial reports to Kellogg. ASC management only provided its financial report. In this document, dated July 2003, ASC's Executive Director certified to Kellogg that ASC had spent \$95,074 of the Kellogg funding, effectively liquidating that portion of the grant funding from Kellogg's perspective.

However, ASC's general ledger showed that only \$22,547 of expenses were charged to the Kellogg grant for that period, and the remaining \$72,527 was largely charged to the Corporation's cooperative agreement. This \$72,527 variance between

ASC's general ledger and its financial report to Kellogg essentially means that \$72,527 was liquidated against Kellogg's records and, at the same time, charged to the Corporation's cooperative agreement and other funding sources.

When presented with this information, ASC management advised that, upon further review, \$70,400 of the expenditures that had been reported to Kellogg had been recorded in the general ledger as expenses to be reimbursed by the Corporation under its cooperative agreement. These duplicative expenses are as follows:

Website Costs	\$ 40,690
Consulting Fees	9,847
Travel Expenses	14,898
Office Supplies	4,965
Total	\$ 70,400

ASC management intends to reverse this \$70,400 from the Corporation's cooperative agreement, explaining that this was simply a coding error. However, these inconsistencies between ASC's initial assertions, its financial reporting to its funding sources, and the underlying books and records, reinforces our concern about the capability of this recipient to administer Federal grant funding.

3. **We recommend that the Corporation's Office of Grants Management:**
 - 3.1 **require America's Service Commissions to reconcile expenditure reports submitted to various funding sources with the entity's general ledger in order to identify and correct any duplicate reporting of expenditures; and**
 - 3.2 **resolve the \$70,400 of travel, office supplies and website costs questioned by the audit.**

In its response to the draft audit report, ASC provided documentation showing that it reversed \$70,400 of expenditures from the Corporation's cooperative agreement subsequent to our audit fieldwork. The management of ASC also advised that this issue arose as the result of a coding error and did not involve the duplicate recording of expenses. We do not agree with this characterization because the reporting of these expenses to two external funding sources – in one case, reporting them to Kellogg as an expense liquidating Kellogg grant funding and, in another case, reporting them as expenses to be reimbursed under the Corporation's cooperative agreement – is clearly duplicative.

IV. Unallowable Lobbying and Legislative Advocacy

OMB cost principles prohibit the use of Federal grant funds for lobbying activities. Such activities are broadly defined in OMB Circular A-122 to include:

Any attempt to influence: (i) the introduction of Federal or State legislation; or (ii) the enactment or modification of any pending Federal or State legislation through communication with any member or employee of the Congress or State legislature . . . , or by preparing, distributing or using publicity or propaganda, or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fundraising drive, lobbying campaign or letter writing or telephone campaign.

Due to ASC's role in national representation and advocacy, the audit considered ASC's compliance with this lobbying restriction, including the risk of unintentional noncompliance attributable to the organization's financial management weaknesses.

The Executive Director of ASC asserts that ASC does not engage in lobbying. He advised that neither he nor his staff has approached Congress other than in brief introductions when the Executive Director assumed his responsibilities in 2000. The Executive Director acknowledged that ASC supports its members' efforts to educate lawmakers on issues facing the State commissions, and that ASC provides training to ensure that State commission personnel are aware of the legal constraints on legislative advocacy.

The audit identified several instances of lobbying and legislative advocacy that are not allowable under OMB Circular A-122. These include costs for travel, publications, salary, and website material, as discussed below.

Travel Expenses

On September 3, 2003, the Chairman of ASC's Board of Directors flew from Kalamazoo, Michigan, to Washington, D.C., returning home to Michigan the following day. On September 4th, this individual served as a moderator in a public rally in Washington sponsored by the Save AmeriCorps Coalition. This event, called the *Voices for AmeriCorps: 100 Hours of Testimony*, intended to influence the introduction, enactment, or modification of pending legislation.⁶ ASC charged the \$372 round-trip airfare to the Corporation's cooperative agreement.

⁶ As stated by a moderator at the outset, this public rally was held in Washington, D.C., with "three major purposes in coming here over the next 100 hours. The first is the most urgent and that is for this Congress and this White House to get their act together and pass a bill which helps to provide \$100 million for AmeriCorps for this current fiscal year. Nothing is more urgent. The second goal is more intermediate in nature, and that is for the Congress and the President to come together and agree upon a request the President has twice made of the Congress and that is to expand the number of AmeriCorps positions to 75,000 a year and make this a long-term foundation for the young people of this country. The third, and it is no less important, is the long-term objective. And that is what the organizers of this gathering has started to do. To create a movement on behalf of national service."

When this questionable use of Federal funds was brought to the attention of ASC management, ASC claimed that the Chairman's one-day trip to Washington mostly involved the development of training for State commissions and would therefore be an allowable cost. The management also stated that the Chairman's participation in this event lasted no more than 90 minutes, suggesting that a prorating of the travel expenses to the cooperative agreement might be appropriate. However, ASC did acknowledge that, because this type of activity could have the appearance of lobbying, it would develop procedures to have such costs charged to other funding sources in the future.

Publication Expenses

In July 2003, ASC charged the Corporation's cooperative agreement \$809 for publishing 300 copies of a 38-page Congressional directory, including names of members of Congress, key committee personnel, office addresses, and telephone numbers. The directory was distributed to State commission personnel attending ASC conferences. Distribution of this material has the implied purpose of facilitating or encouraging individuals to contact legislators, and we conclude that this cost is unallowable under the lobbying provisions of OMB Circular A-122.

In response to this finding, ASC contended that printing and distributing a Congressional directory is not an implied lobbying activity because it does not involve specific legislation. They asserted that the Congressional directory was distributed to State commission personnel during ASC's training activities rather than in conjunction with any specific legislation.

We disagree with ASC's position. As noted, OMB Circular A-122 defines lobbying broadly to include any attempt to influence legislation by urging a segment of the public to participate in any lobbying, letter-writing, or telephone campaign. Publication of Congressional directories, in our opinion, is included in the broad definition. As such, using Federal funds to pay for publishing this material is unallowable.

Also in July 2003, ASC charged the Corporation's cooperative agreement \$653 for publishing 170 copies of a 40-page document entitled *Educating Lawmakers*. This document provided guidance on corresponding and meeting with members of Congress and staff to communicate views on pending legislation. It also provided guidance on establishing grass-roots "education" initiatives. In conjunction with the distribution of this manual, ASC provided training to State commissioners in a one-hour session entitled *Coming to a Legislature Near You: State and Federal Advocacy Essentials*. This training was provided as part of a larger conference covering a range of subjects.

The audit questions these costs as prohibited lobbying expenses. Management of ASC refuted this finding, pointing out that not all contacts with Congress constitute lobbying. According to ASC, it instructs State commission personnel in educating lawmakers, without encouraging them to lobby with regard to general or specific

legislation. Officials of ASC maintained that their training was intended to make commission personnel sensitive to prohibited activities in order for them to understand and avoid violations of anti-lobbying provisions.

Notwithstanding ASC's comments, the publication itself, *Educating Lawmakers*, was a broader reference guide that focused on effectively influencing lawmakers, and we are therefore questioning that cost as unallowable under the lobbying prohibitions set forth in OMB Circular A-122.

Salary Expense

As noted earlier, ASC failed to prepare required employee activity reports for the accurate allocation of salary costs to the cooperative agreement. Without such records, the OIG cannot determine whether ASC personnel engaged in lobbying activities, and then allocated those salary costs to the cooperative agreement. Stated another way, any salary costs allocable to lobbying activities could not be identified based on a review of payroll and activity reports because required systems were never established. In the absence of documented employee activity reports, the OIG interviewed ASC staff whose salary costs were charged to the grant. The ASC staff only brought a single instance of lobbying activity to our attention. However, interviewing employees provides only limited assurance that all such matters would be brought to our attention.

The single instance of lobbying activity brought to our attention by ASC staff concerned one employee who spent a considerable portion of five to seven workdays supporting the September 2003 *Voices for AmeriCorps* event. The ASC employee's work on the event significantly exceeded the 10 percent of the individual's workday not charged to the Corporation's cooperative agreement. This means that a portion of her Federally-funded salary costs directly supported the event. The employee's salary and benefits total approximately \$26 per hour. For illustrative purposes, if this employee spent 60 percent of her time working on the event for five days at \$26 per hour, the questionable salary costs would be approximately \$520. Because all salary costs are already questioned in Recommendation No. 2, we are not questioning this amount below.

In response, ASC stated that it does not consider this support to be lobbying within the definition of the OMB cost principles. The officials elaborated that this employee arranged the scheduling, recording, and video conferencing capability for participants commenting on the impact of cuts to the AmeriCorps program. ASC stated that the video was never sent to Congress. Rather than an effort to influence Congress, ASC explained that this was an opportunity for State commissions to vent their frustration with regard to program funding cuts.

Given that the *Voices for AmeriCorps* event was clearly a public rally intended to influence pending legislation, namely the legislation that appropriates funding to the Corporation, this attempt to segregate participation and support for the event into allowable and unallowable activity is not persuasive.

Attempting to further justify the employee's work on the *Voices for AmeriCorps* event, ASC stated that it would be inappropriate to view the 90 percent allocation of the employee's compensation to the cooperative agreement as a daily allocation. Instead, ASC officials suggested that the salary allocation be made on an annual basis. For example, if an employee devoted 100 percent of a given period to the cooperative agreement, there would then be a period when a less than 90 percent level of effort would be acceptable.

This latter comment demonstrates the purpose behind OMB requirements for contemporaneous records allocating each day's work between grant and non-grant cost objectives. If one were to allocate compensation costs on an annual basis, no daily records would exist, and there would essentially be no meaningful accountability over salary allocations of specific activities on specific days.

Other Lobbying Costs

Management of ASC maintains a website providing a range of information and resources to viewers. All costs associated with website development were charged to the Corporation's cooperative agreement. The website includes a model letter to Congress regarding increasing funding for AmeriCorps, together with a request to "please encourage everyone you know to e-mail this to their Senators." While this constitutes lobbying under OMB cost principles, actual costs attributed to this portion of the website would likely be immaterial. However, a broader discussion of website costs is contained in the following finding.

Conclusion on Lobbying Costs

The relatively low dollar amount of these questioned lobbying costs, together with ASC's responses when queried on the individual costs, indicates the recipient's insensitivity to an issue of great concern to the Corporation. We believe that ASC certainly could have funded these expenses through non-Federal sources. However, the fact that these costs were not carefully segregated from Federal funds heightens our concerns over this recipient's ability to manage Federal grant funds.

- 4. We recommend that the Corporation's Office of Grants Management:**
 - 4.1 resolve the \$1,834 of questioned lobbying costs; and**
 - 4.2 require America's Service Commissions to develop procedures for identifying and segregating lobbying costs, as defined in OMB Circular A-122, to ensure that such costs are not charged to Federal grant funds.**

In response to the draft audit report, ASC claims that it did not engage in lobbying activities as defined in OMB Circular A-122. However, ASC has agreed to remove the above expenses from the Corporation's grant costs and implement procedures to clearly

prevent any potential charging of unallowable lobbying costs. The full text of ASC's comments is included in pages 18 through 20 of Appendix B. In its comments, ASC claims that the intended purpose of these costs was not to influence legislation. We have reviewed ASC's explanation and find it unpersuasive. Therefore, the OIG continues to characterize these costs as unallowable lobbying expenses as defined in OMB Circular A-122.

V. Unallocable Website Development Costs

The authorized budget for the Corporation's cooperative agreement with ASC included \$27,000 to assist the recipient in developing its website. However, ASC allocated substantially more than this budgeted amount to the cooperative agreement, charging all website development costs – totaling \$77,740 – to the Corporation's cooperative agreement, as well as \$5,140 of website maintenance costs.

Examination of this overrun raised questions about the allocability of these costs to the cooperative agreement. The website contains a wide range of information and resources for State commissions. Some content directly relates to peer-to-peer training activities. Other content, such as general information on volunteer issues and legislative updates, assists State commissions in carrying out their responsibilities, but is not necessary to accomplish the purposes of the cooperative agreement. Content such as the model letter to Congress, mentioned in the previous section of this report, is clearly unallocable member-oriented material, and associated costs must be segregated from the cooperative agreement.

Management at ASC initially asserted that these costs were correctly charged to the Corporation's cooperative agreement. The Executive Director explained that the increase in website costs was offset by decreases in other budgeted communications costs, such as postage and printing. He recalled discussing this shift in budget line items with the Corporation's program officer. The program officer did not specifically recall this discussion and conveyed that the \$27,000 budgeted for website development was likely the intended amount after any such discussions.

When auditors later examined ASC's financial report to the Kellogg Foundation, the OIG found that, in fact, \$40,690 of website costs had already been funded by the Kellogg Foundation. These same costs were allocated to the Corporation's cooperative agreement in ASC's general ledger. The inconsistencies between the financial report to Kellogg, cost allocation in the general ledger, and assertions by ASC management, reinforce our concerns about the financial management capabilities of ASC.

Based on the above, we are questioning the \$55,880 of website costs charged to the Corporation's cooperative agreement in excess of the authorized budget. Noting that \$40,690 of this excess is already questioned under Recommendation No. 3, we are questioning the remaining amount below.

5. We recommend that the Corporation's Office of Grants Management resolve the \$15,190 of website development costs questioned by the audit.

In its response to the draft audit report, ASC requested that the Corporation's Office of Grants management consider realigning budget items to offset the additional \$15,190 of questioned website development costs, with the understanding that advocacy and lobbying costs are to be excluded from the Corporation's cooperative agreement.

VI. Unallocable Consulting Fees

The authorized budget for the Corporation's cooperative agreement with ASC includes a cumulative total of \$32,200 for consultant fees. According to the budget, these services were to involve research consultancies that support the purpose of the cooperative agreement.

Actual consultant expenses charged to the cooperative agreement totaled \$84,841, which is \$52,641 more than was budgeted. These included communications consultants' fees totaling \$46,077, a specialized survey costing \$19,385, and a range of contracted personal services totaling \$19,379.

Examination of this substantial budget overrun showed that ASC had weak procurement practices and questionable allocation methods. ASC engaged two communications consultants between 2001 and 2003. Neither was engaged under written contract and, consequently, there was no clearly established scope of work or defined deliverables supporting the allocation of costs to the cooperative agreement.

From late 2001 through 2002, ASC engaged a communications consultant responsible for writing ASC's e-bulletin and assisting with website development. Both of these responsibilities included a substantial amount of legislative reporting. This consulting arrangement did not include a written contract or documented scope of work. Fees for these services totaled \$31,052, of which ASC charged \$28,977 to the Corporation's cooperative agreement. The audit is questioning the \$28,977 of this individual's consulting fees charged to the Corporation's cooperative agreement due to the absence of: (1) a written contract, including a reasonably detailed scope of work; (2) a self-evident relationship between the individual's services and the scope of the grant (activities appear to be in the nature of general member services and outside the purposes of the cooperative agreement); and (3) a significant overspending of consultant costs in the authorized budget. Noting that \$9,847 of this amount is already questioned as a duplicated expense in Recommendation No. 3, we are questioning the remaining portion below.

During 2003, ASC engaged another individual to serve as a communications consultant and charged 50 percent of her compensation to the Corporation's cooperative agreement. (The remaining 50 percent was charged to the grant from Kellogg Foundation.) This individual received \$17,100 of funding from the cooperative agreement through December 31, 2003.

Again, there was no written agreement between ASC and the individual; consequently, there was no formal scope of work. An undated document prepared by the consultant describes “goals, deliverables, responsibilities and vision for the future.” The document focuses on information management, website updates and evaluations, preparation of weekly e-bulletins, and conference management. Specific accomplishments cited in the document include the planning, organization, and execution of ASC’s contribution to the *Voices for AmeriCorps* event.

The audit is questioning the \$17,100 of this individual’s consulting fees charged to the Corporation’s cooperative agreement due to the absence of: (1) a written contract, including a reasonably detailed scope of work; (2) a self-evident relationship between the individual’s services and the scope of the cooperative agreement (activities appear to be in the nature of general member services); and (3) a significant overspending of consultant costs in the authorized budget.

Consulting fees of \$19,385 were charged to the Corporation’s cooperative agreement for services provided by the Feldman Group, an independent polling firm. This consulting firm designed a questionnaire, interviewed the chairperson and executive director of each State commission, and then reported the results and findings to ASC’s Board of Directors.

Such a report may be useful to ASC in understanding the priorities and concerns of the State commissions. These included the State commissions’ strong expectations of ASC’s Washington-based advocacy and lobbying role. ASC also advised that the study was undertaken with the knowledge of the Corporation and the results were shared with the Corporation.

Despite the potential utility of this report, the audit is questioning the allocability of the total of \$19,385 of consulting fees because of the: (1) ambiguous relationship between this study and the purpose and objectives of the Corporation’s cooperative agreement; and (2) significant overspending of consulting costs in the authorized budget. The OIG notes that such costs would be better characterized as general membership activity costs.

6. We recommend that the Corporation’s Office of Grants Management resolve the \$55,615 of consulting costs questioned by the audit.

In its response to the draft audit report, ASC advised that it believes sufficient documentation supports the allowability of \$46,077 in communications consultant fees charged to the cooperative agreement. ASC provided related documentation and requests that the Corporation’s Office of Grants Management allow these costs. The management of ASC also stated that the majority of the \$19,385 cost of survey work performed by the Feldman Group was a valid grant expense. However, ASC recognizes the sensitivity of portions of the survey report and therefore will not request that the Corporation reinstate

these questioned costs. To avoid future problems with consulting costs, ASC has developed a policy that requires consulting agreements to be in writing and have detailed scopes of work.

VII. Personal and Unallocable Bank Card Expenditures

Further illustrating ASC's need for improved financial systems and management controls are the personal and other unallocable expenses charged to the Corporation's cooperative agreement. Costs identified during the audit are itemized in Table 2 and generally result from the Executive Director's use of ASC's American Express card.

Ten of these 18 items involve airfare costs between Ohio, where ASC's Executive Director maintains a family residence, and Washington, D.C. The management of ASC claims that these are not personal expenses because they involve official travel to Washington on ASC business but ASC management conceded that these costs should not be allocated to the Corporation's cooperative agreement.

While the OIG notes ASC's intent to reverse these charges from the cooperative agreement, we consider these costs to be personal commuting expenses. In examining travel costs, basic criteria that must be established are the traveler's place of residence and official workplace. Given that ASC's offices are located in Washington, D.C., and that the Executive Director maintains a home in Ohio, the cost of travel between Ohio and Washington is generally considered a personal commuting cost.

Six of the 18 items in Table 2 are related to a trip to a Disney resort in Orlando, Florida. These include room charges, admission tickets, and airfare for members of the Executive Director's family. The Executive Director of ASC stated that this was a business meeting, and any personal costs were to have been reimbursed through a retroactive salary increase that he did not receive. He also asserted that, due to an error by ASC's accountant, this reimbursement transaction was not completed and was not recorded in ASC's accounting records.

The remaining two items related to small grocery and drycleaning charges in Columbus, Ohio. The Executive Director stated that these occurred because he confused his personal American Express card with the newly issued ASC American Express card.

These problems arose because ASC did not establish procedures to effectively control travel expenses and other purchases on ASC's bank card. For example, travel expense forms are not used to document the purpose and costs of travel by ASC management. Furthermore, ASC sometimes allocated monthly American Express payments to the cooperative agreement and other cost centers based on fixed percentages of total monthly charges rather than by review and allocation of individual expenditures. Also, Executive Director expenditures lack oversight. The Executive Director incurs charges and also approves payments without adequate supporting documentation or any review and approval by other staff. As a result, the purpose and nature of many bank card expenditures are not documented. Relying on recollections of the individual

travelers to establish the purpose of travel and its allocability to the Corporation's cooperative agreement is not acceptable.

Table 2: Personal Expenses Charged to the Corporation's Cooperative Agreement

Expense	Amount	ASC Explanation
September 2001		
Airfare, Columbus, Ohio, to Washington, DC, for Executive Director	\$23.75	Adjustment to prepaid ticket to return to Washington. (OIG Note: We consider this to be a personal commuting cost.)
America West Specialty Retail Store	\$225.00	Personal purchase that was reimbursed through a retroactive salary increase not received; reimbursement erroneously not recorded in books. (OIG Note: Documents provided to support reimbursement are not substantive.)
October 2001		
Drycleaning charges in Columbus, Ohio	\$41.88	Personal purchase that was reimbursed through a retroactive salary increase not received; reimbursement erroneously not recorded in books. (OIG Note: Documents provided to support reimbursement are not substantive.)
Grocery charges in Columbus, Ohio	\$24.05	Personal purchase that was reimbursed through a retroactive salary increase not received; reimbursement erroneously not recorded in books. (OIG Note: Documents provided to support reimbursement are not substantive.)
January 2002		
Room at Disney World Coronado Hotel 1/25-27/02	\$338.64	Hotel room for meeting of ASC's Board of Directors. (OIG Note: Documentary evidence of meeting, participants, and business purpose not provided.)
Disney Days of Christmas 1/27/02	\$10.55	Novelty item for meeting of ASC's Board of Directors. (OIG Note: Documentary evidence of meeting, participants, and business purpose not provided.)
Airfare, Columbus, Ohio, to Orlando, FL, for Executive Director's Family	\$150.00	Fare adjustment for personally purchased ticket; reimbursed by retroactive salary increase not received; reimbursement erroneously not recorded in books. (OIG Note: ASC has been unwilling or unable to provide documentary evidence of reimbursement.)
Disney World Business Center	\$131.50	Shipping material from meeting of ASC's Board of Directors. (OIG Note: Supporting records show this to be the purchase of Disney tickets rather than shipment of meeting material.)

Disney World Coronado Hotel charges 1/24-27/02	\$109.29	Balance on Executive Director's hotel room invoice for phone calls and meals associated with meeting of ASC's Board of Directors. (OIG Note: Documentary evidence of meeting, participants, and business purpose not provided.)
Airfare, Columbus, Ohio, to Orlando, FL, for Executive Director's Family	\$150.00	Fare adjustment for personally purchased ticket; reimbursed by retroactive salary not received; reimbursement erroneously not recorded in books. (OIG Note: ASC has been unwilling or unable to provide documentary evidence of reimbursement.)
March 2002		
Airfare, Columbus, Ohio to Washington, DC (Supplemental Charge) for Executive Director	\$13.00	Adjustment to prepaid ticket to return to Washington to prepare a response to reauthorization language unveiled by Congress. (OIG Note: We consider this to be a personal commuting cost.)
Airfare for Executive Director (routing not shown)	\$100.00	Adjustment to prepaid ticket to return to Washington to address questions raised by Kellogg Foundation. (OIG Note: We consider this to be a personal commuting cost.)
Airfare Washington, DC, to Columbus, Ohio for Executive Director (Supplemental Charge)	\$42.00	Adjustment to prepaid ticket to attend Corporation meeting in reference to reauthorization legislation. (OIG Note: We consider this to be a personal commuting cost.)
June 2002		
Airfare, Columbus, Ohio, to Washington, DC, for Executive Director	\$100.00	First segment of trip to national training conference. (OIG Note: We consider this to be a personal commuting cost.)
September 2002		
Airfare, Columbus, Ohio, to Washington, DC, for Executive Director	\$158.00	Adjustment to prepaid ticket to attend a Washington training event. (OIG Note: We consider this to be a personal commuting cost.)
October 2002		
Airfare, Columbus, Ohio, to Washington, DC, for Executive Director	\$100.00	First segment of trip to Maine training event. (OIG Note: We consider this to be a personal commuting cost.)
February 2003		
Airfare from unknown location to Washington, DC, for Executive Director	\$124.40	Travel to emergency meeting on AmeriCorps funding issues. (OIG Note: Absent any information about the point of origin, we consider this to potentially be a personal commuting cost.)
July 2003		
Airfare, Columbus, Ohio, to Washington, DC, for Executive Director	\$136.00	Returned from personal leave to attend Washington training event. (OIG Note: We consider this to be a personal commuting cost.)
Total	\$1,978.06	

7. **We recommend that the Corporation's Office of Grants Management:**
- 7.1 **require America's Service Commissions to establish controls, including segregation of duties, adequate documentation, and consideration of allowability, to support bank card purchases allocated to the Corporation's cooperative agreement; and**
 - 7.2 **resolve the \$1,978 of personal and unallocable bank-card expenditures questioned by the audit.**

In its response to the draft audit report, ASC advised that the above costs would not be charged to the Corporation's cooperative agreement. However, it stated that most of these costs involved ASC business activities rather than personal expenses, and any items that ASC has determined to be personal in nature have been billed to the individual for reimbursement to ASC.

VIII. Travel Costs

Travel expenses comprise a substantial portion of ASC's costs under the Corporation's cooperative agreement. This travel is associated with various training, technical assistance, and other activities. For the period June 1, 2000, through December 31, 2003, travel costs totaled \$446,846, amounting to 38 percent of costs claimed under the grant.

To be allowable under a Federal award, travel costs must be: (1) supported by sufficient documentation; (2) directly attributable to specific work under the grant; (3) reasonable in nature; and (4) consistent with the normal procedures established by the organization receiving the Federal funding.

For the most part, these travel costs directly related to the cooperative agreement's purpose of providing training and assistance to strengthen State commissions. In addition, ASC officials ensured that many training participants traveled at discounted airfares in order to contain costs.

However, procedures for managing and supporting travel costs need strengthening. Specifically, ASC did not consistently retain sufficient documentation to support travel expenses and, in several instances during the audit, ASC officials needed to gather records from hotels or individual travelers to substantiate costs charged to the cooperative agreement. Moreover, ASC did not consistently implement procedures for travel expense reporting and paid several items both as direct charges to ASC's bank card and as reimbursements to travelers when the costs were included in the individuals' expense reports. The audit also identified travel costs attributable to activities unrelated to the cooperative agreement. These items total \$12,130 and are listed below in Table 3.

**Table 3: Questioned Travel Expenses Charged
to the Corporation's Cooperative Agreement**

Date	Check No.	Payee	Amount	Comments
04/26/2001	Check 1038	F. Waldstein	\$ 704.71	Travel purpose not allocable to cooperative agreement.
10/24/2001	Check 1072	F. Waldstein	266.08	Travel purpose not allocable to cooperative agreement.
10/24/2001	Check 1072	F. Waldstein	620.85	Travel purpose not allocable to cooperative agreement.
12/04/2001	Check 1083	F. Waldstein	304.72	Travel purpose not allocable to cooperative agreement.
12/04/2001	Check 1083	F. Waldstein	711.01	Travel purpose not allocable to cooperative agreement.
03/31/2002	Amex	F. Waldstein	1,220.97	Travel purpose not allocable to cooperative agreement.
05/31/2002	Check 1126	F. Waldstein	515.25	Duplicate reimbursement of hotel costs (paid directly to traveler and paid directly through ASC bank card).
06/02/2002	Check 1176	M. Meeks Kelly	515.25	Duplicate reimbursement of hotel costs (paid directly to traveler and paid directly through ASC bank card).
06/30/2002	Amex	Hilton Hotel, Salt Lake City, UT	3,951.00	Premium hotel room, \$595 per night.
01/29/2003	Deposit	P. Ballard	384.00	Reimbursed duplicate payment not credited back to cooperative agreement.
04/14/2003	Deposit	K. Joy	408.84	Reimbursed duplicate payment not credited back to cooperative agreement.
07/03/2003	Check 1345	T. Hasdorff	1,064.08	Voided check charged to cooperative agreement.
08/14/2003	Check 1348	F. Waldstein	1,076.00	Travel purpose not allocable to cooperative agreement.

08/15/2003	Check 1383	K. Kaskey	387.00	Duplicate reimbursement of hotel costs (paid directly to traveler and paid directly through ASC bank card).
Total			\$ 12,129.76	

8. We recommend that the Corporation's Office of Grants Management:

- 8.1 require America's Service Commissions to strengthen its controls, including supporting documentation and allowability review, over travel costs funded under the cooperative agreement; and**
- 8.2 resolve the \$12,130 of travel expenses questioned by the audit.**

The management of ASC concurred that \$7,114.68 of the above travel costs should not be charged to the Corporation's cooperative agreement, noting that these were generally ASC business expenses not directly allocable to the grant. Of the remaining items, ASC provided explanations intended to establish their allocability. The OIG will work with the Corporation's Office of Grants Management to ensure that all available information is considered in determining whether to disallow or reinstate these remaining costs.

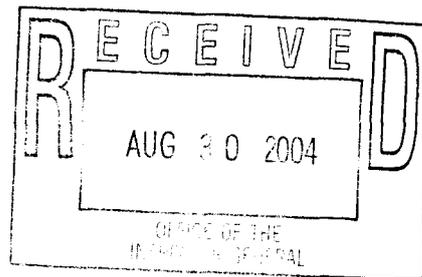
IX. Other Matters

Administrative costs are not systematically and consistently allocated to the Corporation's cooperative agreement. Some are charged entirely to the cooperative agreement, while others are not allocated at all to the agreement. Since these costs, which include office supplies, telephone conferencing, and payroll taxes, typically support both the cooperative agreement and other ASC activities, ASC should adopt a rational and consistently applied allocation methodology. During the audit, ASC initiated an exercise to examine and allocate these shared administrative costs. Prior to the issuance of this final report, ASC advised that the reallocated costs will increase total expenses charged to the Corporation's cooperative agreement by \$55,137. These revised figures should be examined as part of the pending audit under OMB Circular A-133 and then should be considered by the Corporation's Office of Grants Management.

Appendix A

Response of the Corporation for National and Community Service

Corporation for
**NATIONAL &
COMMUNITY
SERVICE**



To: J. Russell George, Inspector General
From: Margaret Rosenberry, Director of Grants Management
Date: August 27, 2004
Subject: Response to OIG Draft Audit Report 04-23, Audit of Costs Incurred under the Corporation's Training and Technical Assistance Cooperative Agreement with America's Service Commissions

We have reviewed the draft audit of the Corporation's cooperative agreement with America's Service Commissions (ASC). Due to the limited timeframe for response, we have not completed a review of the report nor followed up with the organization to resolve the questioned costs and recommendations. We will respond to all findings and recommendations during the audit resolution process. However, based on preliminary information provided to the Corporation, we have suspended ASC's account at the Department of Health and Human Services to safeguard remaining federal funds until we resolve the audit.

In addition to the questioned costs, the report identifies areas in which the Corporation should strengthen its oversight and monitoring of grantees. We have taken several steps to address the issue. We are requiring grants staff to document that they have reviewed specific financial documents to determine if grantees must conduct an A-133 audit. We also revised our criteria for assessing and assigning risk so organizations new to federal funding will be considered high risk, regardless of other factors that may mitigate risk. Organizations categorized as high risk receive follow-up site visits after initial site visits to ensure they have implemented all required policies and procedures. In addition, we are contracting with an outside firm to assist us in resolving the audit findings.

Four other initiatives started before the audit will also lead to improved oversight of grants and cooperative agreements. First, the Corporation is developing new policies and procedures to strengthen management of cooperative agreements. Future cooperative agreement budget plans will be linked to specific outputs and outcomes, and providers will submit detailed expense reports at least quarterly. Amendments to cooperative agreements will undergo a higher level of scrutiny. Second, the Corporation is re-competing training and technical assistance provider agreements later this year, with accountability as a key selection factor. Third, the Corporation is now requiring its grants officers to be certified through a comprehensive training program. Staff completed the second training course, on oversight and monitoring of grants and cooperative agreements, on August 10, 2004. Finally, the Corporation is creating a new position, Director of Grants Oversight and Monitoring, to establish consistent policies and procedures across its programs.

In summary, the Corporation will continue to be diligent in addressing audit findings and recommendations through the audit resolution process.



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Appendix B

Response of America's Service Commissions



September 2, 2004

Honorable J. Russell George
Inspector General
Corporation for National and Community Service
1201 New York Avenue NW, Suite 830
Washington, D.C. 20525

Dear Mr. George:

Enclosed please find the response of the American Association of State Service Commissions (ASC) to your July 30, 2004 draft report entitled, "Audit of Costs Incurred under the Corporation's Training and Technical Assistance Cooperative Agreement with America's Service Commissions (Agreement No. 00CADC0011)" (the "Draft Report").

As requested, ASC is submitting this document within the response period (extended to September 3, 2004 by Carol Bates) to address all matters related to your draft report (04-23). Please note that this response differs substantially from our organization's initial response to Mr. Craig Nordby of your office dated June 18, 2004. This change reflects the ASC Board of Directors belief that our organization's initial responses did not provide the correct articulation of all the facts related to the issues raised in the audit. Upon review of the final documents, related supporting materials provided in our initial response, and additional ASC records reviewed after that initial response, the Board of Directors of ASC is modifying several components of our response.

Since our initial response to you, circumstances have changed dramatically which has precipitated a more direct involvement of the Board of Directors in the Office of the Inspector General's audit. First, Mr. Sundermeyer resigned (effective July 30, 2004) as the Executive Director of ASC. Second, the CNCS indicated that it would not allow ASC to draw down additional funds authorized under our cooperative agreement effective July 30, 2004. In a letter from Michelle Guillerman, ASC was notified that these funds were suspended until the resolution of the OIG audit. Consequently, the Executive Committee of the ASC Board of Directors directly engaged in developing this document, along with counsel. The signature of the ASC Chair represents the approval of the Committee to this response to the Draft Report.

Honorable J. Russell George
Page Two
September 2, 2004

The ASC Board of Directors hopes that this response thoroughly addresses the serious questions and concerns raised in the OIG's initial draft report and that the resulting outstanding issues can be resolve quickly, thoroughly and amicably.

Should you have any questions regarding this response, please feel free to contact our accountant representative, Paul H. Calabrese, Senior Manager, Rubino & McGeehin or our legal counsel Steven J. Kmiecik at Seyfarth Shaw, LLP.

Sincerely,

A handwritten signature in black ink, appearing to read "K Caldwell". The signature is written in a cursive, somewhat stylized font.

Kyle Caldwell
ASC Chairman

The American Association of State Service Commissions (ASC) is responding to the Inspector General's July 30, 2004 draft report number 04-23 regarding the Corporation for National and Community Service's (Corporation or CNCS) Training and Technical Assistance Cooperative Agreement number 00CADC0011 (the "Draft Report").

This response addresses all matters referenced by the Office of Inspector General (OIG) and provides rationale and evidence for expenditures and activities questioned in the Draft Report. In addition, this response explains the realignment of costs and expenditures related to the Cooperative Agreement for the performance period. It is our understanding that the OIG questioned \$582,131 of \$1,188,000 that ASC charged as costs to the Grant from the Corporation.¹ ASC is providing a summary of its position in the chart on the page 5 that detailed the OIG's questioned costs, and ASC's related response. An expanded version of this chart showing budgeted line items by Grant period is shown in **Attachment 1**.

The *Schedule of Budget, Incurred and Questioned Cost* referred to as the "Schedule", presents the total of all budgets that were definitized from work plans by expense line item. The middle two columns show the results from the Draft Report, both the "Actual Expenses per Adjusted General Ledger (G/L), and Questioned Cost. The three columns on the right display the actual expense from the Profit & Loss (P&L) report for the Grant from Quick Books (QB) accounting software and questioned costs that are resolved by the Draft Report's reference, i.e. the resolved items refers to one of the (8) areas involving recommendations and questioned cost.

Throughout this response, we refer to the "P&L by Class" report which is generated by QB accounting. The P&L terminology is used because this commercial accounting system had preset names for its standard reports. Essentially, the P&L is equivalent to a Revenue and Expense report with the remaining balance either being positive (revenues in excess of expenses) and called net assets or negative deficit (expenses exceed revenues). The "CLASS" designator facilitates the segregation of cost by the Grant, non-federal activities and indirect or General and Administrative (G&A) functions. Generally ASC uses three CLASSES, i.e. the Grant, Kellogg private foundation Grant, and indirect activities charged to G&A.

With respect to the results from the OIG review, the "Actual Expenses per Adjusted G/L" is derived from **Attachment 1-D**, "Analytical Review: Budget v. Actual Expenses by Year". The OIG's questioned cost from the Draft Report is shown next to each of the appropriate line items. The total actual expenses per the "adjusted G/L" are \$1,188,455. The derivation of this "starting" figure is shown in detail in **Attachment 1-B**. When the OIG started its field work on March 1, 2004, our accounting firm (Rubino & McGeehin) reviewed the Grant ending December 31st for FYs 2000, 2001, 2002, and 2003. The initial grand total for the Grant for all periods was \$1,301,460.41. From the notes [a] and [b] from **Attachment 1-B**, the aforementioned figure is further reduced by \$809.00 to equal \$1,300,651 which approximates \$1,300,625 used by the OIG in **Attachment 1-D**, the most bottom figure in the schedule referred to as "Total Expenditures per G/L".

¹ ASC first received a grant from CNCS in 2000, and has received additional grant funds during 2000, 2001, 2002, and 2003 totaling \$1,314,902 to date. For purposes of this response, those funds will be referred to collectively as the Grant. Grant performance is from June 1, 2000 through June 30, 2004.

The reason this analysis is important is because we are reconciling from our initial P&L figures for the Grant before the OIG started its field work, and will account for every adjustment to arrive at the cumulative claimed costs of \$1,140,266 (1st column under “Results per ASC” from the Schedule) for the Grant as of December 31, 2003. It is our contention that there will be a better understanding of ASC’s final claimed amounts if we can document and itemize every credit or reduction to the Grant. When we refer to “resolved questioned cost” we are stipulating that ASC believes such cost should be disallowed by crediting or reducing the cost to the Grant. Since the OIG requested that ASC designate which of its questioned costs we can concur as unallowable to the Grant, we have presented the resolved cost by budget line item in the Schedule and referenced the OIG’s recommendation reference number from its Draft Report.

Starting from the OIG’s total expenses on the Grant as of March 1, 2004 from **Attachments 1-B and 1-D** and shown in the Schedule, we provide the following reconciliation to our cumulative claimed cost.

Total Expenses per G/L (from OIG as of 3/1/04)	\$1,300,625
Less: Initial Reductions to Grant (Attachment 1-B)	(110,727)
Less: Resolved Questioned Items from Draft Report (Attachment 1-A)	(103,143)
Less: Items Disallowed based on Account Title (Attachment 1-A)	(755)
Add: Joint Expenses Allocated on Payroll Hours (Attachment 1-C)	55,137
Less: Immaterial Variance	(871)
 Total Claimed Expenses per P&L by Class Report for the Grant	 \$1,140,266

With the exception of the joint expenses (\$55,137), there are significant dollar reductions in the costs charged to the Grant in the amount of \$214,625. Both amounts net to a cost reduction of \$159,488 as shown in the Schedule. A detail of the \$214,625 is shown in **Attachment 1-A**, which is a 3 page document. The disallowed amounts become cost reductions to the Grant. The accounting mechanism to transfer cost from the Grant (thereby reducing its total cost) is the use of an adjusting or general journal entry.

Each of these journal entries is numbered for reference purposes, such as IGJE01. The journal entries have two components a “debit” and “credit” to an expense account. In accounting jargon, the “debit” is placing a positive amount (e.g. \$100.00 for telephone, G/L account 5120) to the G&A Class, and the “credit” is removing \$100.00 of telephone expense from the Grant, where the total cost is hereby reduced by the credit of \$100.00. ASC has agreed to have an A-133 Single Program Audit for the entire Grant period and this audit should provide better clarification as to the allowability of the remaining costs on the Grant.

Attachment A-1 provides the detail of each item questioned and removed from the Grant. Starting on page 1, we start with the specific items from the Draft Report, Table 2 under Section 7 pertaining to personal and bank card issues. ASC presents each of the general journal entries from our QB accounting system that shows in red font, that those items were credited to the Grant. Thus, the first grouping of questioned costs reductions pertain to the Draft Report and total \$103,143. There may be a few instances where the journal entry includes some items that have no impact or cost reduction to the Grant and are

highlighted in blue font and are shown in a separate column called “No Credit to PTP”. With respect to the questioned items from the Draft Report, the columns on the right (of **Attachment 1-A**) provide additional information as to the table, report recommendation number, page number and explanation.

Shown on page 2, there are three journal entries to credit the Grant for \$755 for general ledger account titles that appeared to be of an indirect nature or unallowable and as such were credited from the Grant. Up to this point, all credits to the Grant are shown with the unique general journal reference number from the QB accounting system.

The last grouping starts at the bottom of page 2 and ends on page 3 of **Attachment 1-A**. These are the “Initial Reductions” to the Grant around March 1, 2004 when the OIG started its field work. Both parties observed certain items on the Grant that were unallowable and should be credited to the Grant, thereby lowering the overall cost to the Grant. The total cost reduction to the Grant as shown on **Attachment 1-B** is \$110,727.

The schedule presented in **Attachment 1-B** is the bottom portion of an EXCEL file provided by the OIG, “Crosswalk Budget v Actual Exp”, tab “P&L by Class”, rows 43 to 53. We numbered each of these initial reductions from [1] to [14] so as to both explain and demonstrate that the cost was credited to the Grant. The only two items that did not reduce costs to the Grant was items [2] and [8]. Item [2] for \$1,447.79 was a reclassification from Contract Labor to Salaries Expense but both related to the Grant. Item [8] for \$809.00 pertained to the Kellogg Grant. This item was transferred from the Kellogg Grant to G&A and had no impact on the Grant.

The rest of the (14) items did reduce the cost on the Grant. The impact on the Grant is explained and shown at the bottom of page 2 and ends on page 3 of **Attachment 1-A**. As we previously explained, the usual method for transferring cost from the Grant (a cost reduction) and placing the unallowable items in G&A, is through the use of a general journal entry. Since there was a voluminous amount of journal entries with respect to the initial reductions, the accountant re-coded the cost from the Grant to G&A without using a journal entry to expedite the process. In doing so, there are no journal entries to show the cost reduction to the Grant.

In order to demonstrate that these costs were indeed removed from the Grant, we show the P&L by Class for the Grant for each fiscal year as of March 1, 2004 before the OIG field work started, and after the audit as of August 30, 2004. A simple comparison of a highlighted expense account will show that there was a cost reduction to the Grant. The following example is provided to demonstrate the cost reductions.

At the bottom of page 2 from **Attachment 1-A**, the first initial reduction, item [1] is for unused benefits. If you review side by side **Attachments 2-A** (FY 2000 P&L by Class for the Grant as of March 1, 2004) and **2-B** (FY 2000 P&L by Class for the Grant as of August 30, 2004, look at G/L account #8010 Benefits expense [1] for \$4,636.89 as compared with G/L account #8025 Benefits Allocations [1] for \$963.86, respectively. These amounts are highlighted in red font. The difference is a cost reduction to the Grant of \$3,672.03 as shown in both **Attachments 1-A and 1-B**. Follow this same process for the remaining 13

items and use the appropriate attachments referenced, i.e. for the remaining fiscal periods of FYs 2001 (**Attachments 2-C and 2-D**), 2002 (**Attachments 2-E and 2-F**), and 2003 (**Attachments 2-G and 2-H**). Please note that there are a few items where we were able to provide the general journal entries or the check detail which shows that the P&L Class is now G&A and not the Grant, i.e. **Attachments 2-I through 2-L**.

The last area in the Schedule pertains to the allocation of joint expenses using payroll hours. A summary is provided in **Attachment 1-C**. An explanation of how the joint expenses are allocated is discussed under Item 13 of this response “Allocation of Joint Administrative Cost.

ASC allocated joint expenses to both the Grant and G&A based on payroll hours of personnel. Based on the pro-rated salary expense to the Grant and G&A, we backed into ASC’s labor hours by dividing its yearly salary cost by 2,080 hours to develop their effective pay rate for a fiscal year. Then we divided the allocated labor cost by the pay rate to ascertain the labor hours. Based on this analysis, the percentage of labor hours for the Grant and G&A for the fiscal years is as follows.

<u>Fiscal Year</u>	<u>% the Grant</u>	<u>% G&A</u>
2000	54%	46%
2001	67%	33%
2002	69%	31%
2003	70%	30%

We used these factors to allocate the following joint expenses for these fiscal periods: office supplies, postage and delivery, printing and reproduction, telephone, supplies, rent, professional fees: accounting, and payroll taxes. Because benefits were pro-rated on the same basis as salary expense, i.e. payroll dollars, we did not attempt to change its allocation basis. The result of the allocation of these joint expenses increased the cost to the Grant by \$55,137 as shown in the Schedule and **Attachment 1-C**.

For FY's 2000, 2001, 2002, and 2003 Ending 12/31/2003 Ω

Expense	Budgeted Total	Results per OIG		Results per ASC		
		---- Actual ----		Expenses per P&L by Class	Attachment 1-A	
		Expenses per Adj G/L	Questioned Per OIG Draft Report		Resolved Questioned Cost	OIG Report Reference Sections
Salaries:						
PTP Coordinator (90%)	\$159,600					
PTP Admin Assist (67%-90%)	\$64,683					
Stnds & CDLI Coordinator (90%)	\$72,450	\$369,071		369,229		
Coordinator (10%)	\$20,834					
Staff Benefits	\$94,590	\$57,375		82,494		
Subtotal	\$412,157	\$426,446	\$426,446	451,723	520	II, IV
Contracted Services:						
Fiscal Agent	\$29,780	\$15,918		10,757		
Research Consultant	\$32,199	\$101,676	\$65,462	51,308	48,567	III, VI
Subtotal	\$61,979	\$117,594		\$62,066		
Travel:						
PTP	\$191,400					
CDLI Travel	\$140,000					
Youth Commissioner Travel	\$64,000	\$417,676				
Standards Travel	\$40,000					
2003 Nat'l Conf	\$96,000	\$29,170				
Subtotal	\$531,400	\$446,846	\$29,378	442,740	23,773	III, IV, VII, VIII
Operating Costs:						
Supplies	\$18,600	\$35,154	\$4,965	55,751	4,966	III, IV
Telephone	\$47,500	\$37,896		27,279		
Postage	\$19,000	\$3,317		2,699		
Printing	\$20,661	\$14,827		13,361	1,462	IV
Rent	\$50,000	\$37,761		43,368		
Electronic Communications	\$27,000			39,580		
Website Development		\$66,175	\$55,880		23,855	III, VII
Other / Misc.		\$2,439		1,700		
Subtotal	\$182,761	\$197,569		183,738		
Total	\$1,188,297	\$1,188,455	\$582,131	\$1,140,266	103,143	

G/L Accounts (By Title Description) Disallowed by ASC (see Attachment 1-A)	755
Initial Reductions per OIG "Analytical Review: Budget v. Actual Expenses by Year" (see Attachments 1-A and 1-B)	110,727
Increase cost to PTP Grant due to the Allocation of Joint Expenses based on Payroll Hours (see Attachment 1-C)	(55,137)
Total Resolved Cost (see Attachment 1-A)	159,488
Immaterial Variance	871
	\$ 159,488

Total Expense per G/L per OIG "Analytical Review: Budget v. Actual Expenses by Year" 1,300,625

Total Cash Drawdowns \$1,172,698

Total Funded Grant Award \$1,314,902

Period of Performance: June 1, 2000 through June 30, 2004

Ω = Does not include allowable and allocable expenses incurred from January 1, 2004 through June 30, 2004.

* = The non-definitized budget and remaining funding of \$126,605 = total funding \$1,314,902 less definitized budget of \$1,188,297.

The OIG reports that it believes ASC has “significant management control/deficiencies” concerning ASC’s recordkeeping. While ASC agrees that the management and control systems were not used effectively to categorically ensure segregation of costs charged to the Grant and other sources, the systems were, in fact in place and codified as official policy. Sufficient documentation exists to support appropriate costs charged to the Grant. As explained more fully below, ASC acknowledges certain accounting errors and a misunderstanding as to use of those accounting procedures.

We note that the controls that ASC had in place to track the spending of Grant funds were not used appropriately in addition to not having in place other systems that would have gone further to ensure reliability, stability and accountability in our financial systems. Further, we appreciate the OIG’s Report as constructive criticism. We understand and concur that it is the OIG’s responsibility to protect the Government’s interest through effective examination and constructive feedback on financial management systems. ASC believes it is vital to our work and the work of the Corporation to resolve each issue presented in the Draft Report to the Government’s satisfaction. We note, in the spirit of cooperation and in response to the OIG’s feedback that a Corrective Action Plan (CAP) as discussed later in this response has been prepared and is being implemented by ASC. As of January 1, 2004, ASC implemented portions of its CAP.

There are three areas of concern identified in the Draft Report:

- (1) Accounting and management control system deficiencies resulting in the questioned costs;
- (2) Allegations that ASC has engaged in lobbying with the use of Grant funds; and
- (3) Allegations that Grant funds were used for personal expenses.

We address all of these concerns in our response. As the OIG has stated on numerous occasions, it is our joint goal to clarify and resolve as many of the issues presented in the Draft Report as possible so that only a few, if any, items would remain to be settled by the CNCS Audit Resolution. With respect to Item (1) accounting and management control system deficiencies, to the extent that deficiencies exist, we believe that they have been or will be fully remedied soon. As set forth below, we will respond to each item raised in the Draft Report. In each case we will either concur with the Report or identify what corrective action has been or will be taken, or we will explain our disagreement with the position taken in the Draft Report. In many cases we concur with the Draft Report with regard to accounting and management control/system deficiencies and are taking aggressive steps to remedy those deficiencies.

As explained in more detail below, ASC understands the concern regarding the use of Grant funds for lobbying activities prohibited by OMB Circular A-122, and the ASC Board of Directors in no way support the deliberate charging of personal or lobbying expenses to the Grant. We fully understand the highly sensitive nature of such activities and the need to segregate them from publicly funded Grants. We do not believe that ASC participated in

lobbying activities, but we are not contesting the disallowance of those charges identified by the OIG as lobbying activities. We have credited those charges to the Grant. Additionally, we believe that our CAP will add safeguards to better avoid any prohibited lobbying activities in the future. To the extent that any personal or perceived lobbying expenses were mistakenly charged to the Grant, we believe that such charges were a result of control/system deficiencies that have been or will be corrected. The Grant has been credited with any personal expenses incorrectly charged to the Grant. Finally, the Board of Directors of ASC has taken measures to ensure these charges are credited to the Grant as a cost reduction as explained throughout this response, and illustrated in the Schedule on page 5 and documented in the attachments.

A. Chronology

1. Introduction

From the beginning, ASC has only desired to attain the highest return for the Corporation's investment as well as to conduct ourselves with business practices and ethics at the highest level. ASC and its members are committed to the ideals of community service that the Corporation supports with its grants. Unfortunately, our intentions did not result in the implementation of strong financial management processes for the Grant. We apologize for this lapse and for the resulting misunderstandings that the errors have caused regarding the questioned costs. This lapse was a result of our management's lack of understanding with respect to the Grant's financial management requirements, and it was compounded by the lack of direction and incorrect information furnished by GMS, the accounting firm upon which ASC relied to put the initial policies and procedures in place. In addition, management failed to realize the absolute need for clear, timely, accurate and precise systems that segregate the Grant funds from other sources of unrestricted and restricted funds. Again, the Board of ASC has taken aggressive steps to resolve this issue including the creation and adoption of detailed policies and procedures to which all ASC staff will be required to certify their compliance.

2. Overview of Bookkeeping Responsibilities

ASC opened its office in Washington, D.C. in June 2000. Until March 2001, the Texas Foundation was the fiscal agent for ASC and the Grant. The Executive Director of the Texas Foundation or his appointee maintained the books and records for ASC on a fee for service basis to the Foundation. At that point ASC decided to maintain its own books and records in order to ease the processing of payment vouchers and to obtain financial reports. ASC began to transition these functions in January – February 2001.

Bill Sundermeyer, ASC's Executive Director, and Jeanne Sanders from ASC met with Susan Meche, CNCS Grants Officer on November 29, 2000 to discuss the process to begin draw downs from U.S. Department of Health and Human Services (DHHS) and to discuss the potential transfer of fiscal agency from the Texas Foundation. Mr. Sundermeyer, signed the Financial Management Survey on December 6, 2000. Mr. Sundermeyer subsequently explained that, at that time of filling out the survey, he believed that the Texas Foundation had adequate accounting and management control systems. Mr. Sundermeyer

explained that he did not intend to represent that ASC had those control systems in place, but rather that ASC would develop those systems as the new fiscal agent for the Grant.

The Board of ASC has reviewed the survey and notes that it combined with a written comment by Ms. Susan E. Meche of the OGM noting that “AASSC will establish and maintain adequate procedures & policies to ensure the federal funds are managed according to OMB circulars,” raises some confusion as to the understanding of the purpose of the survey. However, the Board of ASC understands that the systems it believed were in place may not have been fully used at the level intended by the survey.

With respect to ensuring the spirit of good stewardship of the Grant, ASC management took extra-ordinary care to ensure that the work of the Grant continued regardless of whether the Corporation funds were immediately available. As an illustration of this care, the transfer of fiscal agency to ASC required: 1) establishing a separate checking account for the Grant initiated in December 2000; 2) notifying the DHHS that the electronic disbursements should be made directly to ASC; and 3) complying with requirements for information from the CNCS Grants Officer (such as Board-approved personnel policies and the Financial Management Survey).

Although ASC incurred costs from June 2000 that should have been charged to the Grant, ASC did not make its first draw down from the Grant until February 2001. It was often the situation that over the life of the Grant there were delays in funding that slowed the reimbursement of costs to ASC. Frequently, ASC was floating the Grant operation. When ASC requested funding, the Executive Director deliberately requested less funds than ASC was entitled to charge to avoid over-billing of the Grant

In February 2001, the Executive Director entered data into Quick Books Pro (QBP), ASC’s accounting software. Original vouchers were reviewed by Colleen Martins, including payment authorizations. Jeanne Sanders approved the disbursements, and Colleen prepared the checks for the Executive Director’s signature.

Early in 2001, ASC started to look for a bookkeeper and secured GMS, a firm working with a suitemate organization, the AmeriCorps Alumni Association. ASC discussed the level of knowledge and satisfaction with GMS with the Executive Director of AmeriCorps Alums as well as the needs of ASC with GMS. GMS indicated they knew how to account for federal grants. GMS stated that such accounting could be done on a cash basis. GMS reviewed ASC’s Grant documents and other requirements.

ASC management relied on GMS for guidance with respect to Grant accounting requirements. ASC’s travel requirements increased during 2001 and 2002, and so did the tracking of travel expenses. ASC management used the American Express card (“AMEX”) for travel expenses. The AMEX bill was becoming increasingly complex, but GMS advised ASC management that it did not need to retain detailed receipts in addition to the AMEX summary statements. Even so, ASC management retained detailed supporting documentation. Colleen Martins, Crystal Lee and later Jeanne Sanders, ASC contractors and employees, coded the information from the AMEX bills into QBP.

Gina Smallwood of GMS provided monthly accounting services in the areas of allocating payroll and the AMEX charges. If Colleen or Crystal was behind schedule in coding the AMEX bill, Gina would estimate the split between the Grant and ASC's other expenses on an 80% to 20% ratio, so that she could close the month's accounting and prepare financial statements. Ms. Smallwood generated monthly statements from QBP. In addition, she journalized the payroll entries, cross checked them, and then reconciled the accounting information.

During 2001 and 2002, the Executive Director classified some of the AMEX or expense details and signed checks. Classifications were not consistently used. During this period, the Executive Director reported that he was not directly involved with the bookkeeping at ASC and that Jeanne Sanders was providing oversight as to the coding of entries into QBP by ASC staff.

In the latter part of FY 2002, ASC terminated Crystal Lee and brought on Zelma Williams. Also, ASC was displeased with the timeliness of GMS' work and terminated GMS. At that time the Executive Director and Zelma Williams managed the accounting systems for ASC. Since the Executive Director and Zelma Williams were trained in part by GMS, they continued to use the flawed accounting system developed by GMS that has now been demonstrated to be deficient.

In the summer of 2003, the Executive Director gave a summer intern the task of reviewing the details of all AMEX statements. Specifically, the intern was required to verify the annotations on the AMEX statements to Grant and non-Grant activities. The intern developed a summary worksheet of AMEX charges by month.

The payment process ASC management used involved paying travel reimbursements relating directly to the Grant from the Grant checking account. The rest of the Grant and ASC expenses were paid out of the ASC operating/checking account. For instance, all payroll charges were paid out of the ASC account. When ASC would draw down funds based on actual Grant expenses, the money would be sent directly to the Grant checking account. A transfer of funds, by check from the Grant checking account to the ASC checking account, was accomplished to reimburse ASC for Grant charges paid out of ASC's operating account. In 2004, receivable and liability accounts (due from/due to) general ledger accounts were established to track the amounts owed between the two bank accounts. These accrual accounts represent a form of fund accounting.

We believe that mistakes were made in the coding of expenses between the Grant and non-Grant classifications/activities because in QBP, the next data entry is set up on a default mode. This default goes to the last checking account used as well as the last classification selected. If the person making the transaction is not careful in confirming the account and classification, entries will continue to be made to the prior bank account or classification designated. This process would perpetuate incorrect classifications between the Grant and non-Grant activities.

The Executive Director was heavily involved in the other ASC and Grant operations, and he subsequently noted that he no longer had time to review and "scrub" the AMEX and other expense classifications for accuracy and segregation. He stated that he relied on other

ASC staff to conduct that function. ASC's Board of Directors fully understands that financial stewardship and management is a primary function of the Executive Director and this task was not fully and effectively performed during the period covered by the audit. Corrective action steps have been taken to ensure that all ASC staff, but especially the Executive Director understands this priority. The Board of ASC also understands that it is its role to ensure this accountability, and the Board is taking steps to ensure that its role is clearly and effectively implemented.

3. RFP for Audit Services for ASC

On October 9, 2003, the Executive Director, at the direction of the ASC Board of Directors sent out an RFP for audit services as follows: (A copy of the email RFP is provided in **Attachment 3**.)

“The organization is in need of financial audits for the fiscal years of 2001 and 2002 as well as a final audit of the CNCS cooperative agreement following the completion of the 2003 program year. An additional separate audit is needed for the organization finances for the same timeframes. Assistance is also needed in the preparation of the annual 990 IRS report.”

ASC's current accounting consultant, Rubino & McGeehin (R&M) responded in its proposal to perform the following services:

- Prepare federal form 990 and schedule A for fiscal year 2002 on the cash method of accounting (same method as used by prior year accountants for fiscal year 2001);
- Assist ASC staff with converting from the cash method of accounting to the accrual method of accounting for fiscal year 2002;
- Set-up new accrual method accounting system for fiscal year 2003;
and
- Assist ASC staff with converting from the cash method of accounting to the accrual method of accounting for fiscal year 2003.

R&M completed the preparation of the extended FY 2002 tax filing by mid-November 2003. When R&M started to convert from the cash basis to accrual, R&M notified us that much more work would have to be done than originally anticipated. Because the expenses recorded on a cash basis were inter-connected between the fiscal years, correct practice dictated that the books and records would have to be restated on an accrual basis from the start of the Grant in FY 2000. R&M started work on our accounting system in December 2003.

R&M explained that since it had performed so much work revising our accounting system to reflect an accrual basis, for purposes of independence either under the AICPA or Yellow Book standards, R&M could not perform any audit. Also, part of the process of putting ASC books and records on an accrual basis was to ascertain which fiscal years would

have Grant expenses that exceeded the Single Audit threshold of \$300,000. When R&M was retained, the Executive Director had not understood that another accounting firm would need to be hired to perform the A-133 audits.

4. OIG Request to Audit the Grant Costs

On January 7, 2004 the OIG notified ASC of its intent to perform an incurred cost audit of the Grant expenses. The OIG asked if any OMB Circular A-133 audits had been accomplished or were scheduled. At that time, none had been accomplished or scheduled. After discussions with the OIG about the absence of prior audits, the OIG requested a meeting with ASC as soon as possible.

ASC management met with the OIG on February 2, 2004. In that meeting, we discussed the current state of our accounting records. We showed the OIG our last draw down, and we explained that we had under-billed the Grant. ASC management explained to the OIG that we did not have employee timesheets, but that ASC management would obtain affidavits and additional documentation to corroborate the work we performed through December 31, 2003. Also, R&M provided documentation showing that ASC management implemented timekeeping procedures in 2004. We explained that our accounting records were not suitable for audit. The OIG delayed the start of its fieldwork until March 1, 2004.

ASC management, with R&M, accomplished a number of activities before the start of the OIG audit, including the following:

- Bank reconciliations of both Grant and ASC for all periods;
- Bank reconciliation of Texas Foundation in 2000;
- Training of personnel on appropriate data entry procedures in QBP;
- Completed payroll schedules;
- Finalize 2000, 2001, 2002 and 2003 income and expenses to accrual basis;
- Developed financial cash analysis schedules based on draw downs from DHHS;
- Prepared grants receivable as of 12/31/2003;
- Journalized payroll and benefit entries based on Grant budget percentages; and
- Coded non-labor entries based on summary schedules from AMEX charges.

During the month of February 2004 as we prepared the books and records for the OIG's review, we did not have sufficient time to review transactions by tracing charges in QBP to the source documentation to ensure that the expenses were correctly assigned to Grant and non-Grant activities. Due to the condition of our books and records, we did not have the time before, during or after the OIG audit to carefully review the transactions to

ensure proper coding. Our purpose between February 2 and March 1, 2004 was to get the books and records to a suitable level for the OIG's review. Our staff was primarily involved with finishing the data entry into Quick Books for the last 4 months of FY 2003, which ends December 31st.

During the OIG's field work in March and April 2004, ASC personnel, as well as R&M, devoted their time to responding to the auditor's requests for documentation. As we provided documentation to the auditors or as the OIG asked specific questions, it became clearer to us that there were inconsistencies in the classification of certain charges to the Grant, and other recordkeeping problems. These discoveries only confirmed the reasonableness of our request on February 2, 2004 that the OIG delay its review until ASC could thoroughly investigate our accounting system and ensure that charges were properly classified to the appropriate cost objective.

We understand that the OIG had a mandate to complete its review within a certain time period, but the deficiencies identified in the Draft Report were deficiencies that ASC had already begun to discover, but did not have sufficient time to correct them prior to the start of the OIG's field work. Most, if not all, of the deficiencies identified in the Draft Report most likely would have been identified and resolved before the OIG started its field work if that work could have been delayed only a short time longer. However, ASC acknowledges that it did not fully implement the effective use of its systems initially in a manner that would have avoided the errors altogether.

5. RFP for A-133 Audits

In late February 2004, ASC management implemented the Board of Directors' call for an independent audit. ASC issued an RFP to 4 public accounting firms to perform an A-133 audit for FYs 2001, 2002 and 2003 since those years exceeded the single audit threshold of \$300,000, see **Attachment 4**. In mid-March 2004, we selected SLO, Lemkin and O'Brien, LLP CPA firm ("SLO"). Our initial kick-off meeting with SLO was held on April 6, 2004, when we discussed their list of requested items.

As a result of our discussions, SLO planned to start its fieldwork on May 10, 2004. Between April 6 and May 10th, R&M helped ASC prepare certain audit schedules and other documentation that would be required for SLO to perform the A-133 audit. Based on concerns raised by the OIG during the preliminary exit conference on May 24th, ASC suspended SLO's audit work until the OIG released the Draft Report which did not occur until July 30th.

Using the Draft Report, SLO would incorporate all of OIG's questioned costs and expand SLO's review in the areas of concern. Essentially, SLO must start its audit over because the scope was increased. The additional effort will increase the cost of the A-133 audits. Despite SLO's doubts that audits for FY 2001 and 2002 are required, ASC intends to have SLO complete an A-133 audit for the entire period of the Grant to assure CNCS that its interest is protected as well as to facilitate negotiations with Audit Resolution.

ASC has provided the Draft Report dated July 30th to SLO so that it can reinstate its A-133 audit. We would not expect SLO to complete the audit for the entire three and a half

year term of the Grant until early October 2004. However, we have requested a more precise estimate of SLO's new anticipated completion date. The delay has to do with SLO's scheduling the audit given their labor resources for which ASC has no control. We are exploring the possibility of having a Single Audit Program through the stop work date of July 30, 2004 so that all Grant periods are covered for audit resolution.

B. Response to the Report Findings

We will respond to each of the items in the Draft Report including all of the transactions scheduled in Tables 1, 2 and 3. ASC will highlight areas where we concur with the OIG's position and any related questioned cost and where we do not concur. ASC will also address the remedial measures required through our Corrective Action Plan (CAP).

Management Control Deficiencies, Instances of Noncompliance, and OIG Recommendations

1. Financial Management Systems

OIG Findings:

The OIG stated the following concerns:

1. ASC did not accurately allocate costs among funding sources and respective cost objectives,
2. ASC did not provide accurate, supported and auditable expenditure reports for its Federally-sponsored program, or
3. ASC did not maintain effective controls to ensure the reasonableness, allocability, and allowability of costs incurred under the cooperative agreement.

ASC Response: Systems were not sufficiently implemented or established to ensure full and accurate accounting, however sufficient documentation exists and some necessary adjustments have been implemented to ensure the integrity and proper use of the Grant funds.

We concur that there were insufficient procedures and internal controls being utilized to ensure the accurate allocation of costs to Grant and non-Grant activities. Some of the reasons for the lack of implementation of procedures were discussed in the previous section. However, the accounting system within QBP was set up to segregate costs between the Grant and other cost objectives. Thus, there was no absence of accounts for assigning and segregating cost by Grant and non-Grant activities.

R&M helped ASC management to recognize the need for internal controls. ASC management implemented the timekeeping procedures and has recorded time using timesheets beginning in January 2004 as well as a labor distribution instruction. This issue is discussed further in our response. Thus far, R&M has assisted ASC management in developing the following draft procedures that the Board of ASC has reviewed and approved:

- Travel to include advances, trip report and travel expense voucher;
- Indirect allowability with a training in MS Powerpoint;
- Credit card procedures;
- Code of ethics;
- Capitalization policy; and
- Consulting and subcontractor agreements.

After reviewing the recommendations in the Draft Report, we added additional procedures and forms. All of these procedures are incorporated in ASC's Grant Accounting Operating Manual (GAOM) which is attached as a separate **enclosure** in notebook form. We also provided this manual to the executive staff at CNCS on August 12, 2004.

The following is a complete list of the procedures and forms from the GAOM's table of contents. We have annotated this list to correlate it to one of the eight recommendations from the Draft Report. The purpose of this analysis is to demonstrate that we have established procedures to correct and improve our financial accounting system and internal controls to comport to the OIG's expectations as stated in the Draft Report. Please note that "R" = OIG recommendation number and we provide the page number from the Draft Report.

<u>Ref. No.</u>	<u>Items</u>
1	Capitalization Policy
2	Code of Ethics
3	Consulting and Sub-Awardee Documentation (R 3.1, R5, and R 6 from pages 13, 18, and 19 respectively)
4	Credit Cards Forms: Credit Card Issuance Credit Card Holders Log Record of Credit Card Transaction (see AMEX Credit Card Form)
5	Documentation (R 7.1 from page 22) Forms: Record of AMEX Credit Card Transactions Cash Receipts Log Check Request Form Donated Property / Space Form Petty Cash Replenishment Form Petty Cash Withdrawal Form Purchase Request Form Long Distance Telephone and Conference Call Log

- 6 Financial Reporting Procedures (R 1.1, R 1.2, R 3.1 from pages 9 and 13)
Forms:
SF Form 269
- 7 Indirect Cost Allowability
Attachment:
Powerpoint Slides on A-122
- 8 Joint Expenses (Item IX - Other Matters on page 25)
- 9 Labor Distribution Instruction (R 2.1 from page 10)
- 10 Lobbying Activities (R 4.2 from page 17)
- 11 Segregation of Duties for Cash, Credit Card & Related Transactions (R 7.1 from page 22)
- 12 Timekeeping (R 2.1 from page 10)
Forms:
Timesheet Record
Job Assignment Record
Employee Timekeeping Certification
- 13 Travel Expense Reporting (R 8.1 from page 24)
Forms:
Travel Authorization Request – Cash Advance
Travel Expense Report
Record of Business Conference Expense
Trip Report

The OIG states that the audit was delayed per ASC's request so that we could have "the opportunity to review and assign each expenditure to a specific cost center." As we explained above, ASC management did not have time to review all of ASC's records to determine the correct assignment of costs to the Grant and other non-Grant activities. Rather, with the support of accountants, ASC management listed the specific steps undertaken to get the books and records ready for the OIG field work that commenced on March 1, 2004.

The FSRs were prepared by the Executive Director (ED) and reflected cost incurred. The ED used his own methodology for summarizing the cost for reporting and under-billing the Grant. As a part of our CAP, FSRs or SF Form 269s will reconcile to the Grant class in QBP where draws are predicated on cost incurred for a particular period. R&M will assist in the preparation of the quarterly FSR to ensure accuracy.

As we explained, the A-133 audits were not technically overdue. According to SLO, A-133 audits for FY 2001 and 2002 are not required. However, ASC had decided on its own, before the OIG issued the Draft Report that we would perform an A-133 audit of all fiscal years back to the inception of the Grant in FY 2000 to ensure that the Grant costs are

accurate. The OIG stated that costs were not consistently and correctly assigned to the Grant, so it cannot provide an opinion about costs incurred for the Grant. For this reason, we are committed to have A-133 audits performed back to the Grant's inception.

Although ASC believed that it did at the time, ASC acknowledges that it did not have the full utilization of all systems necessary to adequately address the applicable regulations and Grant provisions with respect to the assignment of costs to the Grant. To assure the Corporation that these shortcomings will not be repeated in the future, our CAP includes the establishment of the appropriate internal controls and the implementation of procedures for the adequate financial management of the Grant. In addition, R&M is training ASC staff on the proper accounting processes, and R&M will assist in reviewing our work. Lastly, the A-133 audits should provide additional assurance that only the appropriate costs are charged to the Grant.

2. Salary Cost Documentation

OIG Findings:

The OIG stated that ASC had not maintained timekeeping records to support the recording of salary expense to the Grant and other non-Grant activities on an actual basis. OIG stated that ASC charged the Grant 100 percent of the budgeted salary allocation.

ASC Response: Sufficient documentation of work effort exists

ASC did not use timesheets to support the recording of time charged to Grant and non-Grant activities for the Grant period of FYs 2000 through 2003. Although we charged all of the approved salary budgets to the Grant, these charges do not represent all of ASC's salary expense, as shown in the following table. Membership fees collected from the state commissions made up the remaining funds to cover salaries.

Staffing	Percent Funded by CNCS		
	2000-2001	2001-2002	2002-2003
Administrative Oversight	10%	10%	10%
PTP Administrative Assistant	67%	90%	90%
PTP Youth Coordinator	90%	90%	90%
PTP Standards & CLDI Coordinator	n/a	90%	90%
Average Support Percentage by Period	56%	70%	70%

The table is not weighted based on salaries. If it was, the average support by period would be much less.

As stated in our affidavits attached (see **Attachments 5-A, 5-B, 5-C, and 5-D**), all employees spent more time on Grant activities than the percentages shown in the table. In addition to the affidavits, they provided a variety of corroborating documentation demonstrating that they performed work and provided deliverables to CNCS. Moreover, a letter dated March 8, 2004 from the Director of Grants Management acknowledged ASC's efforts to implement timekeeping procedures, see **Attachment 6**.

These are the procedures we have implemented with respect to the recording of time on an actual basis as of January 2004. The timekeeping policy covers:

- Training of personnel
- Timesheet preparation
- Defines the direct and indirect charge codes
- Timekeeping forms
- Labor distribution instruction

The use of a "Labor Distribution" is necessary to collect and summarize labor hours and cost by employee and activity or by Grant. MS EXCEL pivot tables are used to collect monthly time sheet data for our labor distribution schedules. Time charges from the MS EXCEL timesheets are linked to the pivot tables to generate a labor distribution by employee. This salary cost data becomes the basis of the labor charges in the general ledger by class that ultimately supports the Grant and other non-Grant activities. Starting in June 2004, ASC staff started using the electronic timekeeping capabilities within Quick Books software which accomplishes the same result as the manual labor distribution process.

We understand that for purposes of the OIG audit, 100% of the labor costs charged to the Grant were questioned, i.e. \$426,446. Based on the explanation above and the supporting documentation ASC has furnished, ASC requests that CNCS Audit Resolution determine that 100% of the questioned salary costs should be reinstated as proper charges to the Grant.

3. Duplicative Reporting of Certain Expenses

OIG Findings:

The OIG stated in the Draft Report that due to the lack "of an integrated and self-balancing accounting system allocating expenditures among various grants and other cost centers allowed the duplicative reporting of certain expenses". According to the OIG, this occurred between the Kellogg Foundation and the Grant for:

- Training activities;
- Redesign of the training curriculum by consultants; and
- Website development which pertains to Item No. 8 of our response.

ASC Response: Some entries were incorrect and should be changed

In reviewing our books and records, we determined that a total of \$72,901 in costs mostly charged to the Grant and some charged to G&A should have been charged to the Kellogg Foundation Grant during FY 2003. We corrected those errors. We have provided our adjusting journal entries (**as shown in Attachment 1-A, reference no. III**) as support for the corrections. The general ledger accounts adjusted were Web Page – G/L 5180, Professional Fees – Consulting – G/L 6053, Office Supplies – G/L 5050, and Travel & Entertainment: Travel – G/L 5133.

Based on our review of the entries within QBP, it appears the entries to the Grant were the result of incorrect coding, not duplicative charges to the same accounts. These were incorrect charges not double charges. CNCS Grants Management requested ASC to make this correction which was done on May 28, 2004.

4. Lobbying and Advocacy Issues

The Draft Report complains that ASC participated in lobbying or advocacy with Corporation funds. OMB Circular A-122, Attachment B, Paragraph No. 25 provides the definition of lobbying and the associated expenditure of costs. While it is our belief that ASC management did not engage in lobbying activities as defined in A-122 the ASC Board of Directors will nonetheless remove any doubt by ensuring that the costs for the activities in question are covered by non-Corporation funds. We will provide additional information for each of these items to support our transfer of these costs to other sources. The Grant has been credited with those charges.

As a specific remedy to costs challenged by the OIG as related to lobbying, the ASC Board of Directors has secured reimbursements for these costs from other sources where appropriate (see payment from Michigan Community Service Commission for ASC Chair travel expenses in **Attachment 7**). Despite our assertions to the contrary, in the final analysis the OIG may conclude that some of these activities are lobbying and that the charges for those activities are not allocable to the Grant. While ASC will dispute any conclusion, to avoid any doubt and to resolve the issue ASC has credited the Grant with the challenged costs of \$2,354, where the credit to the Grant via an adjusting journal entry is shown in **Attachment 1-A, reference no. IV.**

ASC respects the OIG's concern regarding the potential charging of unallowable lobbying costs. ASC developed a procedure in our CAP to prohibit the use of Grant funds for the purpose of lobbying or advocacy. This procedure will impact labor and non-labor charges. Item Nos. 4 through 8 below will address the OIG's specific concerns.

a. Assistance with Video Conference

OIG Findings:

The OIG states that ASC supports members' efforts to educate lawmakers on issues facing the state commissions through training and information sharing. The OIG stated that since ASC did not maintain timekeeping records, there is no method for identifying and tracking lobbying costs. The OIG stated that, through the interview process, it identified an

employee that supported the “Voices for AmeriCorps: 100 Hours of Testimony” in August and September 2003. The Draft Report states that the amount of her time was approximately 60% of her effort over 5 days at a labor cost of \$520.

OIG cites OMB Circular A-122, Attachment B, Paragraph No. 25.a:

(4) “Any attempt to influence: (i) The introduction of Federal or State legislation; or (ii) the enactment or modification of any pending Federal or State legislation by preparing, distributing or using publicity or propaganda, or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fundraising drive, lobbying campaign or letter writing or telephone campaign ...”

ASC Response: Charges to be removed from the Grant

Although ASC did not intend to violate any rules, and ASC believes that it has not, after reviewing the concerns raised by the OIG, we believe that it is in the interests of all concerned that we credit the Grant account with the \$520 of challenged cost. The costs charged for “Voices for AmeriCorps...” actually represented the video conferencing capability to hook up and tape people’s comments on the impact of cuts to the program. In order to avoid even the appearance of incorrect activities in the future, after further study we developed a procedure to have ASC employees charge such hours to a non-Grant account.

b. Travel in Connection with Video Conference

OIG Findings:

For the same reason cited in item no. 4, the OIG disallowed \$372 of the Chairman’s travel cost to Washington, DC from Michigan in order to speak at the “Voices for AmeriCorps: 100 Hours of Testimony” on September 3 and 4, 2003.

ASC Response: Charges to be removed from the Grant

While the Chairman was mostly involved with the development of training for state commission executive directors, which is allowable under the Grant, his role as moderator did call for communication with key leaders and his participation in hosting the videoconference was no more than 90 minutes. Since this type of activity could have the appearance of lobbying, the charges will be removed from the Grant. The Chair has since requested that a bill for the travel costs and, through the use of non-Corporation funds, has since paid the costs to ASC in full, and ASC has credited this amount to the Grant (see **Attachment 7**). In the future, after further study, ASC developed a procedure to have these costs charged to a non-Grant account.

c. Printing of Congressional Directories

OIG Findings:

For the same reason cited in item no. 4, the OIG disallowed \$809 for the publication of 300 copies of the Congressional Directory, which includes contact information for members of Congress. Since the directory was distributed to state commission personnel, the OIG states this has the “implied purpose of facilitating or encouraging individuals to contact legislators”.

ASC Response: Charges to be removed from the Grant

ASC does not believe that providing the Congressional Directory is an “implied” or actual form of lobbying activity. When we provided the Congressional Directory no specific legislation or any legislation was considered. We provided the information as part of the training that we have a mandate to perform for our state commission members. Although ASC did not intend it, as the OIG noted, this publication, when combined with the one noted below, could have the appearance of providing strategies for communicating with lawmakers and could therefore appear to be a tool for lobbying activities. The charges will be from the Grant, and the Grant will be credited.

Since this type of activity could have the appearance of lobbying, in the future, we will not include in Grant sponsored training sessions the distribution of such material.

d. Printing of “Educating Lawmakers”

OIG Findings:

For the same reason cited in item no. 4, the OIG disallowed \$653 for the publication of 170 copies of the document entitled “Educating Lawmakers” which includes guidance on corresponding and meeting with members of Congress. Since this document was distributed to state commission personnel, the OIG states this has the “implied purpose of facilitating or encouraging individuals to contact legislators”.

ASC Response: Charges to be removed from the Grant

ASC does not believe that providing the document entitled “Educating Lawmakers” is an “implied” or actual form of lobbying activity. All contacts with Congress are not lobbying, especially those where lawmakers request information. As a part of our training to educate state commission personnel on the boundaries of such activities and by providing information about educating lawmakers, no specific legislation was considered for the purpose of lobbying. However, since this type of activity could have the appearance of lobbying, ASC will credit the Grant for these charges. We will not include the distribution of such material in any Grant sponsored training sessions.

5. Website Development

OIG Findings:

The OIG stated that all of the website cost was charged to the Grant. The OIG raised a concern that as a member organization, some material was posted to the website such as a model letter to Congress regarding funding legislation together with a request to members to email this letter to their Senators.

ASC Response: Part of the charges to be removed from the Grant

Please review the backup material to item no. 3 (i.e. **Attachment 1-A, reference no. III**) which provides our adjustment from Grant cost to G&A for the cost of the web page development associated with the Kellogg Grant. In the future, any activity that is construed as lobbying will not be charged to the Grant.

In addition, the OIG notes that ASC did use the website for Grant activities, saying “Some content directly relates to peer-to-peer training activities.” The website serves as the library for much of the content learned from the Peer-to-Peer exchanges and thereby amplifies the depth and breadth of value of the Corporation’s investment in the activities. Clearly, the website is an allowable cost as part of the communication and dissemination activities allowed and mentioned in the Grant. However, ASC agrees that any misunderstanding about the advocacy or lobbying activities must be removed. ASC will work with the Corporation to determine the proper allocation and segregation of these costs.

With respect to the remaining \$15,190 that exceeds the \$27,000 budget, we believe that this budget excess could be realigned and offset by other budget line items that were under-budget. Therefore, we respectively request that this budget overage be settled during the audit resolution phase.

6. No Written Consultant Agreement

OIG Findings:

The OIG has reviewed the consulting activities and related cost for P. Morse and A. Clump. Grant charges for Morse and Clump were \$17,100 and \$28,977, respectively.

The OIG noted that P. Morse provided service as a Communications Consultant and charged 50 percent of her compensation to the Grant, with the remaining 50 percent charged to the Grant from Kellogg Foundation. Grant payments to this individual through December 31, 2003 totaled \$17,100.

The OIG stated that there is no written agreement between ASC and the individual; accordingly, there is no formal scope of work. An undated document prepared by the consultant describes “goals, deliverables, responsibilities and vision for the future,” centering on information management, website updating and evaluation, preparation of weekly e-bulletins, and conference management. The OIG further noted that specific accomplishments cited in the document include the planning, organization and execution of ASC’s contribution to the *Voices for AmeriCorps* event.

The OIG also stated that during late 2001, ASC engaged A. Clump to serve as a Communications Consultant responsible for writing ASC's e-bulletin and assisting with website development, both of which included a substantial amount of (alleged) legislative reporting. The OIG complained that this consulting arrangement did not include a written contract or documented scope of work. The OIG noted that total fees for these services from 2001 through 2003 total \$31,052, of which ASC charged \$28,977 to the Grant.

The OIG questioned all of consultant's fees charged to the Grant for Morse and Clump, which were \$17,100 and \$28,977, respectively. The OIG's rationale for questioning these costs is due to the absence of (1) a written contract, including a reasonably detailed scope of work, (2) a self-evident relationship between the individual's services and the scope of the Grant (activities appear to be more in the nature of member services), and (3) a significant overspending of Consultant Costs in the Grant budget.

ASC Response: Sufficient documentation of work effort exists

ASC believes there is sufficient documentation to support the allowability of these consultant costs as they both performed a necessary function on the Grant. This support is provided as **Attachments 8-A and 8-B**. ASC believes the cost for both individuals was reasonable. ASC has subsequently developed a policy for consulting and sub-award agreements that address the requirement of having a written contract and documenting a detailed scope of work. ASC will provide documentation to support its consultants' fees.

In addition, we request that the CNCS Audit Resolution not disallow this expense line item or any other cost simply because it is above the line item budget. We would ask for a budget realignment based on actual costs, so long as we did not exceed the authorized cumulative funding. ASC has incurred significant costs to transform our project cost accounting system to a compliant operation in FY 2004. ASC will also incur additional cost for the A-133 audits because the OIG requested audits for all Grant periods. Therefore, we believe it is reasonable for CNCS and ASC to realign and offset all line item overages with any budget shortfalls.

7. Un-allocable Consulting Fees

OIG Findings:

The OIG questioned \$19,385 charged to the Grant for consulting services provided by The Feldman Group. The OIG stated that these services involved designing a questionnaire and interviewing the chair and executive director of each state commission, and then reporting on the results and findings to ASC's Board of Directors. The consulting services were questioned due to a significant overspending of consulting costs in the authorized budget and the ambiguous relationship between this study and the purpose and objectives of the Grant, noting that it would be better characterized as a general membership activity.

ASC Response: Charges to be credited to the Grant

The Feldman Group performed research in support of the whole program. They interviewed executive directors and state commissioners for commissioner and staff needs. This is not an exclusive membership activity; rather this work was performed in support of

Grant and other activities including how state commissions might address matters related to reauthorization. Prior to this research analysis no concrete needs analysis existed for state commissions and how their needs might be addressed through a peer-to-peer exchange.

After a year of Grant performance, CNCS and ASC had only minimal data on how the commissions actually functioned or their needs. This was a collaborative work with CNCS. At the same time there were a number of issues relating to the reauthorization of the Corporation's codifying legislation. This mixed message was communicated to the Feldman Group in their discussions on the scope of work. However, the work of the Feldman report primarily focused on providing a planning tool for training opportunities for commissioners and executive directors from the state commissions. While a major portion of this activity was a valid Grant expense, the ASC Board of Directors recognizes the significance of the language regarding policymakers and therefore will not request that the CNCS Audit Resolution reinstate this consultant cost (\$19,385) to the Grant as allowable. ASC has credited the Grant with these charges per adjusting journal entry no. IGJE32 in **Attachment 1-A, reference no. VI**.

8. Alleged Personal & Unallocable Bank Card Expenses

OIG Findings:

The OIG questioned \$1,978 in alleged personal expenses charged to the Grant. The total questioned amount is comprised of 18 individual transactions presented in Table 2 to the Draft Report.

ASC Response: Charges to be credited to the Grant

Most of the 18 transactions in **Table 2** of the Draft Report were for ASC business purposes and only a few were due to inadvertent charging of personal expenses, some of them were in support of the ASC organization. All personal expenses have either been paid to ASC or billed to the proper individual(s) for repayment. For example, Mr. Sundermeyer paid back \$590.93 for all of his personal expenses, as attached in **Attachment 9**. As explained in the previous section, ASC's management procedures did not preclude the possibility for the miscoding errors that occurred. Our travel and consulting procedures have been revised to require all ASC personnel, Board members, consultants and sub-awardees to complete a travel expense voucher.

The actual amount of items credited to the grant is \$1,388.08 as shown in **Attachment 1-A, reference no. VII**. Since the (4) four items were initially charged to the office supplies G/L account number 5055, they were transferred to G&A of which two of the four were included in the joint expense allocation as previously explained on page 4. Those four items are for the amounts of: \$338.64, \$10.55, \$131.50, and \$109.29, which total \$589.98. **Attachment 10** shows the (4) four items transferred to G&A via adjusting journal entry no. IGJE03.

The two items included in the joint expense are \$10.50 to office supplies (G/L 5050) and \$131.50 (G/L 5070) to postage and delivery highlighted in red font in **Attachment 10**. The other two items remained in G&A and were not allocated via the joint expense because

they were reclassified from office supplies (G/L 5050) to travel (G/L 5133) as highlighted in blue font in **Attachment 10**.

9. Allocation of Joint Administrative Cost

OIG Findings:

According to the OIG, a number of administrative costs are allocated entirely or in part to the Grant. The principal costs cited in the Draft Report are office rent, telephone services, and office supplies. The OIG further stated that on the other hand, payroll taxes and an allocation of these costs to the Grant are not supported by the consistent application of a rational allocation methodology. The OIG stated that it had asked ASC's ED and accountants to examine these costs and re-allocate them to the various cost centers based on a rational methodology, and the results of this exercise are pending.

ASC Response:

We have developed the following policy for allocating joint costs.

Joint expenses are mixed items, having a component of direct and indirect cost.

- 9.1 ASC will use the P&L Class "Joint Expense" to place monthly joint expenses.
 - a. At the end of the month, all joint expenses will be removed from the P&L Class by crediting the Joint Expense P&L Class and charged to the appropriate G/L expense account in the direct or indirect P&L Class.
 - b. For a G/L expense account, the total in the monthly P&L Class "Joint Expense" will be allocated to all direct / indirect, federal / non-federal activities based on the monthly percentage of labor hour representing all activities involved during that month.
- 9.2 The following G/L accounts are considered as having joint expenses.
 - a. The G/L accounts containing joint expenses are Office Supplies (5050), Postage and Delivery (5070), Printing and Reproduction (5080), Telephone (5120), Rent (6030), Accounting (6052), Payroll Taxes (8020) and Benefits Allocation (8025).
 - b. The following G/L joint accounts could have direct and/or indirect only charges because they can have individual, identifiable items. For example, long distance telephone calls or conference calls could be 100% direct or 100% indirect. For these types of charges, they should first be classified to the appropriate P&L Class (direct / indirect, federal / non-federal) and the remaining expenses would be coded to P&L Class "Joint Expense". The applicable G/L expenses are: Office Supplies (5050), Postage and Delivery (5070), Printing and Reproduction (5080), and Telephone (5120).

- c. The following G/L joint accounts have no identifiable component that could be totally direct or indirect. Thus, these G/L accounts have only mixed (direct and indirect) costs: Rent (6030), Accounting (6052), Payroll Taxes (8020) and Benefits Allocation (8025).

10. Benefits

OIG Findings:

Employee benefits charged to the Grant total \$57,325. The OIG questions these costs as unsupported as a part of the questioned cost in Item No. 2 which relates to total salaries and benefits allocated to the Grant. ASC currently maintains a practice of paying certain employee expenses, up to 25% of base salaries, as a “benefit,” and this practice is generally cited in individual employment letters. It is the OIG’s position that since the organization is well past its start-up phase, it would be appropriate to more formally define and implement this policy to better comply with OMB cost principles and to avoid income tax issues for the individual employees.

ASC Response: The size of the organization warrants a unique benefits package to remain competitive, and the costs charged are allocable to the Grant.

The ASC organization started in June 2000 with 1 employee and did not grow to 4 employees until 2001. The organization is too small (i.e. 4 employees) to be able to participate in a group plan that provides low-priced insurance. It is only within the last six months that we secured a “group” plan. This is why we reimburse employees up to 25% of their salaries for benefits. Since this is a consistent practice, though it may seem unusual, it is allowable per OMB Circular A-122, Attachment B, 7f(2) and (3) as a type of self-insurance. ASC believes that this benefit allows it to secure staff in a highly competitive employment market.

Until recently most of our employees have purchased medical insurance from different carriers. Although they have no purchased plan for vision or dental, they submit payment for reimbursement, similar to the rules under an IRS “cafeteria” plan for pre-tax medical. In addition, one employee has participated in her own 401-k plan, and thus used a portion of her benefit as a contribution to her pension plan. At the end of the year, employees are paid the unused portion as taxable compensation. Since we retain the documentation to support reimbursement to our employees, our benefit cost should not be questioned as “unsupported”.

It is our belief that the 25% of salaries is a reasonable benefit expense. We are open to pursuing a better purchased insurance plan for the ASC organization and we would select among the lowest most qualified plan. However, we will expect CNCS to increase our benefit cost in the Grant budget to meet the requirements of a more expensive purchased insurance plan.

All of this is currently moot, since all but 1 staff member was terminated effective August 2, 2004. This occurred because ASC did not receive the promised funding for the FY 2004 PTP effort and thus did not have sufficient revenue sources to maintain our staff. When

funds are restored, and staff rehired, the above approach is the one ASC would like to implement after reviewing it with the Corporation.

11. Travel Costs

OIG Findings:

According to the OIG, a number of travel expenses were identified that were not allowable to the Grant based on review of supporting documentation and discussion with ASC management as shown in Table 3 of the Draft Report. The audit will question these costs, totaling \$12,130.

ASC Response: We have documentation for two expense items that we believe should be charged to the Grant. The remaining items will be credited to the Grant for a total of \$7,114.68 as shown in **Attachment 1-A, reference no. VIII.**

Our response to the specific transactions identified by the OIG in **Table 3** of the Draft Report is as follows:

04/26/01 - \$704.71. This is an ASC business expense and will be credited to the Grant.

10/24/01 - \$266.08. This is an ASC business expense and will be credited to the Grant.

10/24/01 - \$620.85. This is an ASC business expense and will be credited to the Grant

12/04/01 - \$304.72. This is an ASC business expense and will be credited to the Grant.

12/04/01 - \$711.01. This is an ASC business expense and will be credited to the Grant.

3/31/02 - \$1,220.97. We were unable to support this cost and therefore it will be credited to the Grant.

5/31/02 - \$515.25. We could not find this transaction in our books and records. We asked the OIG to help us to locate the charge that they believe is questionable. Since the OIG cannot locate this charge, we request that it not be questioned.

06/02/02 - \$515.25. We could not find this transaction in our books and records. We asked the OIG to help us to locate the charge that they believe is questionable. Since the OIG cannot locate this charge, we request that it not be questioned.

06/30/02 - \$3,951.00. We believe this is a valid Grant expense as the room was used for conference-designated meetings, see the documentation in

Attachment 11. It is important to note that it is not a premium hotel room. The hotel room charge reflects the use of the parlor with a sleeping room which was offered by the hotel when no office space was available for the conference support work and youth commissioner training which occurred at the Salt Lake conference.

A suite – living room was used for meeting purposes and offices during our National Conference. The bedrooms were used for people associated with PTP training for commissioners. The daily charge of \$595 for 2 people’s lodging, office and meeting room and is a reasonable expense.

01/29/03 - \$384.00. This is a refund and will be credited to the Grant.

04/14/03 - \$408.84. This is a refund and will be credited to the Grant.

07/03/03 - \$1,064.08. This is a voided check and will be credited to the Grant. This charge is a travel expense reimbursement to Terri Hasdorff and was disbursed via Check No. 1369 on August 1, 2003. The purpose of Terri’s travel was in support of the 2003 Annual ASC conference. This is a valid charge to the Grant, see the documentation in **Attachment 12**.

08/14/03 - \$1,076.00. This is an ASC business expense and will be credited to the Grant.

08/15/03 - \$387.00. This is a refund and will be credited to the Grant.

C. CONCLUSION

We respectfully submit this information to the OIG in response to the Draft Report. We believe that we have addressed each issue and demonstrated our good faith efforts to either maintain or correct the records to substantiate the costs, corrected the allocation of costs or established proper procedures to avoid errors in the future. We continue to review our records and the A-133 audits are soon underway. We reserve the right to clarify, supplement or correct as necessary any position expressed in this document if additional information becomes available.