

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

**AGREED-UPON PROCEDURES FOR
GRANTS AWARDED TO
MICHIGAN COMMUNITY SERVICE COMMISSION**

OIG REPORT NUMBER 12-14



Prepared by:

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This report was issued to Corporation management on August 27, 2012. 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 February 27, 2013, and complete its corrective actions by August 27, 2013. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



August 27, 2012

TO: William Basl
Director, AmeriCorps*State and National

Margaret Rosenberry
Director, Office of Grants Management

FROM: Stuart Axenfeld /s/
Assistant Inspector General for Audit

SUBJECT: *OIG Report 12-14, Agreed-Upon Procedures for Corporation for National and Community Service Grants Awarded to Michigan Community Service Commission (MCSC)*

Attached is the final report for the above-noted engagement. This agreed-upon procedures engagement was conducted by Kearney & Company P.C. in accordance with attestation standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Under the Corporation's audit resolution policy, a final management decision on the findings and recommendations in this report is due by February 27, 2013. Notice of final action is due by August 27, 2013.

If you have questions pertaining to this report, please call me at (202) 606-9360, or Ron Huritz, Audit Manager, at (202) 606-9355.

Attachment

cc: Paula Kaiser Van Dam, Executive Director, MCSC
Garry Gross, Director of Finance and Administration, MCSC
Cindy Osga, Internal Control Officer, Michigan Department of Human Services
David Rebich, Chief Financial Officer, CNCS
Claire Moreno, Audit Liaison, Office of Grants Management, CNCS
Karen Gandolfo, Audit Resolution Specialist, CNCS
David Zavada, Partner, Kearney & Company P.C.

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EXECUTIVE SUMMARY

The Office of Inspector General (OIG) of the Corporation for National and Community Service (the Corporation) contracted with Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) to perform agreed-upon procedures (AUP) to assist the OIG in grant cost and compliance testing of Corporation-funded Federal assistance provided to the Michigan Community Service Commission (the Commission).

Kearney questioned the Commission’s claimed Federal share costs of \$243,536 and education awards of \$33,075 as a result of applying the AUPs. A questioned cost is an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds. A questioned cost may also include a finding that, at the time of testing, includes costs not supported by adequate documentation. Claimed costs and questioned costs are presented in this document in Exhibit A, Consolidated Schedule of Claimed and Questioned Costs, and the supporting schedules (Schedules A through F). The following is a summary of questioned costs and grant compliance testing results:

- Finding 1 – Michigan State University (MSU) Untimely Approval of Timesheets
- Finding 2 – Accounts Payable Accrual Improperly Computed for Closed Contract
- Finding 3 – Insufficient Habitat for Humanity of Michigan (Habitat for Humanity) Fringe Benefit Deductions and Documentation
- Finding 4 – Living Allowance Incorrectly Reported
- Finding 5 – Habitat for Humanity’s Accounting Detail Does Not Reconcile to the Federal Financial Report (FFR)
- Finding 6 – American Red Cross of Greater Grand Rapids (American Red Cross) Over-Reported In-Kind Contributions on the Periodic Expense Report (PER)
- Finding 7 – MSU Miscalculated Matching Costs
- Finding 8 – Commission Miscalculated Member Living Allowances
- Finding 9 – Commission Incurred Unallowable Costs
- Finding 10 – American Red Cross Accounting Detail Does Not Reconcile to the FFR
- Finding 11 – American Red Cross Incurred Unsupported and Unallowable Travel Costs
- Finding 12 – MSU Inappropriately Approved Timesheets
- Finding 13 – Commission Claimed Unsupported Costs
- Finding 14 – Commission Claimed Unallowable Costs.

Participants who successfully complete terms of service under AmeriCorps grants are eligible for education awards and, in some cases, accrued interest awards funded by the Corporation’s National Service Trust. These award amounts are not funded by Corporation grants, and as a result, are not included in claimed costs. When the grant is awarded, the education awards become obligations of the Corporation’s National Service Trust. Therefore, as part of our AUPs and applying the same criteria used for the grantees’ claimed costs, we determined the effect of our findings on AmeriCorps members’ entitlement to education and accrued interest awards.

The following is a summary of grant compliance testing results. These results, along with applicable recommendations, are discussed in Exhibit B, Compliance Findings.

- Finding 15 – Lack of Adequate Procedures for Conducting Criminal Background Checks and Searches of the National Sex Offender Public Registry
- Finding 16 – Lack of Sufficient End-of-Term Documentation
- Finding 17 – Living Allowances Based on Hours Served
- Finding 18 – Discrepancies in Member Roster Comparison.

AUP SCOPE

Kearney performed the AUPs detailed in the OIG's *Agreed-Upon Procedures for Corporation Awards to Grantees (including Subgrantees)* program, dated July 2011. Our procedures covered testing of the AmeriCorps Competitive, Formula, Education Award, American Recovery and Reinvestment Act (Recovery Act), Administrative, Professional Development and Training (PDAT), and Disability grants listed in the table on the following page.

Grant Number	Program	Grant Period		AUP Period		Total Claimed Costs	Total Funding
		Start of Grant	End of Grant	Start of Review	End of Review		
06AFHMI001	AmeriCorps State Formula	9/1/2006	12/3/2012	9/30/2009	9/30/2011	\$15,477,486	\$20,174,381
09ACHMI001	AmeriCorps State Competitive	7/1/2009	9/30/2012	9/30/2009	9/30/2011	\$3,629,019	\$6,084,187
09VSNMI005	VISTA	1/3/2010	1/14/2012	1/3/2010	9/30/2011	\$15,000	\$15,000
10CAHMI001	Commission Administration	1/1/2010	12/31/2012	1/1/2010	9/30/2011	\$534,228	\$2,862,564
10CDHMI001	Disability	1/1/2010	12/31/2012	1/1/2010	9/30/2011	\$32,837	\$552,028
10ESHMI001	Commission Education Awards	8/23/2010	8/22/2013	8/23/2010	9/30/2011	\$582,500	\$634,500
10FXHMI002	Commission Education Awards	9/1/2010	8/31/2013	9/1/2010	9/30/2011	\$671,947	\$1,768,000
10VGHMI001	Volunteer Generation Fund	10/1/2010	9/30/2013	10/1/2010	9/30/2011	\$255,785	\$966,467
11ESHMI001	Commission Education Awards	8/22/2011	8/21/2013	8/22/2011	9/30/2011	Note 1	\$586,500
11PTHMI001	Program Development and Technical Assistance	1/1/2011	12/31/2013	1/1/2011	9/30/2011	\$44,998	\$259,200
05ESHM1001	Commission Education Awards	Note 2					
06ACHM1001	AmeriCorps State	Note 2					
09RFHM1001	AmeriCorps State Recovery	Note 2					

Note 1: This grant started in August 2011 and had no claimed expenditures during our period of review.

Note 2: These grants were closed prior to the end of the period of review. Accordingly, these grants were only tested for member eligibility procedures.

The OIG's AUP program included the following:

- Obtaining an understanding of the Commission's operations, programs, significant transaction cycles, and subgrantee monitoring process
- Reconciling costs claimed on the most recent FFR to the Commission's accounting system
- Testing subgrantee member files to verify that records support eligibility to serve, allowability of living allowances, and eligibility to receive education awards
- Testing the Commission's and sampled subgrantees' compliance with the grant agreement terms, AmeriCorps provisions, Office of Management and Budget (OMB) Circulars, and other applicable laws and regulations.

Kearney performed site visits from January through March 2012 at the Commission and the following three subgrantees:

- MSU
- Habitat for Humanity
- American Red Cross.

BACKGROUND

Corporation Origin and History

The Corporation was established in 1993 to engage Americans of all ages and backgrounds with opportunities to provide services to meet unmet needs in their communities and the nation. The Corporation is directed to manage four main programs: Senior Corps, AmeriCorps, Social Innovation Fund, and the Volunteer Generation Fund. The Corporation is the nation's largest grant maker for volunteering, with its participants serving with 70,000 non-profit organizations. AmeriCorps alone engages 75,000 Americans, and in recent years has stepped up its role in recruiting, training, and managing volunteers of all ages and backgrounds. Since 1994, more than 630,000 Americans have given 718 million hours of service through AmeriCorps.

Commission's Mission

Since its founding in 1991, the Commission has granted more than \$100 million in public and private funds to community organizations, enabling them to engage millions of Michigan citizens in volunteer service. This support has leveraged more than \$85 million in local resources to further support these community volunteer initiatives. The Commission achieves its mission by performing the following:

- Securing and granting funds
- Selecting and training high quality grantees
- Overseeing and monitoring grantee results
- Recognizing the success and effectiveness of volunteer programs and activities
- Developing and sharing resources
- Conducting research and evaluation

- Creating networks among volunteer organizations
- Sharing the results of investments
- Serving as a bridge between the public and non-profit sectors.

According to the Commission's website, in 2009, Michigan had over 2.3 million volunteers. These volunteers' 308 million service hours had an economic value equivalent to \$6.2 billion. The Commission, acting as the state's lead agency on volunteerism, strives to increase these efforts and impact by promoting service as a strategy to address Michigan's toughest challenges. The Commission receives \$674,000 in state funds to address those challenges and anticipated maintaining that level of funding for fiscal year (FY) 2012. Those state funds leverage more than \$10 million in Federal funds to be disbursed through various initiatives of the Commission. For every one dollar the state provides to the Commission, \$14.83 in Federal funds are leveraged. Without the state's investment, critical challenges would not be addressed through AmeriCorps, service-learning, mentoring, and general volunteering initiatives.

In 2010 and 2011, the Commission funded 26 AmeriCorps programs and 1,211 members through its Michigan AmeriCorps initiative. These members serve in non-profit organizations and schools throughout the state. During 2012, members will provide foreclosure prevention and financial counseling, help ex-offenders re-enter society, assist homeless individuals and families in finding permanent housing, organize literacy and tutoring programs for underperforming youth, mentor and support youth from disadvantaged circumstances, and support healthcare services to the most needy, among other things. The members will accomplish these initiatives with the help of more than 24,000 local volunteers they will recruit. As a result of their service, Michigan AmeriCorps members will earn an estimated \$3 million in education awards to pay for college and vocational training programs or repay student loans.

The Commission falls under the State of Michigan's Department of Human Services' (DHS) Strategic Services Branch. DHS is a major department in the State of Michigan's financial statements. The Commission does not produce its own financial statements; rather, the Commission relies on DHS and the State of Michigan to properly account for its financial records and financial reporting.

The Commission has approximately 38 subgrantees, 26 of which have received over \$500,000 in awards from the Commission.

EXIT CONFERENCE

The contents of this report were discussed with Commission and Corporation representatives at an Exit Conference held on June 8, 2012. Kearney summarized the Commission's comments in the appropriate sections of this report, and included those comments in their entirety in Appendix A to this report.

**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON
PROCEDURES**

To the Inspector General of the Corporation for National and Community Service

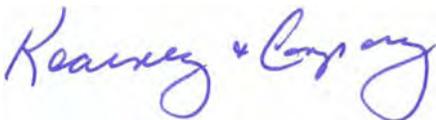
Kearney & Company, P.C. (referred to as "Kearney," "we," and "our" in this report) has performed the procedures contained in the Office of Inspector General's (OIG) *Agreed-Upon Procedures Related to Federal Assistance Recipient* program, dated July 2011. These procedures were agreed to by the OIG solely to assist in evaluating the Michigan Community Service Commission's (the Commission) compliance relating to federally assisted funds received for the period of September 30, 2009 through September 30, 2011. The Commission and its subgrantees are responsible for the accuracy and completeness of the reported information.

This agreed-upon procedures (AUP) engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, as well as Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the OIG. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we agreed to perform consisted of obtaining an understanding of the Commission, reconciling costs claimed, reviewing subgrantee member files, and testing the Commission's and sampled subgrantees' compliance with the grant agreement terms, AmeriCorps provisions, Office of Management and Budget (OMB) Circulars, and other applicable laws and regulations. The enclosure contains the AUPs and our results.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Commission's compliance relating to Federally assisted funds received. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This letter is intended solely for the information and use of the Corporation's management, the Corporation's OIG, the Commission, the Government Accountability Office, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.



Alexandria, Virginia
May 16, 2012

Exhibit A

**Michigan Community Service Commission
Corporation for National and Community Service Awards
Consolidated Schedule of Claimed and Questioned Costs**

Grant Number	Program	Total Funding	Costs Claimed	Questioned Federal	Questioned Match	Questioned Education Awards	Total Questioned Costs	Reference
06AFHMI001	AmeriCorps State	\$20,174,381	\$15,477,486	\$203,477	\$0	\$0	\$203,477	Schedule B
09ACHMI001	AmeriCorps State	\$6,084,187	\$3,629,019	\$37,609	\$0	\$0	\$37,609	Schedule C
10ESHMI001	Commission Education Awards	\$634,500	\$582,500	\$1,347	\$0	\$0	\$1,347	Schedule E
11PTHMI001	Program Development and Technical Assistance	\$259,200	\$44,998	\$1,103	\$0	\$0	\$1,103	Schedule F
Total Questioned Costs for the Federal Assistance Funds Received by the Commission				\$243,536	\$0	\$0	\$243,536	

The table below represents grants that were closed prior to the end of the period of review. Accordingly, these grants were only tested for member eligibility procedures.

Grant Number	Program	Questioned Education Awards	Compliance Issue	Reference
05ESHMI001	Commission Education Awards	N/A	Yes	Exhibit B
06ACHMI001	AmeriCorps State	\$23,625	Yes	Schedule A
09RFHMI001	AmeriCorps State Recovery	\$9,450	Yes	Schedule D
Total Questioned Costs for the Federal Assistance Funds Received by the Commission		\$33,075		

Schedule A

**Michigan Community Service Commission
Corporation for National and Community Service Awards
Schedule of Claimed and Questioned Costs
Award No. 06ACHMI001**

	Amount
Claimed Federal Costs	\$4,983,869
Questioned Federal Costs	\$0
Questioned Match Costs	\$0
Total Questioned Costs	\$0
Questioned Education Awards Finding 1	\$23,625

Finding 1: Michigan State University (MSU) Untimely Approval of Timesheets

Member timesheets are approved by a supervisor once they are entered into OnCorps Reports. OnCorps Reports is a software support service that works exclusively with AmeriCorps State, National Direct, Volunteers in Service to America (VISTA), and other national and community service programs. The Michigan Community Service Commission (the Commission) uses OnCorps Reports to maintain documentation regarding member services.

For six¹ of 100 member timesheets reviewed, Kearney & Company, P.C. (Kearney) identified timesheets that were approved by supervisors several days before the members served the last hour recorded in the pay period. Timesheets validate that the members worked the correct amount of hours to earn an education award.

Due to unsupported documentation, Kearney questioned education awards and any related forbearance interest arising from these timesheets in prorated amounts for the hours not approved appropriately by a supervisor. Kearney questioned all hours worked subsequent to the timesheet approval, as Kearney was unable to validate that all hours recorded were actually worked. As a result, Kearney questioned the education awards in the table on the following page.

¹ Kearney identified six member timesheets that were not properly approved; however, only five resulted in questioned costs due to one member exiting early and not receiving an education award.

Program Name	Grant(s) Affected	Amount of Education Award Received	Total Unsupported Hours for Program Year
4-H Mentor Michigan	06ACHMI001	\$4,725	55.5
4-H Mentor Michigan	06ACHMI001	4,725	216
4-H Mentor Michigan	06ACHMI001	4,725	159
4-H Mentor Michigan	06ACHMI001	4,725	142
4-H Mentor Michigan	06ACHMI001	4,725	73
Total Questioned Education Awards		\$23,625	

Criteria

The Corporation for National and Community Service’s (the Corporation) *AmeriCorps Provisions* (2011), Section IV.C.6, “Completion of Terms of Service,” states:

“The grantee must ensure that each member has sufficient opportunity to complete the required number of hours of service to qualify for their education award. Members must be exited within 30 days of the end of their term of service. Should a program not be renewed, a member who was scheduled to continue in a term of service may either be placed in another program where feasible, or a member may receive a pro-rated education award if the member has completed at least 15% of the service hour requirement.”

The Corporation’s *AmeriCorps Provisions* (2011), Section IV.C.5, “Timesheets,” states:

“The grantee is required to ensure that time and attendance recordkeeping is conducted by the individual who supervises the AmeriCorps member. This time and attendance record is used to document member eligibility for in-service and post-service benefits. Time and attendance records must be signed and dated both by the member and by an individual with oversight responsibilities for the member.”

Recommendations

Kearney recommends that the Corporation:

- 1a. Resolve and recover \$23,625 in questioned education awards;
- 1b. Ensure that the Commission strengthens the monitoring of its subgrantees to determine whether member timesheets support the service hours reported and certified in Electronic System for Programs, Agreements, and National Service Participants (eSPAN) and My AmeriCorps Portal. The Corporation should also ensure that the Commission reconciles the hours stated in eSPAN with the hours recorded in OnCorps Reports to correct discrepancies timely; and
- 1c. Remind all Commission and subgrantee supervisors that the purpose of their timesheet approval is to confirm, based on personal knowledge, that the member has actually

completed the recorded hours, making it improper to approve a timesheet prior to completion of the service time that it reflects.

Commission's Response

Disagree. Members enter their service time into OnCorps. Timesheets are a printout of the member service information entered into OnCorps. The member service time was approved by site supervisors prior to the pay period end date to accommodate internal processes related to the subgrantee's payroll system so the payroll could be processed timely. The member service time was reviewed for accuracy after the pay period ended. The subgrantee's process provides for adjustments if hours differ from those entered into the system prior to the pay period end date. The member service time entered into OnCorps supports the service hours reported.

Each subgrantee is required to reconcile the member service hours in OnCorps to eGrants as part of the grant closeout process. The subgrantee must compare each member and highlight discrepancies on both reports. The subgrantee must resolve discrepancies. The subgrantees submit the OnCorps Report and eGrants reports to the Commission as part of the closeout package.

Kearney's Response

We appreciate the Commission's response. While policy may dictate that each subgrantee may be required to reconcile the member service hours as part of the grant closeout process, the subgrantee was unable to provide evidence to validate that all hours recorded were actually worked. Therefore, Kearney recommends that the Commission strengthen the monitoring of its subgrantees, and that the Corporation resolve the questioned costs.

Schedule B

**Michigan Community Service Commission
Corporation for National and Community Service Awards
Schedule of Claimed and Questioned Costs
Award No. 06AFHMI001**

	Amount
Claimed Federal Costs	\$15,477,486
Questioned Federal Costs	
Finding 2	\$4,724
Finding 3	(\$1,200)
Finding 4	\$203
Finding 5	\$199,750
Questioned Match Costs	\$0
Total Questioned Costs	\$203,477

Finding 2: Accounts Payable Accrual Improperly Computed for Closed Contract

Kearney selected a representative sample of 87 transactions from the Commission accounting detail, reconciled the sample with the supporting documentation, and tested for compliance with the grant agreement terms, Office of Management and Budget (OMB) Circulars, and other applicable laws and regulations. As a result of its testing, Kearney identified one issue, as follows:

- For one of 87 samples tested, the Commission improperly reported an accounts payable accrual of \$4,724 for a contract that was not closed on a timely basis.

Account payable accruals are automatically calculated in the Commission’s accounting system at year end based on the period of performance and the amount remaining on the contract. The Commission had already paid the final invoice for this contract, thus the \$4,724 should have been de-obligated; however, the contract was not closed on a timely basis and was captured in the automated accounts payable accrual process. As a result, costs for the September 30, 2011 Federal Financial Report (FFR) submission were overstated by \$4,724.

Criteria

OMB Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, “General Principles for Determining Allowable Costs,” states:

“1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards

- b. Be allocable to Federal awards under the provisions of this Circular
- c. Be authorized or not prohibited under State or local laws or regulations
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit
- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost
- g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles
- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation
- i. Be the net of all applicable credits
- j. Be adequately documented.”

Recommendation

- 2. Kearney recommends that the Corporation resolve the questioned costs, totaling \$4,724, and recover the disallowed costs.

Commission’s Response

Agree. A final payment was made against the grant for the period ended December 31, 2010. The system recognized there were funds available to bill against and did not recognize the contract end date (January 7, 2011) for establishing a payable in the accounting system. Therefore, the system created a payable. The Commission thought the grant had closed out effective December 31, 2010, with the final payment and did not work or track the award after that date. The issue was discovered after year end closing deadlines for the fiscal year ended September 30, 2011, and could not be reversed. The erroneous accounts payable will be written off in accordance with State requirements in August 2012.

Kearney’s Response

We reviewed the Commission’s response and have no additional comments.

Finding 3: Insufficient Habitat for Humanity of Michigan Fringe Benefit Deductions and Documentation

Kearney tested fringe benefit deductions and related documentation for May 2011. When recalculating Habitat for Humanity of Michigan’s (Habitat for Humanity) fringe benefits, Kearney noted the following:

- Habitat for Humanity pays for a portion of its employees' life insurance benefits provided through American Family Life Assurance Company (AFLAC), with the employee paying the remaining portion. When the AFLAC statement is received, Habitat for Humanity creates an entry in its general ledger for the full benefit amount (employee and employer portions). Habitat for Humanity subsequently creates a credit in the general ledger to reverse the employee paid portion. Kearney determined that the reversed amount, and the method of determining each employee's portion of the cost, is unsupported. As a result, Kearney questioned the unsupported costs of (\$689) (\$109 + \$580) related to the fringe benefits. In addition, there is no monthly reconciliation that occurs between the AFLAC statement and the general ledger
- Kearney obtained the AFLAC bill for May 2011, and determined that the benefit amount paid by Habitat for Humanity is incorrect. Kearney recalculated the amount and found a difference of \$1.80. Kearney questioned a total of \$22 ($\$1.80 * 12$) in under-reported costs for program year 2010-2011
- Kearney questioned the difference of \$40.76 between the accounting records and wage schedule for May 2011, which amounts to a total cost of \$489 ($\$40.76 * 12$) in under-reported costs for program year 2010-2011.

Habitat for Humanity recorded the employee paid portion in journal entries for the wrong amount. In addition, Habitat for Humanity did not perform monthly reconciliations between the AFLAC bill and the general ledger adjusting entry. Therefore, the subgrantee under-reported costs relating to fringe benefits on employees' year-end W-2 forms by \$22 for program year 2010-2011, and under-reported costs by \$1,200 ($\$689 + \$489 + \22).

Criteria

Per OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, "General Principles for Determining Allowable Costs," Section C, "Basic Guidelines," Sub-Section 1, "Factors Affecting Allowability of Costs":

"To be allowable under Federal awards, costs must meet the following general criteria:

...j.) Be adequately documented."

Recommendations

- 3a. Kearney recommends that the Corporation resolve the total questioned costs of \$1,200 related to Habitat for Humanity's fringe benefits.
- 3b. Kearney recommends that the Corporation ensure the Commission directs the subgrantee to implement a monthly reconciliation process so that the correct amount can be deducted from payroll each month.

Commission's Response

Agree. Habitat for Humanity implemented a reconciliation process in January 2012.

Kearney’s Response

We reviewed the Commission’s response and have no additional comments.

Finding 4: Living Allowance Incorrectly Reported

Members’ living allowances are to be paid in accordance with the Living Allowance Payment Schedule (LAPS). Kearney selected a random sample of 100 members from the member roster to validate that members received the proper living allowance during their terms of service. Kearney noted that one member’s Form W-2 for 2011 did not agree to the total amount listed on the LAPS provided by the subgrantees, resulting in the member being paid more than the maximum amount.

This error occurred because the Commission and its subgrantees do not perform reviews between payroll records and supporting documentation, such as LAPS, timesheets, and W-2s, prior to certifying documents. The programs and the amount of living allowances resulted in the following overpayment:

Subgrantee	Program Name	W-2 Amount	LAPS Amount	Questioned Living Allowance
Saginaw Substance Abuse Prevention Partnership	Saginaw Substance	\$6,245	\$6,042	\$203
Net Questioned Costs from Member Testing				\$203

Criteria

Code of Federal Regulations (CFR), Title 45, Section 2522.240, “What financial benefits do AmeriCorps participants serving in approved AmeriCorps positions receive?” states:

“(b) *Living allowances—(1) Amount.* Subject to the provisions of this part, any individual who participates on a full-time basis in an AmeriCorps program carried out using assistance provided pursuant to §2521.30 of this chapter, including an AmeriCorps program that receives education awards only pursuant to §2521.30(c) of this chapter, will receive a living allowance in an amount equal to or greater than the average annual subsistence allowance provided to VISTA volunteers under §105 of the Domestic Volunteer Service Act of 1973 (42 U.S.C. 4955). This requirement will not apply to any program that was in existence prior to September 21, 1993 (the date of the enactment of the National and Community Service Trust Act of 1993)....

(2) *Maximum living allowance.* With the exception of a professional corps described in §2522.110(a)(3), the AmeriCorps living allowances may not exceed 200 percent of the average annual subsistence allowance provided to VISTA volunteers under section 105 of the Domestic Volunteer Service Act of 1973 (42 U.S.C. 4955). A professional corps AmeriCorps program may provide a stipend in excess of the maximum, subject to the following conditions: (i) Corporation assistance may not be used to pay for any portion of the allowance...”

Recommendation

4. Kearney recommends that the Corporation ensure that the grantee strengthens its program monitoring procedures to meet the requirements of 45 CFR § 2522.240, and that living allowances paid to members are in accordance with the LAPS amount.

Commission's Response

Disagree in part. The Commission does not believe it is practical to require the subgrantees to reconcile the Living Allowance Payment Schedule to the W-2 forms prior to payroll certification given they are issued only once per year.

The Commission will encourage the subgrantees to periodically evaluate the living allowance paid with the Living Allowance Payment Schedule to ensure the amount paid to the member is within the maximum.

Kearney's Response

We appreciate the Commission's response and support the Commission working with the subgrantees to effectively address this issue.

Finding 5: Habitat for Humanity's Accounting Detail Does Not Reconcile to the FFR

Habitat for Humanity does not perform a reconciliation of costs claimed on its FFR to its general ledger. At Kearney's request, Habitat for Humanity performed the reconciliation and identified variances. Habitat for Humanity did not process adjustments to correct the unreconciled errors, and did not submit a revised FFR to the Corporation. As a result, we identified \$199,750 in costs on the FFR that were not recorded in the general ledger.

Kearney determined that costs were overstated due to the following:

- Adjusting entries during the financial reporting process that were not recorded in the general ledger
- Incorrect coding in the accounting system
- Advances reported as expenses, which caused them to be double-reported
- Over-reported costs.

Criteria

OMB Circular No. A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, "Basic Considerations," states:

"2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:

- a. Be reasonable for the performance of the award and be allocable thereto under these principles.
- b. Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.
- c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.
- d. Be accorded consistent treatment.
- e. Be determined in accordance with generally accepted accounting principles (GAAP).
- g. Be adequately documented.”

Recommendations

Kearney recommends that the Corporation:

- 5a. Resolve the unsupported questioned costs, totaling \$199,750, and recover the disallowed costs as applicable;
- 5b. Ensure that the Commission instructs the subgrantee to reconcile its accounting records to the amounts reported, ensure that transactions and accounting records are accurate and supported by relevant and sufficient documentation, review controls over reporting to ensure submissions are in accordance with Government requirements, and ensure sufficient controls are designed and operating effectively over reporting processes; and
- 5c. Ensure that the Commission increases the level and frequency of its fiscal monitoring efforts to ensure that controls over financial reporting are more effective.

Commission's Response

Disagree. Habitat for Humanity identified the difference of \$199,750 as described below.

- | | |
|------------|--|
| \$ 48,641 | 2010-2011: Habitat for Humanity returned \$10,256 of grant funds which had been advanced and corrected allocations of \$38,385 prior to filing the final close out documents with the Corporation. |
| \$ 104,512 | 2009-2010: Habitat for Humanity returned \$33,887 of grant funds which had been advanced and had \$70,625 of expenses that were not allocated to the program in the organization's financial records. |
| \$ 46,597 | ARRA: Habitat for Humanity incurred \$11,376 of workers compensation insurance directly related to ARRA funded members. The audit occurred subsequent to the grant period and thus was not originally allocated. In addition, \$35,221 of in-kind expenses that were incurred at the Habitat for Humanity affiliate level were not recorded on Habitat for Humanity's financial records in accordance with Generally Accepted Accounting Principles. |

The Commission will encourage the subgrantee to maintain reconciliation documentation with its copy of the Federal Financial Report for audit purposes.

The Commission uses a risk-based approach to determining the subgrantees that will be subject to an on-site fiscal monitoring review. The approach was approved by the Corporation. The risk based approach allows the Commission to determine if a subgrantee will be subject to an on-site review or an off-site/desk review so resources are directed to higher risk subgrantees, programs, or types of transactions.

Kearney's Response

We appreciate the Commission's response.

2010-2011 Grant

- The Corporation should verify that \$10,256 was returned, as this documentation was not available in a timely manner
- The Corporation should verify that supporting documentation exists for the \$38,385, which was not provided in a timely manner, and recover costs that cannot be supported.

2009-2010 Grant

- The Corporation should verify that \$33,887 was returned, as this documentation was not available in a timely manner
- The Corporation should verify that supporting documentation exists for the \$70,625, which was not provided in a timely manner, and recover costs that cannot be supported.

Recovery Act

- The Corporation should verify that supporting documentation exists for the \$46,597, which was not provided in a timely manner, and recover costs that cannot be supported.

Schedule C

**Michigan Community Service Commission
Corporation for National and Community Service Awards
Schedule of Claimed and Questioned Costs
Award No. 09ACHMI001**

	Amount
Claimed Federal Costs	\$3,629,019
Questioned Federal Costs	
Finding 6	\$733
Finding 7	\$168
Finding 8	(\$1,436)
Finding 9	\$17,214
Finding 10	\$20,660
Finding 11	\$270
Questioned Match Costs	\$0
Total Questioned Costs	\$37,609

Finding 6: American Red Cross of Greater Grand Rapids (American Red Cross) Over-Reported In-Kind Contributions on the Expense Report (PER)

As part of the grant agreement, American Red Cross was required to cost-share or match costs, which means that a portion of the costs are to be paid by the grantee and not the Federal Government. Kearney determined that American Red Cross cost-shared with in-kind contributions in the form of supervisor hours. In recalculating the in-kind contributions, Kearney discovered a discrepancy between the time recorded on supervisor timesheets and the amounts reported on the American Recovery and Reinvestment Act (Recovery Act) PER for program year 2009-2010. This variance reflected an overstatement of \$733, which Kearney determined was due to a manual calculation error.

Criteria

OMB Circular No. A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, “Basic Considerations,” states:

- “2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:
- a. Be reasonable for the performance of the award and be allocable thereto under these principles
 - b. Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items
 - c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization

- d. Be accorded consistent treatment
- e. Be determined in accordance with generally accepted accounting principles (GAAP)
- f. Be adequately documented.”

Recommendations

- 6a. Kearney recommends that the Corporation resolve the \$733 in questioned costs that was due to a lack of supporting documentation.
- 6b. Kearney recommends that the Corporation work with the grantee to ensure that its subgrantees’ internal controls are strengthened to assure that claimed in-kind contributions are accurately reported.

Commission’s Response

Agree. The Commission will encourage the subgrantee to maintain reconciliation documentation with its copy of the Federal Financial Report for audit purposes.

Kearney’s Response

We reviewed the Commission’s response and have no additional comments.

Finding 7: Michigan State University (MSU) Miscalculated Matching Costs

Kearney selected a representative sample of 10 transactions from the MSU accounting detail to test for compliance with the match cost terms of the grant agreement, OMB Circulars, and other applicable guidance.

According to the budget narrative in the grant agreement, local member travel is budgeted as 100 percent match cost. Member training is budgeted as 60 percent Federal and 40 percent match cost.

One of Kearney’s samples was a travel voucher for \$435. The voucher consisted of \$158 for member training costs and \$277 for local travel.

MSU charged \$263 to Federal costs. The maximum amount for Federal costs was \$95 (\$158*60 percent). The responsible MSU employee inaccurately calculated the Federal and match allocation percentages, and subsequently reported these amounts in the FFR and accounting records. Kearney questioned overstated Federal costs of \$168 (\$263 - \$95), which is the difference between what was charged to the Federal share and the maximum amount permitted to be charged. Inadequate review of incurred expenses prior to payment increases the risk that inaccurate and/or unallowable costs will be charged to Federal programs.

Criteria

OMB Circular No. A-21, *Cost Principles for Educational Institutions*, states:

“2. Factors affecting allowability of costs. The tests of allowability of costs under these principles are: (a) they must be reasonable; (b) they must be allocable to sponsored agreements under the principles and methods provided herein; (c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.”

Recommendations

- 7a. Kearney recommends that the Corporation resolve the questioned costs, totaling \$168, and recover disallowed costs.
- 7b. Kearney suggests that the Corporation review controls over reporting to ensure submissions are in accordance with Government requirements, and Federal and match percentages, as stated in the budget narrative, are properly applied. Kearney also suggests that the Corporation ensure sufficient controls are designed and operating effectively over reporting processes.

Commission’s Response

Agree. Michigan State University believes this to be an isolated, clerical error and have reminded staff of the travel allocation percentages for this program.

Kearney’s Response

We reviewed the Commission’s response and have no additional comments.

Finding 8: Commission Miscalculated Member Living Allowances

Members are to be paid in accordance with LAPS. Kearney selected a sample of 100 members to validate that members received the proper living allowance during their terms of service. During testing, Kearney noted that four members’ W-2 forms did not agree to the total amount listed on the LAPS provided by the subgrantees due to the Commission and subgrantees not performing reconciliations between payroll records and supporting documentation (e.g., LAPS, timesheets, and W-2s) prior to certifying documents. The programs and the amount of living allowances resulted in the questioned costs shown in the table below and a net underpayment of \$1,436.

Subgrantee	Program Name	W-2 Amount	LAPS Amount	Questioned Living Allowance
City Year, Inc.	City Year Detroit	6,050	6,325	\$(275)
American Red Cross of Greater Grand Rapids	Together We Prepare	10,905	11,400	(495)
American Red Cross of Greater Grand Rapids	Together We Prepare	11,082	11,800	(718)
American Red Cross of Greater Grand Rapids ²	Together We Prepare	23,766	23,200	52
Net Questioned Costs from Member Testing				\$(1,436)

Criteria:

CFR, Title 45, Section 2522.240, “What financial benefits do AmeriCorps participants serving in approved AmeriCorps positions receive?” states:

“(b) *Living allowances—(1) Amount.* Subject to the provisions of this part, any individual who participates on a full-time basis in an AmeriCorps program carried out using assistance provided pursuant to §2521.30 of this chapter, including an AmeriCorps program that receives educational awards only pursuant to §2521.30(c) of this chapter, will receive a living allowance in an amount equal to or greater than the average annual subsistence allowance provided to VISTA volunteers under §105 of the Domestic Volunteer Service Act of 1973 (42 U.S.C. 4955). This requirement will not apply to any program that was in existence prior to September 21, 1993 (the date of the enactment of the National and Community Service Trust Act of 1993)....”

(2) *Maximum living allowance.* With the exception of a professional corps described in §2522.110(a)(3), the AmeriCorps living allowances may not exceed 200 percent of the average annual subsistence allowance provided to VISTA volunteers under section 105 of the Domestic Volunteer Service Act of 1973 (42 U.S.C. 4955). A professional corps AmeriCorps program may provide a stipend in excess of the maximum, subject to the following conditions: (i) Corporation assistance may not be used to pay for any portion of the allowance...”

Recommendation

8. Kearney recommends that the Corporation ensure that the grantee strengthen its program monitoring procedures to meet the requirements of 45§ CFR 2522.240, and ensure that stipends paid to members are in accordance with the LAPS amount.

² Kearney noted one exception in which a sampled member served two consecutive program years with the maximum living allowance of \$23,200 (\$11,400 + \$11,800) in total for both program years. The sampled member received more than this maximum amount on his W-2 forms for the two program years. The member repaid his gross pay for one pay period (\$513) to American Red Cross of Greater Grand Rapids, but was still overpaid by \$52.

Commission's Response

Disagree in part.

The Commission does not calculate member living allowances, certify member timesheets, or issue the W-2 forms. Member living allowances are processed by the subgrantees, timesheets are signed by the member's supervisor at the subgrantee level, and the subgrantee has responsibility for issuing W-2 forms to its members.

The finding states there are no reviews of payroll records and supporting documentation (such as the Living Allowance Payment Schedule, timesheets and W-2 forms) prior to certifying the documents. The Commission does not believe it is practical to require the subgrantees to reconcile the Living Allowance Payment Schedule to the W-2 forms prior to payroll certification given they are issued only once per year.

The Commission will encourage the subgrantees to periodically evaluate the living allowance paid with the Living Allowance Payment Schedule to ensure the amount paid to the member is within the maximum.

Kearney's Response

We appreciate the Commission's response and support the Commission working with the subgrantees to effectively address this issue.

Finding 9: Commission Incurred Unallowable Costs

Kearney selected a representative sample of 87 transactions from the Commission's accounting detail, reconciled the sample with the supporting documentation, and tested for compliance with the grant agreement terms, OMB Circulars, and other applicable laws and regulations. As a result of its testing, Kearney identified that for six of 87 samples tested, the Commission reported expenditures in its FFR that were related to a grant awarded to another Michigan Department of Human Services (DHS) agency. The insufficient review of expenditures and supporting documentation prior to payment resulted in the Commission overstating its costs on the September 30, 2011 FFR submission by \$4,015.

Additionally, the Commission performed a reconciliation between its transaction-level accounting records and costs reported on the FFR, and identified an error of \$13,199 in the September 30, 2011 FFR submission. A duplicate entry in the accounting records caused costs to be overstated by \$13,199.

Criteria

OMB Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, "General Principles for Determining Allowable Costs," states:

“1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards
- b. Be allocable to Federal awards under the provisions of this Circular
- c. Be authorized or not prohibited under State or local laws or regulations
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit
- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost
- g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles
- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation
- i. Be the net of all applicable credits
- j. Be adequately documented.”

Recommendations

- 9a. Kearney recommends that the Corporation resolve the questioned costs, totaling \$17,214 (\$4,015 + \$13,199), and recover disallowed costs.
- 9b. Kearney recommends that the Corporation ensure that costs were properly reversed.

Commission’s Response

Disagree. This award has no match requirement. The Commission determined the costs were applicable to a VISTA award incurred by another office in the department. The amount picked up was State general funds, not Federal funds. There was no cost to the grant and/or loss of match as a result of this reporting.

The Commission performed a reconciliation between its transaction level accounting records and the costs reported on the Federal Financial Report which identified the error of \$13,199 on the September 30, 2011, Federal Financial Report submission. A change in the reporting process resulted in a duplicate entry and caused costs to be overstated by that amount. The duplicate entry had already been identified by the Department’s Accounting Bureau prior to this review. The reversing entry was reflected on the Federal Financial Report submitted to the Corporation for the period ended March 31, 2012.

Kearney's Response

We appreciate the Commission's response. However, during our site visit, the expenses for the VISTA award were included in the direct cost accounting detail that reconciled to the FFR.

The Corporation should ensure that the duplicate entry was properly reversed, and that the Commission adjust its September 30, 2011 FFR for this cost.

Finding 10: American Red Cross Accounting Detail Does Not Reconcile to the FFR

American Red Cross performed a reconciliation between its transaction-level accounting records and costs reported on the FFR; however, Kearney noted that sufficient explanations for accounting entries, adjustments, and reconciling items were not properly documented. Additionally, Kearney identified \$20,660 in overstated costs on the FFR that were not recorded in the general ledger. Kearney determined that costs were overstated due to adjusting entries processed during financial reporting. Failure to adequately document or explain differences between accounting records and source files may allow potentially incomplete, fictitious, or otherwise inaccurate information to be recorded in the grant files and external reports.

Furthermore, Kearney determined that the accounting system was inadequate during the period of review. American Red Cross did not segregate grant costs in the accounting system. This resulted in an increased level of effort required to complete the reconciliation and properly match costs between the accounting records and the FFR, and a corresponding increased risk of error.

Criteria

OMB Circular No. A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, "Basic Considerations," states:

"2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria: ...

g. Be adequately documented."

OMB Circular No. A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C, "Standards for Financial Management Systems," states:

"(b) Recipients' financial management systems shall provide for the following: ...

(2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.

- (3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.
- (4) Comparison of outlays with budget amounts for each award. Whenever appropriate, financial information should be related to performance and unit cost data.”

Recommendations

Kearney recommends that the Corporation:

- 10a. Resolve the unsupported questioned costs, totaling \$20,660, and recover disallowed costs;
- 10b. Ensure that the Commission instructs the grantee to reconcile its accounting records to amounts reported, ensure that transactions and accounting records are accurate and supported by relevant and sufficient documentation, review controls over reporting to ensure submissions are in accordance with Government requirements, and ensure sufficient controls are designed and operating effectively over reporting processes;
- 10c. Kearney notes that currently, American Red Cross is operating on a different accounting system; therefore, no specific recommendations are necessary; however, Kearney recommends that the Corporation verify that the new accounting system is in compliance with Government requirements; and
- 10d. Ensure that the Commission increases the level and frequency of its fiscal monitoring efforts to ensure that controls over financial reporting are more effective.

Commission’s Response

Disagree. American Red Cross reviewed documentation for the finding and noted that AmeriCorps program director compensation was recorded in OnCorps reports but was not reflected in the general ledger for the program. Costs reported on the Federal Financial Report were supported.

The Commission will encourage the subgrantee to maintain reconciliation documentation with its copy of the Federal Financial Report for audit purposes.

Kearney’s Response

We appreciate the Commission’s response. The Corporation should verify supporting documentation for the \$20,660, which was not provided in a timely manner, and recover costs that cannot be supported.

Finding 11: American Red Cross Incurred Unsupported and Unallowable Travel Costs

Kearney selected a representative sample of 20 transactions, totaling \$860, from the American Red Cross' accounting detail to test for compliance with the terms of the grant agreement, OMB Circulars, and other applicable guidance, and noted the following:

Unsupported Costs

Kearney did not receive documentation to support six of the 20 samples selected for testing, amounting to \$270. The lack of documentation prevented Kearney from determining if costs were incurred during the grant period, charged to the correct program, and considered allowable in accordance with the grant provisions and other regulatory guidance.

American Red Cross does not properly enforce its policy requiring the submission of receipts to support claimed travel expenses; therefore, Kearney is questioning the unsupported costs of \$270.

Criteria

OMB Circular No. A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, "Basic Considerations," states:

- "2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:
- h. Be reasonable for the performance of the award and be allocable thereto under these principles
 - i. Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items
 - j. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization
 - k. Be accorded consistent treatment
 - l. Be determined in accordance with generally accepted accounting principles (GAAP)
 - m. Be adequately documented."

American Red Cross Staff Travel and Reimbursement Policy, Section II.E.1.1, "Grant Funded Travel," states:

"When a traveler is traveling on U.S. Government grant funded travel, they must comply with the travel requirements as outlined in the grant. In many cases, U.S. Government grants require that all travel be performed within the Fly America Act ('FAA') provisions. In the event that the grant does not specify a travel policy, travel is to be obtained compliant with both Red Cross policy and the Fly America Act."

Recommendations

Kearney recommends that the Corporation:

- 11a. Resolve the unsupported questioned costs, totaling \$270, and recover the disallowed costs and
- 11b. Ensure that the Commission instructs the subgrantee to be more diligent about ensuring its travel policy is properly enforced, including controls over documentation for transactions and accounting records. Kearney also recommends that the Corporation ensure that the travel policy is distributed, and that all employees are made aware of this requirement.

Commission's Response

Disagree. The finding states the subgrantee does not enforce its policy requiring the submission of receipts to support claimed travel expenses. The subgrantee's travel policy did not require receipts for under \$35. The travel expense voucher is the documentation for the transaction.

The Commission followed-up with the subgrantee who stated it will be distributing revised travel policy to its staff.

Kearney's Response

We appreciate the Commission's response. The Corporation should ensure that the revised travel policy is distributed to American Red Cross staff and recover any unsupported costs.

Schedule D

**Michigan Community Service Commission
Corporation for National and Community Service Awards
Schedule of Claimed and Questioned Costs
Award No. 09RFHMI001**

	Amount
Claimed Federal Costs	\$0
Questioned Federal Costs	\$0
Questioned Match Costs	\$0
Total Questioned Costs	\$0
Questioned Education Awards	\$9,450

Finding 12: MSU Inappropriately Approved Timesheets

Member timesheets are approved by a supervisor when they are entered into OnCorps Reports. Of the 100 member timesheets reviewed, Kearney identified timesheets for two full-time members that were approved by supervisors several days before the members served the last hour recorded in the pay period. Timesheets validate that the members worked the correct amount of hours to earn an education award. Due to unsupported documentation, education awards were questioned in prorated amounts for the hours not inappropriately approved by a supervisor. Kearney questioned the education awards in the table below.

Program Name	Amount of Education Award	Total Unsupported Hours for Program Year
Recovery 4-H Mentor	\$4,725	96
Recovery 4-H Mentor	4,725	181.5
Questioned Education Awards	\$9,450	

Criteria

The Corporation’s *AmeriCorps Provisions* (2011), Section IV.C.6, “Completion of Terms of Service,” states:

“The grantee must ensure that each member has sufficient opportunity to complete the required number of hours of service to qualify for their education award. Members must be exited within 30 days of the end of their term of service. Should a program not be renewed, a member who was scheduled to continue in a term of service may either be placed in another program where feasible, or a member may receive a pro-rated education award if the member has completed at least 15% of the service hour requirement.”

Recommendations

- 12a. Kearney recommends that the Corporation resolve and recover \$9,450 in questioned education awards.
- 12b. Kearney recommends that the Corporation ensure that the Commission strengthens the monitoring of its subgrantees to determine whether member timesheets support the service hours reported and certified in eSPAN and My AmeriCorps Portal. The Corporation should also ensure that the Commission reconciles the hours stated in eSPAN with the hours recorded in OnCorps Reports.

Commission's Response

Disagree. See the commission's response to Finding 1.

Kearney's Response

We appreciate the Commission's response. While policy may dictate that each subgrantee may be required to reconcile the member service hours as part of the grant closeout process, Kearney found that the subgrantee was unable to provide evidence to validate that all hours recorded were actually worked. Therefore, Kearney recommends that the Corporation ensure that subgrantee monitoring by the Commission is strengthened, and that the Corporation resolve the questioned costs.

Schedule E

**Michigan Community Service Commission
Corporation for National and Community Service Awards
Schedule of Claimed and Questioned Costs
Award No. 10ESHM1001**

	Amount
Claimed Federal Costs	\$582,500
Questioned Federal Costs	\$1,347
Questioned Match Costs	\$0
Total Questioned Costs	\$ 1,347

Finding 13: Commission Claimed Unsupported Costs

Kearney selected a representative sample of 87 transactions from the Commission accounting detail, reconciled the sample with the supporting documentation, and tested for compliance with the grant agreement terms, OMB Circulars, and other applicable laws and regulations. As a result of its testing, Kearney identified the following issue:

- For five of 87 samples tested, the Commission was unable to provide documentation or other evidence supporting expenditures, totaling \$1,347.

Criteria

OMB Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, “General Principles for Determining Allowable Costs,” states:

“1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards
- b. Be allocable to Federal awards under the provisions of this Circular
- c. Be authorized or not prohibited under State or local laws or regulations
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit
- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost

- g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles
- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation
- i. Be the net of all applicable credits
- j. Be adequately documented.”

Recommendations

- 13a. Kearney recommends that the Corporation resolve the questioned costs, totaling \$1,347, and recover disallowed costs.
- 13b. Kearney recommends that the Corporation ensure that grantees maintain adequate documentation to support all expenditures and other grant activities.

Commission’s Response

Agree. Internal controls have been reviewed and revised procedures have been implemented to mitigate the risk.

Kearney’s Response

We reviewed the Commission’s response and have no additional comments.

Schedule F

**Michigan Community Service Commission
Corporation for National and Community Service Awards
Schedule of Claimed and Questioned Costs
Award No. 11PTHMI001**

	Amount
Claimed Federal Costs	\$44,998
Questioned Federal Costs Finding 14	\$1,103
Questioned Match Costs	\$0
Total Questioned Costs	\$1,103

Finding 14: Commission Claimed Unallowable Costs

Kearney selected a representative sample of 87 transactions from the Commission's accounting detail, reconciled the sample with the supporting documentation, and tested for compliance with the grant agreement terms, OMB Circulars, and other applicable laws and regulations. As a result of its testing, Kearney identified the following issue:

- For two of 87 samples tested, the Commission claimed costs, totaling \$1,103, that were incurred in November and December 2010, which was prior to the start of the grant period of performance in January 2011. The Commission did not obtain approval from the Corporation for pre-award costs; therefore, Kearney is questioning the unallowable costs of \$1,103.

Criteria

OMB Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, "General Principles for Determining Allowable Costs," states:

"31. Pre award costs. Pre award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation _and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency."

Recommendations

- 14a. Kearney recommends that the Corporation resolve the questioned costs, totaling \$1,103, and recover disallowed costs.

- 14b. Kearney recommends that the Corporation ensure that grantees receive prior written approval for pre-award costs.

Commission's Response

Disagree. The charges were not pre-award costs. The Commission received permission to extend the grant period beyond the original grant ending date. The expenses were incorrectly charged to a new grant but were transferred to the correct grant prior to the reporting period and end date of the old grant. Funds were drawn and reported in the correct grant period.

Kearney's Response

We appreciate the Commission's response; however, the Commission did not provide supporting documentation for the transfer in a timely manner, and the costs were included in the accounting detail that tied to the FFR.

Exhibit B**Compliance Findings*****Finding 15: Lack of Adequate Procedures for Conducting Criminal Background Checks and Searches of the National Sex Offender Public Registry***

Kearney & Company, P.C. (Kearney) selected a sample of 100 member files to test whether the grantee and subgrantees complied with selected AmeriCorps provisions prior to enrolling members, such as performing a search of the National Sex Offender Public Registry (NSOPR) and ensuring compliance with the Drug Free Workplace Act. Kearney noted the following:

- For one sampled file, Michigan AmeriCorps Partnerships did not provide evidence that National Service Criminal History checks were conducted prior to approving that member's application
- For one sampled file, Habitat for Humanity of Michigan (Habitat for Humanity) approved and enrolled a member into Electronic System for Programs, Agreements, and National Service Participants (eSPAN) prior to the completion of a drug test, which was required by the subgrantee's member provisions
- For 13 members, American Red Cross of Greater Grand Rapids (American Red Cross) did not provide evidence that Internet Criminal History Access Tool (ICHAT) background checks were completed prior to approving those members' applications. ICHAT allows the search of public records contained in the Michigan Criminal History Record maintained by the Michigan State Police, Criminal Justice Information Center.

Kearney also found that the subgrantees tested were not properly monitoring their programs and members, as follows:

- Adequate enrollment and exit paperwork was not maintained in the members' files. Kearney received the following response from one subgrantee, "We do not keep criminal history results in our personnel records. Since this was a temporary job, with the results coming from ICHAT – it is a point in time answer. We run a new check for each temporary job a person is hired into. The fact that there is a signed release indicates that a check was done"
- According to the Michigan Community Service Commission's (the Commission) Program Officer, "I cited the lack of the ICHAT during the time of my site visit. [American] Red Cross was under the impression that their check system was allowed. The Program Director at the time indicated that he ran the appropriate ICHAT checks based on my conversation with him. They may not have been filed for some reason, and then there was a staff transition"
- Due diligence was not performed over enrollment requirements to ensure that all activities were satisfactorily performed prior to activating members in the Corporation for National and Community Service's (the Corporation) information systems.

Failure to conduct criminal background checks and NSOPR searches prior to enrolling members, as required by AmeriCorps provisions, places the subgrantee, the Commission, the Corporation, and communities served at risk. It also incurs the additional administrative burden to ensure that members with pending criminal background checks are supervised at all times when interacting with vulnerable populations.

Criteria

Code of Federal Regulations (CFR), Title 45 Section 2522.205, “To Whom Must I Apply Suitability Criteria Relating to Criminal History?” states:

“You must apply suitability criteria relating to criminal history to a participant or staff position for which an individual receives a Corporation grant-funded living allowance, stipend, education award, salary, or other remuneration.”

CFR, Title 45 Section 2540.205, “What Documentation must I Maintain Regarding a National Service Criminal History Check for a Covered Position?” states:

“(a) Document in writing that you verified the identity of the individual in a covered position by examining the individual's government-issued photo identification card, and that you conducted the required checks for the covered position; and (b) Maintain the results of the National Service Criminal History check (unless precluded by State law) and document in writing that you considered the results in selecting the individual.”

Recommendation

15. Kearney recommends that the Corporation require that the Commission strengthen its program monitoring procedures to ensure that they meet the requirements of 45 CFR §§ 2522, 2540 by including screenshots of NSOPR and ICHAT in each member’s file as documented evidence that a background check was performed.

Commission’s Response

Agree in part.

Drug Free Workplace Act

The report states files were tested for compliance with the Drug Free Workplace Act and cited a subgrantee for failure to complete a drug test prior to enrollment. The Drug Free Workplace does not apply to a subgrantee nor does the Act require a drug test prior to employment or enrollment. In addition, the subgrantee’s internal procedures do not require a drug test prior to enrollment. The subgrantee does inform members that they may be subject to random drug testing.

Criminal Background Checks and National Public Sex Offender Registry Checks

The Commission requires the subgrantees to retain documentation of the required background checks for audit purposes. The Commission now reviews all member files as part of the on-

site monitoring to ensure compliance with the background checks.

Kearney’s Response

We appreciate the Commission’s response and suggest that the Corporation verify that the corrective action implemented by the grantee is effective.

Finding 16: Lack of Sufficient End-of-Term Documentation

Kearney selected a sample of 100 members to validate controls over member separations, and noted that end-of-term forms were missing from member files, as shown in the table below.

Program Name	Grant(s) Affected	Number of Missing Forms
Michigan Service Scholars	05ESHMI001	1
Michigan Habitat’s AmeriCorps	06AFHMI001	1
City Year Detroit	09ACHMI001	1
Readetroit Corps	06AFHMI001	1
Recovery Faith in Youth	09RFHMI001	1
4-H Mentor Michigan	09ACHMI001	1
Together We Prepare	09ACHMI001	1

Evaluations, particularly end-of-term reviews, are necessary to ensure that members are eligible for additional service terms and education awards, and that grant objectives have been met. Subgrantees’ failure to obtain and submit this information promptly could result in inaccurate Corporation member enrollment records.

Criteria

The Corporation’s *AmeriCorps Provisions* (2011), Section IV.C.6, “Completion of Terms of Service,” states:

“The grantee must ensure that each member has sufficient opportunity to complete the required number of hours of service to qualify for their education award. Members must be exited within 30 days of the end of their term of service. Should a program not be renewed, a member who was scheduled to continue in a term of service may either be placed in another program where feasible, or a member may receive a pro-rated education award if the member has completed at least 15% of the service hour requirement.”

Recommendations

Kearney recommends that the Corporation:

- 16a. Ensure that the Commission makes its subgrantees aware of and compliant with grant requirements for conducting and retaining member evaluations;

- 16b. Kearney recommends that the Commission ensure that its subgrantees document member enrollments, exit promptly, and submit this information to the Corporation in a timely manner.

Commission's Response

Agree with the finding for six of the seven cases cited. Subgrantees encounter difficulties conducting the end-of-term reviews with those members who leave the AmeriCorps program early. In spite of the efforts of the program directors to reach the departed members, end-of-term reviews may not be completed in these situations. This was true for six of the seven cited in the review of 100 member files. The seventh case was a member who exited with an award from Faith in Youth. An end of term review was conducted and submitted with the original submission for Faith in Youth.

To address the issue with members who leave the program early, the Commission requires the subgrantees to document a performance evaluation of the member and include the efforts to reach out to the member.

Kearney's Response

We appreciate the Commission's response. For the seventh case, the Commission did not provide supporting documentation in a timely manner. We suggest that the Corporation ensure that the corrective action implemented by the grantee is effective.

Finding 17: Living Allowances Based on Hours Served

Kearney selected a sample of 100 members to validate whether living allowances were paid based on a pre-set amount allocated over the member's term of service. Kearney found that:

- Michigan AmeriCorps Partnerships, Michigan State University (MSU), and City Year, Inc. paid members a stipend that was based on an hourly wage rather than the pre-set amount
- MSU and American Red Cross of Greater Grand Rapids' (American Red Cross) contracts stated that members will not receive compensation while on suspension.

MSU's code of conduct does not comply with the AmeriCorps living allowance provisions, and states that a member will not receive compensation while on suspension.

American Red Cross' contract with the AmeriCorps members does not comply with the AmeriCorps living allowance provisions, and states that temporary suspended members may not receive a living allowance for the suspension period.

Paying members on an hourly basis could result in payments exceeding the allowable stipend amounts.

Criteria

CFR, Title 45, Sub-Section 2522.245, “How are Living Allowances Disbursed?” states:

“A living allowance is not a wage and programs may not pay living allowances on an hourly basis. Programs must distribute the living allowance at regular intervals and in regular increments, and may increase living allowance payments only on the basis of increased living expenses such as food, housing, or transportation. Living allowance payments may only be made to a participant during the participant's term of service and must cease when the participant concludes the term of service. Programs may not provide a lump sum payment to a participant who completes the originally agreed-upon term of service in a shorter period of time.”

Recommendation

17. Kearney recommends that the Corporation ensure that the Commission strengthen its program monitoring procedures to ensure that they meet the requirements of Section XXV, “Corporation for National and Community Service,” of 45 CFR by verifying that the members’ files validate the living allowances and education awards received.

Commission’s Response

Agree in part. The Commission recognizes that in some cases the subgrantee’s payroll system will not process payments except when there are hours associated with the transaction. In these cases, the subgrantees find it necessary to process the living allowance using hours so the member can receive the amount owed to them and the appropriate withholdings are made. It is not the subgrantees intent to be noncompliant, but without a payroll system change or added administrative processes, it provides a means to ensure the member receives the living allowance.

The finding states there is noncompliance because subgrantee policy states that suspended members may not receive a living allowance. The Frequently Asked Questions on the Corporation’s website states, *Members who are suspended may not receive a living allowance.*

The Commission will encourage the subgrantees to periodically evaluate the living allowance paid with the Living Allowance Payment Schedule to ensure the amount paid to the member is within the maximum.

Kearney’s Response

We appreciate the Commission’s response and support the Commission working with the subgrantees to effectively address this issue.

Finding 18: Discrepancies in Member Roster Comparison

OnCorps Reports is a software support service that works exclusively with AmeriCorps State, National Direct, Volunteers in Service to America (VISTA), and other national and community service programs. The Commission uses OnCorps Reports to maintain documentation regarding member services.

The Corporation uses the eSPAN application to track AmeriCorps members and education awards. eSPAN is the central database for National Service Trust and AmeriCorps participant systems.

Kearney compared member rosters from OnCorps Reports and eSPAN, and noted the following discrepancies:

- Three members were recorded in OnCorps Reports, but did not appear in the eSPAN database
- Seven member records were duplicated in both systems during the period of review and have since been deleted as a result of the review
- Five records were created as “dummy” test accounts in OnCorps Reports, but were not deleted in a timely manner; however, these records have since been deleted as a result of the review
- Two members were recorded in eSPAN but did not appear in the OnCorps Reports database.

The Commission does not perform reconciliations of member rosters between the systems, and therefore, cannot ensure that member records agree, or validate that records are entered into or deleted from both systems accurately and in a timely manner.

Incorrect social security numbers were mistakenly recorded in OnCorps Reports by another AmeriCorps program, which prevented two members from appearing in the OnCorps Reports system in a timely manner. Although entered in eSPAN, the members were unable to be enrolled in OnCorps Reports until the incorrect social security numbers from the other program were corrected.

Inaccurate member rosters can result in inaccurate reporting and evaluations of AmeriCorps programs. This issue may also result in improper payments to members.

Criteria

The Government Accountability Office’s *Standards of Internal Control in the Federal Government*, November 1999, page 15, states:

“Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization

through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

Internal control ... and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in ... paper or electronic form. All documentation and records should be properly managed and maintained.”

OMB Circular No. A-133, *Audits of States, Local Governments and Non-Profit Organizations*, Subpart C, “Auditees,” Section 300, “Auditee Responsibilities,” states:

“The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Recommendation

18. Kearney recommends that the Corporation ensure that grantees perform a semi-annual reconciliation between the OnCorps Reports roster and eSPAN to ensure that member rosters are complete and accurate.

Commission’s Response

Agree in part.

1. As noted for finding 1, each subgrantee is required to reconcile the member service hours in OnCorps to eGrants as part of the grant closeout process. The subgrantee must compare each member and highlight discrepancies on both reports. The subgrantee must resolve discrepancies. The subgrantees submit the OnCorps Report and eGrants reports to the Commission as part of the closeout package.
2. No action needed. As noted, corrections were made during the time of the review.
3. The Commission allows program directors to create dummy accounts in OnCorps Reporting for the purpose of training members and supervisors. The dummy accounts are not deleted but are designated as inactive in accordance with instructions received from the OnCorps development team.
4. The status of the two members recorded in eGrants but not appearing in OnCorps Reports are as follows:
 - One member was enrolled and exited from the AmeriCorps Portal (eGrants).
 - One member enrollment had been escalated to the Corporation program officer prior

to this review. The member was not enrolled in eGrants because the system was not making a slot available for enrollment. This cannot be remedied by the Commission and is awaiting resolution by the Corporation.

Kearney's Response

We appreciate the Commission's response, and suggest that the Commission continue to work with the Corporation to resolve the issue.

APPENDIX A

**MICHIGAN COMMUNITY SERVICE COMMISSION'S
RESPONSE TO THE DRAFT REPORT**



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HUMAN SERVICES
LANSING



MAURA D. CORRIGAN
DIRECTOR

August 1, 2012

Stuart Axenfeld
Assistant Inspector General for Audit
Office of the Inspector General
Corporation for National and Community Service
1201 New York Avenue, Suite 830
Washington, DC 20525

Dear Mr. Axenfeld:

The Department of Human Services is submitting its response to the draft report findings for the *Agreed Upon Procedures Review of Michigan Community Service Commission*. The responses are addressed based on the draft report dated July 2, 2012. Concerns regarding the report are addressed under separate correspondence to the Corporation Office of the Inspection General.

Finding 1: Michigan State University Untimely Approval of Timesheets

Disagree. Members enter their service time into OnCorps. Timesheets are a printout of the member service information entered into OnCorps. The member service time was approved by site supervisors prior to the pay period end date to accommodate internal processes related to the subgrantee's payroll system so the payroll could be processed timely. The member service time was reviewed for accuracy after the pay period ended. The subgrantee's process provides for adjustments if hours differ from those entered into the system prior to the pay period end date. The member service time entered into OnCorps support the service hours reported.

Each subgrantee is required to reconcile the member service hours in OnCorps to eGrants as part of the grant closeout process. The subgrantee must compare each member and highlight discrepancies on both reports. The subgrantee must resolve discrepancies. The subgrantees submit the OnCorps Report and eGrants reports to the Commission as part of the closeout package.

Finding 2: Accounts Payable Accrual Improperly Computed for Closed Out Contract

Agree. A final payment was made against the grant for the period ended December 31, 2010. The system recognized there were funds available to bill against and did not recognize the contract end date (January 7, 2011) for establishing a payable in the accounting system. Therefore, the system created a payable. The Commission thought the grant had closed out effective December 31, 2010, with the final payment and did not work or track the award after that date. The issue was discovered after year end closing deadlines for the fiscal year ended September 30, 2011, and could not be reversed. The erroneous accounts payable will be written off in accordance with State requirements in August 2012.

Finding 3: Insufficient Habitat for Humanity of Michigan Fringe Benefit Deductions and Documentation

Agree. Habitat for Humanity implemented a reconciliation process January 2012.

Finding 4: Living Allowance Incorrectly Reported

Disagree in part. The Commission does not believe it is practical to require the subgrantees to reconcile the Living Allowance Payment Schedule to the W-2 forms prior to payroll certification given they are issued only once per year.

The Commission will encourage the subgrantees to periodically evaluate the living allowance paid with the Living Allowance Payment Schedule to ensure the amount paid to the member is within the maximum.

Finding 5: Habitat for Humanity of Michigan's Accounting Detail Does Not Reconcile to the Federal Financial Report

Disagree. Habitat for Humanity identified the difference of \$197,750 as described below.

\$ 48,641	2010-2011: Habitat for Humanity returned \$10,256 of grant funds which had been advanced and corrected allocations of \$38,385 prior to filing the final close out documents with the Corporation.
\$ 104,512	2009-2010: Habitat for Humanity returned \$33,887 of grant funds which had been advanced and had \$70,625 of expenses that were not allocated to the program in the organization's financial records.
\$ 46,597	ARRA: Habitat for Humanity incurred \$11,376 of workers compensation insurance directly related to ARRA funded members. The audit occurred subsequent to the grant period and thus was not originally allocated. In addition, \$35,221 of in-kind expenses that were incurred at the Habitat for Humanity affiliate level were not recorded on Habitat for Humanity's financial records in accordance with Generally Accepted Accounting Principles.

The Commission will encourage the subgrantee to maintain reconciliation documentation with its copy of the Federal Financial Report for audit purposes.

The Commission uses a risk-based approach to determining the subgrantees that will be subject to an on-site fiscal monitoring review. The approach was approved by the Corporation. The risk based approach allows the Commission to determine if a subgrantee will be subject to an on-site review or an off-site/desk review so resources are directed to higher risk subgrantees, programs, or types of transactions.

Finding 6: Red Cross of Greater Grand Rapids Over-Reported In-Kind Contributions on the Periodic Expense Report

Agree. The Commission will encourage the subgrantee to maintain reconciliation documentation with its copy of the Federal Financial Report for audit purposes.

Finding 7: Michigan State University Miscalculated Matching Costs

Agree. Michigan State University believes this to be an isolated, clerical error and have reminded staff of the travel allocation percentages for this program.

Finding 8: Commission Miscalculated Member Living Allowances

Disagree in part.

The Commission does not calculate member living allowances, certify member timesheets, or issue the W-2 forms. Member living allowances are processed by the subgrantees, timesheets are signed by the member's supervisor at the subgrantee level, and the subgrantee has responsibility for issuing W-2 forms to its members.

The finding states there are no reviews of payroll records and supporting documentation (such as the Living Allowance Payment Schedule, timesheets and W-2 forms) prior to certifying the documents. The Commission does not believe it is practical to require the subgrantees to reconcile the Living Allowance Payment Schedule to the W-2 forms prior to payroll certification given they are issued only once per year.

The Commission will encourage the subgrantees to periodically evaluate the living allowance paid with the Living Allowance Payment Schedule to ensure the amount paid to the member is within the maximum.

Finding 9: Commission Incurred Unallowable Costs

Disagree.

This award has no match requirement. The Commission determined the costs were applicable to a VISTA award incurred by another office in the department. The amount picked up was State general funds, not Federal funds. There was no cost to the grant and/or loss of match as a result of this reporting.

The Commission performed a reconciliation between its transaction level accounting records and the costs reported on the Federal Financial Report which identified the error of \$13,199 on the September 30, 2011, Federal Financial Report submission. A change in the reporting process resulted in a duplicate entry and caused costs to be overstated by that amount. The duplicate entry had already been identified by the Department's Accounting Bureau prior to this review. The reversing entry was reflected on the Federal Financial Report submitted to the Corporation for the period ended March 31, 2012.

Finding 10: American Red Cross Accounting Detail Does Not Reconcile to the Federal Financial Report

Disagree. American Red Cross reviewed documentation for the finding and noted that AmeriCorps program director compensation was recorded in OnCorps reports but was not reflected in the general ledger for the program. Costs reported on the Federal Financial Report were supported.

The Commission will encourage the subgrantee to maintain reconciliation documentation with its copy of the Federal Financial Report for audit purposes.

Finding 11: American Red Cross Incurred Unsupported and Unallowable Travel Costs

Disagree. The finding states the subgrantee does not enforce its policy requiring the submission of receipts to support claimed travel expenses. The subgrantee's travel policy did not require receipts for under \$35. The travel expense voucher is the documentation for the transaction.

The Commission followed-up with the subgrantee who stated it will be distributing revised travel policy to its staff.

Finding 12: Michigan State University Inappropriately Approved Time Sheets

Disagree. See the response to Finding 1.

Finding 13: Commission Claimed Unsupported Costs

Agree. Internal controls have been reviewed and revised procedures have been implemented to mitigate the risk.

Finding 14: Commission Claimed Unallowable Costs

Disagree. The charges were not pre-award costs. The Commission received permission to extend the grant period beyond the original grant ending date. The expenses were incorrectly charged to a new grant but were transferred to the correct grant prior to the reporting period and end date of the old grant. Funds were drawn and reported in the correct grant period.

Finding 15: Lack of Adequate Procedures for Conducting Criminal Background Checks and Searches of the National Public Sex Offender Registry

Agree in part.

Drug Free Workplace Act

The report states files were tested for compliance with the Drug Free Workplace Act and cited a subgrantee for failure to complete a drug test prior to enrollment. The Drug Free Workplace does not apply to a subgrantee nor does the Act require a drug test prior to employment or enrollment. In addition, the subgrantee's internal procedures do not require a drug test prior to enrollment. The subgrantee does inform members that they may be subject to random drug testing.

Criminal Background Checks and National Public Sex Offender Registry Checks

The Commission requires the subgrantees to retain documentation of the required background checks for audit purposes. The Commission now reviews all member files as part of the on-site monitoring to ensure compliance with the background checks.

Finding 16: Lack of Sufficient End-of-Term Documentation

Agree with the finding for six of the seven cases cited. Subgrantees encounter difficulties conducting the end-of-term reviews with those members who leave the AmeriCorps program early. In spite of the efforts of the program directors to reach the departed members, end-of-term reviews may not be completed in these situations. This was true for six of the seven cited in the review of 100 member files. The seventh case was a member who exited with an award from Faith in Youth. An end of term review was conducted and submitted with the original submission for Faith in Youth.

To address the issue with members who leave the program early, the Commission requires the subgrantees to document a performance evaluation of the member and include the efforts to reach out to the member.

Finding 17: Living Allowances Based on Hours Served

Agree in part. The Commission recognizes that in some cases the subgrantee's payroll system will not process payments except when there are hours associated with the transaction. In these cases, the subgrantees find it necessary to process the living allowance using hours so the member can receive the amount owed to them and the appropriate withholdings are made.

It is not the subgrantees intent to be noncompliant, but without a payroll system change or added administrative processes, it provides a means to ensure the member receives the living allowance.

The finding states there is noncompliance because subgrantee policy states that suspended members may not receive a living allowance. The Frequently Asked Questions on the Corporation's website states, *Members who are suspended may not receive a living allowance.*

The Commission will encourage the subgrantees to periodically evaluate the living allowance paid with the Living Allowance Payment Schedule to ensure the amount paid to the member is within the maximum.

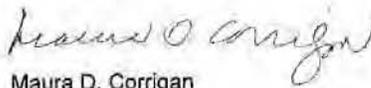
Finding 18: Discrepancies in Member Roster Comparison

Agree in part.

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If you have any questions, please contact Cindy Osga, CFGM, at 517-335-4087 or at osgac@michigan.gov.

Sincerely,



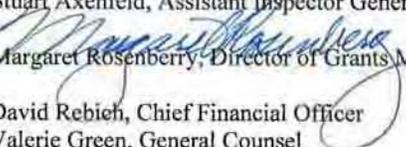
Maura D. Corrigan

c: Paula Kaiser VanDam
Garry Gross
Josh Larsen
Cindy Osga

APPENDIX B

**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE's
RESPONSE TO THE DRAFT REPORT**



To: Stuart Axenfeld, Assistant Inspector General for Audit
From:  Margaret Rosenberry, Director of Grants Management
Cc: David Rebieh, Chief Financial Officer
Valerie Green, General Counsel
William Basl, Director, AmeriCorps*State and National
Date: August 2, 2012
Subject: Response to OIG Draft Report on Agreed-Upon Procedures for the Michigan Community Service Commission

Thank you for the opportunity to review the OIG draft report on Agreed-Upon Procedures for the Michigan Community Service Commission (the Commission). We will work with the Commission to develop corrective actions. We will respond to all findings and recommendations in our management decision when the audit working papers are provided and the final audit is issued.

