Office of Inspector General
Corporation for National and Community Service

AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE GRANTS AWARDED TO THE HAWAII COMMISSION FOR NATIONAL AND COMMUNITY SERVICE

OIG REPORT NUMBER 05-09

Corporation for
NATIONAL & COMMUNITY SERVICE

Prepared by:

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This report was issued to Corporation management on February 3, 2005. 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 August 3, 2005, and complete its corrective actions by February 3, 2006. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of Inspector General
Corporation for National and Community Service
Audit Report 05-09

Audit of Corporation for National and Community Service Grants Awarded to the Hawaii Commission for National and Community Service

OIG Summary

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), retained Leonard G. Birnbaum and Company (Birnbaum) to perform an incurred-cost audit of grants awarded to the Hawaii Commission for National and Community Service (Commission). The contract required that the audit be done in accordance with generally accepted government auditing standards.

In accordance with our statutory responsibilities, we reviewed Birnbaum's report and related audit documentation, interviewed their representatives, and performed other procedures as we deemed appropriate in the circumstances to provide reasonable assurance that the audit was performed in accordance with generally accepted government auditing standards. Our review was not intended to enable us to express, and we do not express, opinions on the Commission's Consolidated Schedule of Award Costs or internal control or on conclusions on compliance with laws and regulations. Birnbaum is responsible for the attached reports dated October 20, 2004, and the conclusions expressed therein. However, our review disclosed no instances where Birnbaum did not comply, in all material respects, with generally accepted government auditing standards.

For the grants audited, the Commission claimed costs of $3,153,658, of which the auditors questioned $261,728 as unallowable, and a $4,725 education award. Overall, the auditors questioned 8.3 percent of claimed costs. Costs questioned for allowability represent amounts for which documentation shows that recorded costs were expended in violation of regulations or specific award conditions, or costs that require an interpretation of allowability. The auditors also noted instances of noncompliance with provisions of Federal laws, regulations and grant award provisions. These instances of noncompliance are considered collectively to be a material weakness. In addition, the auditors noted three internal control findings that are considered to be material weaknesses. The auditors concluded that the Consolidated Schedule of Award Costs presents fairly the costs claimed by the Commission, except for the questioned and unsupported costs identified in the report, and the effects of any adjustments.

The Commission's response to the draft report includes modification or implementation of policies and procedures to correct the noncompliance issues, as well information about the questioned costs. These actions will be reviewed by the Corporation as part of the audit resolution process.

The Office of Inspector General provided officials of the Hawaii Commission for National and Community Service and the Corporation with a draft of this report for their review and comment. Their responses are included as Appendices A and B, respectively.

**Audit of Corporation for National and Community Service
Grants Awarded to the
Hawaii Commission for National and Community Service**

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REPORT SUMMARY AND HIGHLIGHTS

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Office of Inspector General
Corporation for National and Community Service

This report is issued under an engagement to audit the costs claimed by the Hawaii Commission for National and Community Service (Commission) and its subgrantees from September 1, 2000, through December 31, 2003, under the grants awarded by the Corporation for National and Community Service (Corporation). This report focuses on the audit of claimed costs, instances of noncompliance with Federal laws, applicable regulations or award conditions, and internal control weaknesses disclosed during the audit of the Commission and its subgrantees.

Results in Brief

As a result of our audit, we are questioning costs totaling $266,453. Questioned costs are $261,728 of grant costs and $4,725 of education awards. Grant costs questioned are approximately 8.3 percent, of the $3,153,658 in costs claimed by the Commission. Questioned costs are costs for which there is documentation that the recorded costs were expended in violation of the law, regulations or specific conditions of the award, or those costs which require additional support by the grantee or require interpretation of allowability by the Corporation. Of these questioned costs, $4,725 relate to an education award for one AmeriCorps whose member file did not contain evidence of meeting the AmeriCorps age or citizenship requirements. Other costs questioned include excess living allowances, living allowances questioned because of missing eligibility documentation, matching funds shortfalls, miscellaneous reclassifications and adjustments, and related administrative expenses. The Independent Auditor's Report includes further detail on these questioned costs.

Many of the conditions noted in this report stem from the limited ability of the Commission to provide adequate monitoring, oversight, and guidance to its subgrantees. The main reason for this appears to be the limited staffing that was available to the Commission during the three-year period covered by this audit. To adequately address these conditions, the Commission needs to take the following actions:

- Conduct more frequent on-site monitoring of the AmeriCorps subgrantees. Priority should be given to large, high-risk subgrantees. We note, for example, that the three Commission's largest subgrantees during this audit period spent approximately 82 percent of the claimed AmeriCorps costs.
- Collect and retain supporting documentation to determine if Commission policies have been fully implemented and are effective. In Program Year (PY) 2004, the Commission developed monitoring policies and procedures regarding its philosophy and approach, which was a good first step. Supporting documentation needs to be structured and formalized and should specifically describe monitoring steps, testing, testing results, conclusions, subgrantee reactions, corrective actions, and follow-up activities.
- Supplement its fiscal monitoring capabilities of subgrantees by soliciting assistance from other organizations (e.g., University of Hawaii Fiscal Management Office, University of Hawaii Internal Audit Office, Hawaii State Auditor Office).

Grant Programs Audited

Our audit of the Commission covered testing of financial transactions, compliance, and internal controls of the following program awards funded by the Corporation:

Program	Award Number	Award Period	Audit Period
AmeriCorps	00ASCHI012	9/1/00 to 8/31/03	9/1/00 to 8/31/03
AmeriCorps	00ASCHIA12	8/1/02 to 11/30/03	8/1/02 to 11/30/03
AmeriCorps	00ASFHI012	9/1/00 to 8/31/03	9/1/00 to 8/31/03
AmeriCorps	00ASFHIA12	4/1/02 to 12/31/03	4/1/02 to 12/31/03
Learn & Serve	00LCSHIA12	9/1/00 to 8/31/03	9/1/00 to 8/31/03
PDAT	02PDSHI011	5/1/02 to 4/30/05	6/1/02 to 12/31/03
Administrative	01SCSHIA11	4/1/02 to 12/31/03	6/1/02 to 12/31/03

Our audit of the costs claimed by the Commission under these awards disclosed the following:

	Amount	Percentage of Budget/Claimed Costs
Award Budget	$ 4,171,104	
Claimed Costs	$ 3,153,658	75.6 percent
Questioned Costs	$ 261,728	8.3 percent

Costs Questioned

The following summarizes the costs questioned on these awards:

AmeriCorps Grant

• AmeriCorps Member Compliance Issues	$ 20,835
• Living Allowance Payments in Excess of Limits	56,017
• Inappropriate Health Care Payments	773
• Reclassifications of Internal Evaluations	24,485
• Administrative Costs	(2,323)
• Effect of Matching Shortfalls	160,406
Total Costs Questioned (Excluding Education Awards)	$ 260,193
• Education Award	$ 4,725
Total Costs Questioned - AmeriCorps	$ 264,918

PDAT Grant

• Consultant/Presenter Payments in Excess of Daily Ceiling	$ 1,535
Total Costs Questioned	**$ 266,453**

Our audit also disclosed questionable costs and misclassifications in other Corporation grant programs overseen by the Commission, but these costs were not included in the total of questioned costs because they were found to be immaterial.

In most cases, we used a random sampling method to test the costs claimed. Based upon this sampling plan, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been tested. In addition, we have made no attempt to project such costs to total expenditures incurred, based on the relationship of costs tested to total costs. For a complete discussion of these questioned costs, refer to the Independent Auditor's Report.

Compliance

Our audit disclosed the following instances of noncompliance with Federal laws, applicable regulations and award conditions:

1. The Commission did not have an adequate timekeeping system.
2. The Commission paid consultants in excess of the maximum amount allowed by the AmeriCorps Provisions.
3. The Commission and subgrantees did not submit Financial Status Reports (FSRs) in a timely basis.
4. The Volunteer Legal Services Hawaii (VLSH) did not have proper documentation for donated supervision time credited for matching purposes.
5. The VLSH did not have adequate supporting documentation for salaries and wages.
6. The VLSH claimed a portion of its A-133 audit as a direct grant cost under the Internal Evaluation category.
7. The VLSH did not maintain required AmeriCorps member eligibility documentation.
8. The VLSH incorrectly paid health benefits for a part-time member.
9. The Legal Aid Society of Hawaii (LASH) did not segregate grant expenditures by program year.
10. The LASH did not regularly reconcile recorded expenditures with claimed expenditures.
11. Maui Economic Opportunity (MEO) incorrectly paid members a living allowance after they had ended their AmeriCorps service.
12. Grant-authorized living allowance payments to AmeriCorps members were exceeded by three subgrantees.
13. Subgrantees' member files did not contain certain required documents, and member documents were not submitted on a timely basis.

These findings are collectively considered to be material weaknesses.[1]

[1] A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that errors or irregularities in amounts, which would be material to the financial schedules being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Internal Controls

Our audit disclosed the following internal control weaknesses:

1. The Commission has developed policies to evaluate and monitor subgrantees, but evidence of implementation is minimal.
2. The Commission has not issued sufficient guidance to subgrantees on obtaining criminal record checks.

Finding Nos. 1 through 5, 7, and 9 through 13 as set forth in the Compliance Section of the report, are also considered findings on internal control.

Finding Nos. 4 in the Compliance Section, and 1 and 2 in the Internal Controls Section are considered material internal control weaknesses.

Purpose and Scope of Audit

Our audit covered the costs claimed under Corporation Grant Nos. 00ASCHI012, 00ASCHIA12, 00ASFHI012, 00ASFHIA12, 00LCSHIA12, 02PDSHI011, and 01SCSHIA11.

The objectives of our audit were to determine whether:

- Commission financial reports fairly present the financial results of the awards;
- internal controls were adequate to safeguard Federal funds;
- the Commission and its subgrantees had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations, and award conditions, as well as ensure that member services were appropriate to the programs;
- award costs reported to the Corporation were documented and allowable in accordance with the award terms and conditions; and
- the Commission had established adequate oversight and informed subgrantees of the Corporation's Government Performance and Results Act (GPRA) goals.

We performed the audit in accordance with auditing standards generally accepted in the United States of America and *generally accepted government auditing standards*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed against the awards, as presented in the Consolidated Schedule of Award Costs and the grant-specific Schedules of Award Costs (Exhibits A through D) are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Exhibits A through D. An audit also includes assessing the accounting principles used and significant estimates made by the auditee, as well as evaluating the overall financial schedule presentation. Our audit included reviews of audit reports and working papers prepared by the independent public accountants for the Commission and its subgrantees, in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Follow-up on prior audit findings was unnecessary since there have been no prior audits of the Commission. We believe our audit provides a reasonable basis for our opinion.

With regard to GPRA, AmeriCorps grantees and subgrantees provide progress reports that are maintained in the Corporation's Web Based Reporting System (WBRS). The Commission does not make continuation grants available to subgrantees that do not meet their program's objectives, unless extenuating circumstances prevented the subgrantee from meeting its objectives. The Commission's Program Committee judges the adequacy of information reported on goal accomplishment. The Commission takes corrective action on identified reporting deficiencies. In summary, the process appears to be operating as intended. The Commission is interested in obtaining useful reports from its subgrantees to forward to the Corporation.

The contents of this report were disclosed to and discussed with the Commission at an exit conference on October 15, 2004. In addition, we provided a draft of this report to the Commission and to the Corporation for comment on November 17, 2004, and received responses from both the Commission and the Corporation on January 4, 2005, and December 7, 2004, respectively. Their responses are included in their entirety as Appendices A and B, respectively.

Background

The Corporation, pursuant to the authority of the National and Community Service Trust Act, as amended, awards grants and cooperative agreements to State commissions and other entities to assist in the creation of full-time and part-time national and community service programs.

The Office of Inspector General specifically limited the audit scope for Program Development Assistance and Training (PDAT) and Administrative Grants to expenditures processed by the current fiscal agent, the University of Hawaii, which assumed fiscal responsibility for the Commission's finances in June 2002.

The Commission has received approximately $4.2 million in funding and exercised $3.2 million in drawdowns from Corporation funds since PY 2000. The Commission has received AmeriCorps Formula Funds, AmeriCorps Competitive Funds, Learn & Serve Funds, PDAT Funds, and Administrative Funds. Of this amount, approximately $3 million was distributed to subgrantees, which are typically nonprofit organizations.

A brief synopsis of the programs and their financial history follows:

	Funding Authorized	Claimed Within Audit Period	Drawdowns During Audit Audit Period
00ASCHI012 – AmeriCorps (Competitive)	$ 1,585,072	$ 1,531,922	$ 1,122,603
00ASCHIA12 – AmeriCorps (Competitive)	532,947	489,322	892,503
00ASFHI012 – AmeriCorps (Formula)	1,021,371	510,105	232,670
00ASFHIA12 – AmeriCorps (Formula)	555,873	303,210	527,938
Total AmeriCorps Funds	$ 3,695,263	$ 2,834,559	$ 2,775,714
00LCSHIA12 – Learn & Serve	$ 275,000	$ 137,402	$ 215,417
02PDSHI011 – PDAT	99,000	98,894	98,894
01SCSHIA11 – Administrative Funds	101,841	82,803	82,803
TOTAL – Grants Administered by the Commission	$ 4,171,104	$ 3,153,658*	$ 3,172,828*

* The difference between the amount claimed and the amount drawn down is generally due to timing differences.

Report Release

This report is intended for the information and use of the Office of Inspector General, Corporation for National and Community Service, the Hawaii Commission for National and Community Service and its subgrantees, and the U.S. Congress. However, this report is a matter of public record and its distribution is not limited.

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Office of Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITOR'S REPORT

We have audited the costs incurred by the Hawaii Commission for National and Community Service (Commission) for the awards listed below. These costs, as presented in the Consolidated Schedule of Award Costs and the grant-specific Schedules of Award Costs (Exhibits A through D), are the responsibility of Commission management. Our responsibility is to express an opinion on the consolidated Schedule of Award Costs, and Exhibits A through D, based on our audit.

Program	Award Number	Award Period	Audit Period
AmeriCorps	00ASCHI012	9/1/00 to 8/31/03	9/1/00 to 8/31/03
AmeriCorps	00ASCHIA12	8/1/02 to 11/30/03	8/1/02 to 11/30/03
AmeriCorps	00ASFHI012	9/1/00 to 8/31/03	9/1/00 to 8/31/03
AmeriCorps	00ASFHIA12	4/1/02 to 12/31/03	4/1/02 to 12/31/03
Learn & Serve	00LCSHIA12	9/1/00 to 8/31/03	9/1/00 to 8/31/03
PDAT	02PDSHI011	5/1/02 to 4/30/05	6/1/02 to 12/31/03
Administrative	01SCSHIA11	4/1/02 to 12/31/03	6/1/02 to 12/31/03

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *generally accepted government auditing standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant management estimates, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, except for omission of the supporting source documentation related to the aforementioned $261,7286,453 in questioned costs, the Consolidated Schedule of Award Costs and the grant-specific Schedules of Award Costs (Exhibits A through D and related Schedules) present fairly, in all material respects, the costs claimed for the period September 1, 2000, to December 31, 2003, in conformity with generally accepted accounting standards in the United States of America.

In accordance with the *Government Auditing Standards,* we have also issued our report, dated October 20, 2004, on compliance and on internal controls over financial reporting.

This report is intended for the information and use of the Office of Inspector General, the Corporation for National and Community Service, the Hawaii Commission for National and Community Service and its subgrantees, and the U.S. Congress. However, this report is a matter of public record and its distribution is not limited.

Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
October 20, 2004

Hawaii Commission for National and Community Service
Consolidated Schedule of Award Costs

Corporation for National and Community Service Awards

Award Number	Program	Approved Budget	Claimed Costs	Questioned Costs	Questioned Education Awards	Reference
00ASCHI012	AmeriCorps	$1,585,072	$1,531,922	$ 221,935	$ -	
00ASCHIA12	AmeriCorps	532,947	489,322	25,808	4,725	
00ASFHI012	AmeriCorps	1,021,371	510,105	12,072	-	
00ASFHIA12	AmeriCorps	555,873	303,210	378	-	
Total AmeriCorps		$ 3,695,263	$2,834,559	$ 260,193	$ 4,725	Exhibit A
00LCSHIA12	Learn & Serve	275,000	137,402	-	-	Exhibit B
02PDSHI011	PDAT	99,000	98,894	$ 1,535	-	Exhibit C
01SCSHIA11	Administrative	101,841	82,803	-	-	Exhibit D
Total		$ 4,171,104	$ 3,153,658	$ 261,728	$ 4,725	

Hawaii Commission for National and Community Service
Notes to Consolidated Schedule of Award Costs

Summary of Significant Accounting Policies

Reporting Entity

The consolidated Schedule of Award Costs includes amounts budgeted, claimed, and questioned under AmeriCorps, Administrative, Program Development and Training and other grants awarded to the Commission by the Corporation for the period from September 1, 2000, to December 31, 2003.

The Commission awards AmeriCorps grant funds to numerous subgrantees that administer the AmeriCorps program. The subgrantees report financial and programmatic results to the Commission.

Basis of Accounting

The consolidated Schedule of Award Costs has been prepared to comply with the provisions of the grant agreements between the Corporation and the Commission. The information presented in the Schedule has been prepared from the reports submitted by the Commission to the Corporation. The basis of accounting used in preparation of these reports differs slightly from accounting principles generally accepted in the United States of America as follows:

Equipment

Equipment is charged to expense in the period during which it is purchased instead of being recognized as an asset and depreciated over its useful life. As a result, the expenses reflected in the Schedule of Award Costs include the cost of equipment purchased during the period rather than a provision for depreciation. The equipment acquired is owned by the Commission while used in the program for which it was purchased or in other authorized programs. However, the Corporation has a reversionary interest in the equipment. Its disposition, as well as the ownership of any proceeds therefrom, is subject to Federal regulations.

Inventory

Minor materials and supplies are charged to expense during the period of purchase.

Exhibit A

Hawaii Commission for National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Nos. 00ASCHI012, 00ASCHIA12, 00ASFHI012, and 00ASFHIA12
AmeriCorps
September 1, 2000, to December 31, 2003

Detailed Audits of AmeriCorps Subgrantees	Claimed Costs Note 1	Questioned Claimed Costs	Questioned Education Awards	Reference
Volunteer Legal Services Hawaii	$1,177,438	$ 202,173	$ 4,725	Schedule A-1
Legal Aid Society of Hawaii	843,806	45,570	-	Schedule A-2
Maui Economic Opportunity, Inc.	311,335	12,450	-	Schedule A-3
Total – Detailed Audits	$2,332,579	$ 260,193	$ 4,725	

Note

1. The total claimed costs include amounts claimed by subgrantees that were not tested as part of this audit. During the period covered by our audit, the Commission had eight AmeriCorps program subgrantees. Generally, we used a sampling approach at selected field sites to test the costs claimed for Program Years 2000-01 through 2002-03.

Hawaii Commission for National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Nos. 00ASCHI012 and 00ASCHIA12
September 1, 2000, to December 31, 2003

Volunteer Legal Services Hawaii (VLSH)

			Reference
Approved Budget (Federal Funds – 3 Years)		$1,251,957	Note 1
Claimed Costs		$1,177,438	Note 2
Questioned Costs			
Member Compliance Issues	$ 15,891		Note 3
Excess Living Allowance Charges	2,940		Note 4
Inappropriate Health Care Payments	773		Note 5
Reclassifications of Claimed Internal Evaluation Costs	24,486		Note 6
Administrative Costs	(2,323)		Note 7
Effect of Matching Shortfalls	160,406		Note 8
Total Questioned Costs		$ 202,173	
Questioned Education Award		$ 4,725	Note 9

Notes

1. The amount shown above as Approved Budget represents the total gross funding to VLSH for Program Years 2000-01 through 2002-03, according to the budget schedules for the Commission grants.

2. Claimed costs represent VLSH's reported expenditures for the years tested (Program Years 2000-01 through 2002-03).

3. Compliance testing of AmeriCorps member files revealed that key eligibility documentation for some members was missing. Since member eligibility could not be validated through supporting source documentation in some cases, we questioned the claimed member living allowances, including associated costs (FICA, health care, workers compensation, etc.) related to the unsupported/ineligible members. Questioned costs are summarized by type of missing documentation, as follows:

Program Year	Missing Documentation	Amount
2000-01	Support for Age, Citizenship and Education	$ 3,434
2002-03	Support for Age and Citizenship	12,457
Total Eligibility Issues Questioned (including Associated Costs)		$ 15,891

- Commission's Response - The Commission agrees with the finding. Refer to the Commission's response to Compliance Finding No. 7 for additional comments.

- Auditor's Comment - We consider the Commission's response to be adequate.

4. We questioned member living allowance payments charged to the grants that exceeded program year limits. The overpayments were for two members in Program Year 2001-02. The VLSH explained that it had paid these two members an extra $100 per month for several months during the program year because they were team leaders. However, we found no provision for team leaders in the budget; nor were we able to find any evidence that the Commission or the Corporation gave prior approval for the team leader payments. In addition, these members were both in a part-time status, which would likely prevent them from providing any leadership continuity.

   We questioned members' living allowances, including FICA and other associated costs, related to this condition as follows:

Program Year	Amount
2001-02	$ 2,940

- Commission's Response - The Commission agrees with the finding. Refer to the Commission's response to Compliance Finding No. 12 for additional comments.

- Auditor's Comment - We consider the Commission's response to be adequate.

5. Volunteer Legal Services Hawaii (VLSH) incorrectly paid health benefits for a part-time member. AmeriCorps Provisions only allow health care coverage for full-time members. The effect of this condition resulted in questioned costs of $565. We also questioned an additional $208 of health benefits for a full-time member who had resigned, but received an additional two months of health care coverage.

Program Year	Amount
2000-01	$ 565
2002-03	208
Total	$ 773

- Commission's Response - The Commission agrees with the finding. Refer to the Commission's response to Compliance Issue No. 8 for additional comments.

- Auditor's Comment – We consider the Commission's response to be adequate.

6. We questioned and reclassified claimed Internal Evaluation costs made by Volunteer Legal Services Hawaii (VLSH). The VLSH claimed a portion of the auditing fees related to the A-133 Audit as a direct grant cost under the Internal Evaluation category. The cost of the A-133 audit should be classified as an indirect administrative cost, not a direct program cost. See Compliance Finding No. 6 for additional details on this condition.

   The effect of this reclassification adjustment on the claimed Internal Evaluation costs is as follows:

Program Year	Amount
2000-01	$ 10,419
2001-02	8,042
2002-03	6,025
Total	$ 24,486

- Commission's Response - The Commission agrees with the finding. Refer to the Commission's response to Compliance Finding No. 6 for additional comments.

- Auditor's Comment - We consider the Commission's response to be adequate.

7. The VLSH made two adjustments to administrative costs that resulted in questioned costs. First, the reclassification of Internal Evaluation costs to the administrative category significantly increased the total for that cost element. Second, the AmeriCorps Provisions institute a five percent ceiling on total allowable costs that can be claimed as administrative costs. When we reclassified the Internal Evaluation costs, and then applied the five percent limitation to the total allowable costs, we found that the VLSH's administrative costs would be in excess of the five percent ceiling in two of the three years under the audit.

The net effect on costs questioned of these computations by Program Year is as follows:

Program Year	Amount
2000-01	$ 3,263
2001-02	(6,415)
2002-03	829
Total (Negative Costs Questioned.)	$ (2,323)

- Commission's Response - The Commission agrees with the finding by virtue of its agreement with the other findings. There was no separate Commission response on this item.

- Auditor's Comment - This finding represents the resulting impact of other findings upon the claimed administrative costs.

8. For the purpose of computing matching, VLSH did not have proper documentation for donated supervision time. The computation of the donated time went through a series of adjustments during the three-year period under audit. However, all of the computations were based on estimated time, not on an after-the-fact certification by the donor that the time claimed was accurate. See Compliance Finding No. 4 for additional details.

   The effect of this condition is that VLSH claimed matching expenses which cannot be supported with auditable documentation. As a result, when the unsupported match is deducted from total matching costs, the minimum required match of 33 percent is not met in Program Years 2000-01 and 2001-02. This situation requires a reduction of the Federal share of expenses until the required matching percentage is met. This condition resulted in questioned costs for unmatched Federal funding of $160,406, as follows:

Program Year	Amount
2000-01	$ 82,932
2001-02	77,474
2002-03	No. Adj.
Total	$ 160,406

- Commission's Response - The Commission agrees with the finding. Refer to the Commission's response to Compliance Finding No. 4 for additional comments.

- Auditor's Comment – We consider the Commission's response to be adequate.

9. We questioned an education award of $4,725 because of member eligibility issues. One full-time AmeriCorps member's file in Program Year 2002-03 did not contain evidence of meeting the age or citizenship requirements of AmeriCorps Provision 6, Member Eligibility, Recruitment and Selection (June 2002).

    - Commission's Response - The Commission agrees with the finding. Refer to the Commission's response to Compliance Finding No. 7 for additional comments.

    - Auditor's Comment – We consider the Commission's response to be adequate.

Schedule A-2

Hawaii Commission for National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Nos. 00ASCHI012 and 00ASCHIA12
September 1, 2000, to December 31, 2003

Legal Aid Society of Hawaii (LASH)

			Reference
Approved Budget (Federal Funds – 3 Years)		$ 893,771	Note 1
Claimed Costs		$ 843,806	Note 2
Questioned Costs			
Excess Living Allowance Charges	$ 45,570		Note 3
Total Questioned Costs		$ 45,570	

Notes

1. The approved budget amount of $893,771 represents total gross funding to LASH for Program Years 2000-01 through 2002-03, per the budget schedules for the Commission grants.

2. The claimed costs of $843,806 represent the amount of reported expenditures of LASH for the years tested (Program Years 2000-01 through 2002-03).

3. Costs questioned represent member living allowance payments charged to the grants that exceeded the program year(s) limits. Adjustments to claimed living allowances are primarily due to: (i) the inclusion of stipends for members who were unpaid members (i.e., members who would be paid by a participatory organization, or whose payments would be absorbed by LASH), and (ii) adjustments of fringe and payroll taxes to actual final costs recorded on the official books and records.

    - Commission's Response - The Commission agrees with the finding. Please refer to Compliance Finding No. 12 for additional comments.

    - Auditor's Comment - We consider the Commission's response to be adequate.

Hawaii Commission for National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Nos. 00ASFHI012 and 00ASFHIA12
September 1, 2000, to December 31, 2003

Maui Economic Opportunity, Inc. (MEO)

			Reference
Approved Budget (Federal Funds – 3 Years)		$ 422,642	Note 1
Claimed Costs		$ 311,335	Note 2
Questioned Costs			
Excess Living Allowance Charges	$ 7,506		Note 3
Extra Living Allowance Charges	4,944		Note 4
Total Questioned Costs		$ 12,450	

Notes

1. The approved budget amount represents total gross funding to MEO for Program Years 2000-01 through 2002-03, per the budget schedules for the Commission grants.

2. The claimed costs represent the amount of reported expenditures of MEO for the years tested (Program Years 2000-01 through 2002-03).

3. Costs questioned represent Program Year 2001-2002 member living allowance payments charged to the grants that exceeded the program year limit. Ten members were overpaid. We questioned members' living allowances, including FICA, worker's compensation, and health care expenditures related to this condition.

    - Commission's Response - The Commission agrees with the finding. Please refer to Compliance Finding No. 12 for additional comments.

    - Auditor's Comment - We consider the Commission's response to be adequate.

4. The MEO paid a living allowance to five members who had completed their required service hours early and left AmeriCorps. AmeriCorps Provision 11b, Living Allowance Distribution (2002), states that "[t]he living allowance is designed to help members meet the necessary living expenses incurred while participating in the AmeriCorps Program." Since these

members were no longer participating in the AmeriCorps Program, they should not have been paid a living allowance. Questioned living allowances, including FICA, worker's compensation and health care expenditures related to this condition, are summarized by year as follows:

Program Year	Amount
2000-01	$ 1,665
2001-02	2,901
2002-03	378
Total Extra Living Allowance Payments	$ 4,944

- Commission's Response - The Commission does not agree with this finding. Please reference Compliance Finding No. 11 for additional comments.

- Auditor's Comment - Our original questioned costs related to this issue of noncompliance remain as originally presented. Please refer to Compliance Finding No. 11 for a complete discussion.

Exhibit B

Hawaii Commission for National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 00LCSHIA12
January 1, 2003, to December 31, 2003

Learn & Serve Program (L&S)

		Reference
Approved Budget (Federal Funds)	$ 275,000	Note 1
Claimed Costs	$ 137,402	Note 2
Questioned Costs	$ -	Note 3

Notes

1. The scope of this audit did not include Learn & Serve (L&S) grant expenditures processed by the prior fiscal agent. The University of Hawaii, the current fiscal agent, took control of the accounting records in June 2002. The Approved Budget amount shown above represents funding to L&S grant 00LCSHIA12, in accordance with the budget schedules.

2. Claimed costs represent the amount of reported expenditures of the L&S grant.

3. There were numerous subgrantees with relatively low-dollar value awards under the L&S Program. We reviewed the Commission's policies and procedures regarding the selection and administration of these subgrantees. However, due to the low risk associated with individual awards, we did not select any L&S subgrantees for a detailed field audit.

Exhibit C

Hawaii Commission for National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 02PDSHI011
June 1, 2002, to December 31, 2003

Program Development and Training (PDAT)

		Reference
Approved Budget (Federal Funds)	$ 99,000	Note 1
Claimed Costs	$ 98,894	Note 2
Questioned Costs	$ 1,535	Note 3

Notes

1. The scope of this audit did not include PDAT grant expenditures processed by the prior fiscal agent. The University of Hawaii, the current fiscal agent, took control of the accounting records in June 2002. The Approved Budget amount shown above represents the funding to PDAT grant 02PDSHI011 in accordance with the budget schedules for the Commission's grants.

2. Claimed costs represent the amount of reported expenditures of the PDAT grant.

3. Total PDAT grant costs questioned are $1,535. The costs questioned represent payments to consultants at statewide training conferences that exceeded the limit provided in AmeriCorps Provision 21(e), Consultant Services (2002) as follows:

Consultants	Amount Claimed	Amount Questioned
De Lima Jr., Fran	$ 500.00	$ 57.00
Higashiguchi, Denn	750.00	307.00
Souza, Kaala	1,000.00	557.00
Yahata, Gerry M.	2,700.00	614.00
	$4,950.00	$1,535.00

- Commission's Response - The Commission does not agree with this finding. Please refer to Compliance Finding No. 2 for additional comments.

- Auditor's Comment - Our original questioned costs related to this issue of noncompliance remain as originally presented.

Exhibit D

Hawaii Commission for National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 01SCSHIA11
June 1, 2002, to December 31, 2003

Administrative

		Reference
Approved Budget (Federal Funds)	$ 101,841	Note 1
Claimed Costs	$ 82,803	Note 2
Questioned Costs	$ -	Note 3

Notes

1. The scope of this audit did not include Administrative grant expenditures processed by the prior fiscal agent. The University of Hawaii, the current fiscal agent, took control of the accounting records in June 2002. The amount shown above as Approved Budget represents the funding to Administrative grant No. 01SCSHIA11, in accordance with the budget schedules for Commission grants.
2. Claimed costs represent the amount of reported expenditures of the Administrative grant.
3. There were no costs questioned on the Administrative grant as a result of this audit.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

We have audited the Schedules of Award Costs, as presented in Exhibits A through D, that summarize the claimed costs of the Commission under the Corporation awards listed below, and have issued our report thereon dated October 20, 2004.

Program	Award Number	Award Period	Audit Period
AmeriCorps	00ASCHI012	9/1/00 to 8/31/03	9/1/00 to 8/31/03
AmeriCorps	00ASCHIA12	8/1/02 to 11/30/03	8/1/02 to 11/30/03
AmeriCorps	00ASFHI012	9/1/00 to 8/31/03	9/1/00 to 8/31/03
AmeriCorps	00ASFHIA12	4/1/02 to 12/31/03	4/1/02 to 12/31/03
Learn & Serve	00LCSHIA12	9/1/00 to 8/31/03	9/1/00 to 8/31/03
PDAT	02PDSHI011	5/1/02 to 4/30/05	6/1/02 to 12/31/03
Administrative	01SCSHIA11	4/1/02 to 12/31/03	6/1/02 to 12/31/03

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *generally accepted government auditing standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement.

Compliance

Compliance with laws, regulations, and award provisions is the responsibility of Commission management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of compliance with certain provisions of Federal laws, regulations, and award terms and conditions. However, our objective was not to provide an opinion on overall compliance with such provisions.

Instances of noncompliance are failures to follow requirements or violations of prohibitions contained in statutes, regulations, and award provisions.

Compliance Findings

Many of the recommendations for correcting the following compliance findings mention the need for the Commission to train and monitor subgrantees. We note that, during two years of the three-year audit period, the Commission was staffed by only one person. The Commission has since hired two employees and the additional staffing has allowed the Commission to improve grant monitoring activities.

The results of our tests of compliance disclosed the following instances of noncompliance:

Finding No. 1

Condition

The Commission does not have an adequate payroll distribution system. Employee salaries are charged to the Administrative or PDAT grant, but there is no after-the-fact confirmation or determination to make certain that costs distributed to grants and other cost objectives represent actual costs.

OMB Circular A-21, *Cost Principles for Educational Institutions*, Paragraph J. 10, *Compensation for personal services*, prescribes criteria for acceptable payroll distribution methods. The Commission has not implemented an acceptable method.

The cause of this condition is likely due to the fact that the University of Hawaii only became the Commission's fiscal agent in June 2002. Also, the Commission staff consisted of only one person for Program Years 2000-01 and 2001-02. During Program Year 2002-03, two additional staff employees were added.

A potential result of this condition is that grants could be charged incorrect payroll costs.

Recommendation

We recommend that the Commission and the University of Hawaii evaluate, select and implement a payroll distribution method that meets the criteria of OMB Circular A-21.

Commission's Response

The Commission does not agree with the finding.

> In its response, the Commission offered the following explanation of its payroll certification process as the basis for its compliance with OMB Circular A-21.
>
> The Commission uses Report 1289, FTE Certification by Account Code, to document personnel costs charged to federally sponsored projects. These certifications are required for all regular employees that are charged to federally sponsored projects. This procedure is outlined in the University of Hawaii's system-wide administrative procedures manual.
>
> The University's Vice President for Student Affairs, who previously served on the Commission and is currently the University's liaison to the Commission, certifies the allowable cost of work performed by the Executive Director. In turn, the Executive Director certifies the staff's allowable cost of work performance.

Auditor's Comment

During our audit we were not presented evidence that staff pre-determined time charges were subjected to an "after-the-fact" confirmation or determination that staff labor costs distributed to CNCS Grants represent actual staff labor costs. The criteria for an acceptable cost distribution method contained in OMB Circular A-21 states that direct cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. If the method outlined in the Commission's response accomplishes this objective, and has been implemented, the Commission's response is adequate.

Finding No. 2

Condition

Consultants were paid in excess of the $443 per day allowed by AmeriCorps Provision 21(e), Consultant Services (2002). These payments were made to speakers and trainers for presentations at AmeriCorps meetings.

The Commission expressed its opinion that speakers and trainers should not be considered consultants and therefore the maximum does not apply. We disagree.

As a result of this noncompliance, fees of $1,535 were questioned.

Recommendation

We recommend that the Commission adjust costs claimed for the unallowable portion and enact procedures to ensure that costs claimed are in conformity with the AmeriCorps Provisions.

Commission's Response

The Commission does not agree with the finding.

> The Commission acknowledges that the costs paid to these individuals were more than the authorized amount of $443 per day. However, the Commission asserts that the amounts paid to these individuals included the cost of preparation and follow-up to the Commission, items which were not identified in the invoice. These items included the speaker's honorarium, a half-day of preparation and the actual delivery of the speech. In each instance, if the billings had been itemized, the cost to these individuals would not have been questioned by the auditors.
>
> The Commission states that, based on discussions with the auditors, it now understands that expenses for trainers and speakers need to be itemized by preparation time, delivery time, and follow-up feedback time, and not just a lump-sum figure. As a result, Commission staff ensured that consultants were not paid more than the allowable cost during a recent Commission sponsored training. Also, the Commission has taken steps including highlighting this section of the audit report and its fiscal manual, to assure that no one will be paid more than the allowable cost again.

Auditor's Comment

As indicated in its response, the Commission acknowledges that the individuals identified were paid more than the $443 per day consultant ceiling limitation. Further, the amounts claimed are purported to cover the effort that is reflected on the invoices supporting the claim. The auditors are not in a position to speculate on what additional time, effort or materials ***may*** have been covered by the invoice. We can only evaluate the support that is provided for the claimed charges. Consequently, our original questioned costs related to this issue of noncompliance remain as originally presented.

However, we believe the steps taken by the Commission to improve the support of such charges are adequate.

Finding No. 3

Condition

The Commission and subgrantees are not submitting FSRs on a timely basis, as required by AmeriCorps Provision 16(a), Financial Status and Progress Reports (2002). Two FSRs are required annually and the final annual FSR should be submitted within 90 days of the close of the program year. The schedule below shows the number of FSRs not submitted or submitted late:

Organization	FSRs Tested	FSRs Not Submitted or Submitted Late	Percentage of FSRs Not Submitted Timely
Volunteer Legal Services Hawaii	9	5	56%
Legal Aid Society of Hawaii	9	9	100%
Maui Economic Opportunity, Inc.	9	8	89%

The cause of this condition can be linked to the fact that the Commission has not placed emphasis on the importance of submission of timely and accurate FSR information by subgrantees.

As a result of this condition, the Commission cannot submit its consolidated FSR on a timely basis. This is a violation of the grant's terms and might result in, or fail to disclose on a timely basis, potential funding misapplications. Problems may occur because both the grantor and grantee lack current financial information to include in management decision-making.

Recommendation

We recommend that the Commission reemphasize to subgrantees the importance of submitting timely and accurate financial reports so the Commission will be able to fulfill its obligation to submit consolidated FSRs to the Corporation on a timely basis.

Commission's Response

The Commission agrees with the finding and recommendation.

> The Commission cited various adverse conditions experienced during the early years of the period under audit as the basic cause of the late reporting. Now that the Commission is established within the University of Hawaii, the University has required that all subgrantees submit their FSRs, quarterly program reports, etc. on a timely basis in order that the University can submit the Commission's consolidated FSRs reports on time. The subgrantees have been notified that untimely submittals could jeopardize their funding. The Commission has also posted the necessary due dates for submitting reports on its website.

Auditor's Comment

We consider this response to be adequate.

Finding No. 4

Condition

The Volunteer Legal Services Hawaii (VLSH) did not have proper documentation for donated supervision time used to compute matching. The computation of the donated time went through a series of adjustments during the three-year period under audit. However, all of the computations were based on estimated time, not on an after-the-fact certification by the donor that the time was accurate.

AmeriCorps Provision 21(b), Financial Management, Source Documentation (2002), states:

> The Grantee must maintain adequate supporting documents for its expenditures (federal and non-federal) and in-kind contributions made under this Grant. Costs must be shown in books or records [e.g., a disbursement ledger or journal], and must be supported by a source document, such as a receipt, travel voucher, invoice, bill, in-kind voucher, or similar document.

Also, OMB Circular A-122 *Cost Principles for Non-Profit Organizations*, Attachment B, Section 8(m), states:

> The distribution of salaries and wages to awards must be supported by personnel activity reports. . . . Salaries and wages of employees used in meeting cost sharing or matching requirements on awards must be supported in the same manner as salaries and wages claimed for reimbursement from awarding agencies.

The cause of this condition was apparently the inability of VLSH to convince donors of the importance of preparing after-the-fact time logs. The VLSH representatives stated that they had attempted to obtain time records from the donors in the past without success. They therefore relied on estimates.

The effect of this condition is that VLSH claimed matching expenses that cannot be supported with documentation. As a result, when the unsupported match is deducted from total matching costs, the minimum required match of 33 percent was not met in Program Years 2000-01 and 2001-02. This situation requires a deduction of the Federal share of expenses until the required matching percentage is met. This condition resulted in unmatched Federal expenditures and questioned costs of $160,406.

Due to the magnitude of misstated matching costs, this noncompliance is also considered a material internal control weakness. A material weakness in internal control is a reportable condition in which the design or operation of an internal control does not reduce to a relatively low level the risk of material misstatements in financial statements. For this condition, an internal control was not in place to ensure all claimed matching expenditures are adequately supported.

Recommendation

We recommend that the Commission train and monitor subgrantees to ensure matching documentation requirements are understood and followed. Subgrantees should implement internal controls to ensure all matching is adequately supported by documentation before it is claimed.

Commission's Response

The Commission agrees with the finding and recommendation.

> The Commission indicated that it will assist VLSH to obtain the proper documentation from the various law firms to which members were assigned.
>
> The Commission also stated that it has been informed that, since the audit was completed, VLSH had been notified by their auditors that VLSH was in compliance. The Commission will discuss this matter with VLSH and their auditing firm to get a clearer understanding of their findings. The Commission will also work with VLSH to provide documentation for their match.
>
> As a result of this matter, the Commission has developed a training manual that includes matching documentation requirements. Commission staff will also conduct more frequent monitoring of subgrantees to assure compliance and that internal controls have been implemented by subgrantees to ensure all matching is adequately supported by documentation before it is claimed.

Auditor's Comment

We are unsure what is meant by VLSH having been notified by its auditors that it was in compliance with documentation requirements for matching. Since we have questioned a significant amount of costs as a result of this finding, we hope that the audit resolution process will provide both parties, and the Corporation, with definitive information on VLSH matching issues.

Finding No. 5

Condition

The VLSH was not in compliance with OMB Circular A-122 regarding support for salaries and wages. The VLSH had a number of accounting systems over the three-year period under audit. The current system is automated and distributes an employee's pay to cost objectives according to predetermined ratios. Employee time sheets record hours worked, but have no space to record the cost objectives worked on.

OMB Circular A-122, Attachment B, section 8(m)(2) states:

> Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. . . . The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.

The cause of this condition is that VLSH was not aware of all the timekeeping requirements of a Federal government grant.

As a result of this condition, incorrect labor charges may be applied to grants. Questioned costs did not result from this condition in this audit because we used other alternative means, including placing reliance on other audit work that had been performed covering the same time periods, to ensure that material differences between staff salary amounts on Commission records and those claimed on grants did not occur.

Recommendation

We recommend that the Commission train and monitor subgrantees on proper timekeeping methods.

Commission's Response

The Commission agrees with the finding and recommendation.

> The Commission points out that, during the three-year period under audit, VLSH changed their accounting system a number of times. As a result, incorrect labor charges may have been applied to the grant. The Commission no longer funds this program and will not consider any future funding for the subgrantee until it demonstrates that effective systems are in place. The Commission has also taken steps to train and monitor subgrantees on proper timekeeping methods.

Auditor's Comment

We consider this response to be adequate.

Finding No. 6

Condition

The VLSH claimed a portion of the auditing fees related to the A-133 audit as a direct program cost under the Internal Evaluation category. The cost of the A-133 audit is usually classified as an indirect administrative cost, not as a direct program cost.

The AmeriCorps Provision 22(a) 2002 (emphasis added) on administrative costs, states:

> [A]dministrative costs include costs for financial, accounting, **auditing**, contracting or general legal services except in unusual cases where they are specifically approved in writing by the Corporation as program costs.

Since the Corporation did not provide written approval to VLSH to charge the audit cost directly to the grant, this practice is in noncompliance with the AmeriCorps Provisions.

The cause of this mischarging of audit costs appears to be a misunderstanding of the Internal Evaluation cost category. As required by the AmeriCorps Provisions, the grantee must track progress toward program objectives and monitor the quality of the program's service activities. The costs of these actions should be included under the Internal Evaluations category.

The result of this condition was an improper direct charge to the grant of $24,486 over the three years covered by this audit. These costs should be reclassified as administrative costs.

Recommendation

We recommend that the Commission train and monitor subgrantees to ensure administrative costs are not charged as AmeriCorps program costs.

Commission's Response

The Commission agrees with the finding and recommendation.

> The response notes that the erroneous accounting classification was performed without approval from the Commission or the Corporation. The Commission will work with VLSH to have the agency reclassify the charge as administrative costs rather than a direct program cost under the internal evaluation category and collect the difference. The Commission will also ensure that all subgrantees are made aware that administrative costs should not be charged to AmeriCorps program costs.

Auditor's Comment

We consider this response to be adequate.

Finding No. 7

Condition

During the period under audit, the VLSH did not maintain, in members' files, required AmeriCorps member eligibility documentation, including proof of citizenship, age, high school diploma or equivalency certificate, and a signed contract. Of the 18 members sampled, four did not have the required eligibility documentation. Of those four, two member files could not be located and two files did not contain proof of age and citizenship.

The Commission may not have fully communicated the importance of maintaining complete member files to its subgrantees during the years under audit. Also, VLSH may not have diligently maintained required eligibility documentation.

The AmeriCorps provision on member eligibility, recruitment and selection, requires that the grantee maintain verifiable records that document each member's eligibility to serve. *See* AmeriCorps Provision 6, Eligibility, Recruitment, and Selection (2002). These programmatic records must be maintained for three years from the submission date of the final FSR.

Without complete member files, the Commission cannot verify that member eligibility requirements are being met. In order to ensure that grant funds are used for the purposes intended, it is important to make certain that only qualified members are allowed to serve.

The effect of this condition is that we questioned the living allowances and related benefits of $15,891 for those AmeriCorps members whose eligibility documentation was missing. We also questioned the corresponding education award for one member in the amount of $4,725.

Recommendation

We recommend the Commission train and monitor subgrantees to ensure adherence to the member eligibility requirements contained in the AmeriCorps Provisions.

Commission's Response

The Commission agrees with the finding and recommendation.

> The Commission cites staffing shortfalls at the time of the audit period as a major cause of the condition. Although the VLSH program has been discontinued, the Commission will work with VLSH to see if proper documentation can be recovered. The Commission has also written a procedures manual for subgrantees that identifies the required member documentation. The Commission has begun to monitor the subgrantees early in the grant process to assure compliance with the AmeriCorps provisions and recently completed its review of member documentation for the current program year.

Auditor's Comment

We consider this response to be adequate.

Finding No. 8

Condition

The VLSH incorrectly paid health benefits for a part-time member. AmeriCorps Provisions limit health care coverage to full-time members. Since other part-time members did not receive health care the cause of this problem was probably due to an error by VLSH.

The effect of this condition resulted in questioned costs of $565. We also questioned an additional $208 of questioned health benefits for two additional months of health care coverage for a full-time member who had resigned.

Recommendation

We recommend that the Commission emphasize limits on health benefits during its monitoring visits of subgrantees.

Commission's Response

The Commission agrees with the finding and recommendation.

> The Commission stated that now that the it is housed within the University of Hawaii, the Commission has been able to hire additional staff and establish necessary procedures to ensure that subgrantees are made aware of the limits on health benefits during its monitoring visits.

Auditor's Comment

We consider this response to be adequate.

Finding No. 9

Condition

The Legal Aid Society of Hawaii (LASH) did not segregate grant expenditures by program year, as required by the AmeriCorps Provisions. Total AmeriCorps expenditures for all years were charged to one account. The LASH used the transaction date to identify the program year.

AmeriCorps Provision 21, Financial Management Provisions (2002), states:

> Financial management systems must be capable of distinguishing expenditures

> attributable to this Grant from expenditures not attributable to this Grant. This system must be able to identify costs by programmatic year.

The LASH did not believe that it was necessary to set up additional accounting codes for each program year.

The result of this condition is that grant expenditures may be charged to an incorrect grant and/or program year.

Recommendation

We recommend that LASH establish a separate accounting code for each AmeriCorps program year, in accordance with the AmeriCorps Provisions.

Commission's Response

The Commission agrees with the finding and recommendation.

> The Commission agrees that LASH needs to establish a separate accounting code for each AmeriCorps program year, in accordance with the AmeriCorps provisions, and not accumulate expenditures from all program years. The Commission has been assured by LASH that, with proposed changes, this problem would not occur again.

Auditor's Comment

We consider this response to be adequate.

Finding No. 10

Condition

The LASH did not regularly reconcile expenditures on the organization's official accounting records with expenditures reported and claimed to the Commission.

The AmeriCorps Provisions cite the necessary link between supporting documentation and costs shown on the accounting records. AmeriCorps Provision 21(b), Financial Management Provisions, Source Documentation (2002), state:

> The Grantee must maintain adequate supporting documents for its expenditures . . . made under this Grant. Costs must be shown in books or records . . . and must be supported by a source document.

The cause of this condition is poor communication between the LASH programmatic and fiscal areas.

Without periodic reconciliations of accounting records and reported costs, unallowable or other inappropriate costs may be charged to the grant. For example, in each of the three years covered by this audit, the approved budget included members whose living allowances were to be paid by the LASH, but were billed to the Corporation. In another example, in Program Year 2000-01, all Corporation and matching costs claimed equaled exactly the approved budget in all cost categories. This strongly indicates that actual costs are not the basis for claimed costs.

Recommendation

We recommend that LASH implement a procedure whereby the Accounting Department notifies the Program Office when monthly cost reports are available. The Program Office should then use the monthly report to ensure that the costs reported to the Commission are accurate and appropriate.

Commission's Response

The Commission agrees with the finding and recommendation.

> The Commission stated that, during its monitoring visits, it will review the procedures established by LASH to ensure that this condition does not occur again.

Auditor's Comment

We consider this response to be adequate.

Finding No. 11

Maui Economic Opportunity (MEO) incorrectly paid a living allowance to five members after they had completed their service hours early and had left the program.

AmeriCorps Provision 11(b), Living Allowances, Other In-Service Benefits and Taxes (2002), states, "[t]he living allowance is designed to help members meet the necessary living expenses incurred while participating in the AmeriCorps Program." Since these members were no longer participating in the AmeriCorps Program, they should not have been paid a living allowance.

Representatives from MEO stated they thought that because the members had completed their full complement of required service hours, they had earned the right to receive the full living allowance. They believed there was a link between service hours and living allowances.

As a result of this misunderstanding, members were incorrectly paid $4,944 in living allowances after they had left AmeriCorps service.

Recommendation

We recommend that the Commission train and monitor subgrantees to ensure living allowances are paid properly.

Commission's Response

The Commission and MEO do not agree with the finding.

> MEO does not agree with the auditor's interpretation of AmeriCorps Provision 11b. MEO has always exited its members at the end of the program year, even though some members may have finished their hours of an earlier date. Since the members were not officially exited from the program until the end of the program year, MEO considered the members to be actively involved in the AmeriCorps program until they officially exited.
>
> Furthermore, MEO noted that the provision requires it to pay the living allowance in increments, such as weekly or bi-weekly and does not clearly defined that the member's participation in the program means actively giving the designated service hours, especially since members receive their living allowance regularly regardless of how many hours they serve during a given period. MEO, therefore, did not agree that the $4,944 should be questioned.
>
> However, MEO has informed the Commission that from the Program Year 2003-2004, MEO will change its policy should the Corporation determine that MEO is indeed incorrect in its interpretation of the AmeriCorps Provision 11b.

Auditor's Comment

We reiterate our understanding of the intent, and prior Office of Inspector General legal guidance provided to the auditors, regarding the interpretation of AmeriCorps Provision 11b; i.e., that the living allowance paid to members is intended to be exactly that, an amount to cover living costs while participating in the program. It is not an entitlement nor is it a "sum total" due upon completion of the program year. Further, the emphasis is on the *active participation* of the member in determining the continued payment of the living allowance. That is why the payments are scheduled on an incremental basis over the member's period of participation. As indicated in our comments, MEO stated that the payments were reflective of a perceived link between completed service hours and allowable living allowances.

The members in question had physically departed from the program. The member records at MEO reflected this physical separation. There was no further participation on the part of these members. A continuing living allowance was no longer necessary since there was no further participation by these members in the program, nor were there any further living costs to be incurred by the members. We do not believe an administrative exit posting practice reverses the events that took place in fact.

Our original position on this noncompliance issue and related questioned costs remains unchanged.

Finding No. 12

Condition

Grant-authorized living allowance payments to AmeriCorps members were exceeded by the following subgrantees, in the amounts indicated:

Volunteer Legal Services Hawaii	$ 2,940
Legal Aid Society of Hawaii	45,570
Maui Economic Opportunity, Inc.	7,506
Total	$ 56,016

The VLSH representatives explained that the overpayments in Program Year 2001-02 were caused by two individuals who were designated as team leaders and paid an additional $100 per month. Both team leaders were part-time members. The AmeriCorps Provisions require prior written approval from the Corporation before programmatic or budgetary changes are made. *See* AmeriCorps Provision 15b, Programmatic and Budgetary Changes (2002). The VLSH entered into a contract with two members that were not identified or included in the approved application and grant budget. Also, the VLSH created a new budgetary line item that was not in the Corporation approved budget. In both of these cases, the Corporation's prior written approval is required.

The overpayments to LASH were also caused by a lack of adherence to the approved application and grant budget. The budget plan called for AmeriCorps members to be paid the entire living allowance by LASH and/or a participatory organization. No Federal funds would be claimed for these members. As applicants were accepted into the AmeriCorps program, they were identified for living allowance purposes as either Federal participating members or non-Federal participating members. However, when expenditure claims were submitted to the Commission, the claim incorrectly included costs for non-Federal members.

The MEO overpayments involve Program Year 2001-02 members whose living allowances exceed the Federal share amount contained in the approved budget. This overcharge resulted from a misunderstanding by the MEO staff processing the living allowance payments.

The effect of these conditions is that subgrantees overcharged their grants in the amounts shown above.

Recommendation

We recommend that the Commission train and monitor subgrantees to ensure adherence to AmeriCorps provisions and Corporation-approved applications and budgets.

Commission's Response

The Commission agrees with the finding and recommendation.

> The Commission agrees that there were instances of overpayments to members. The Commission feels that this would not have happened if there was adequate monitoring by the Department of Labor and Industrial Relations and if the Commission had the necessary staffing during the audit period. However, since the Commission has moved its financial and mangement operations to the University of Hawaii, it has the necessary staff to trains subgrantees and ensure compliance with the AmeriCorps provisions.
>
> In the case of MEO, based on the total claimed costs of $238,691, the required 15 percent cash matching is $35,804 ($238,691 X 15 percent). However, the total cash matching for member living allowance paid by MEO is $49,885, which is $14,081 in excess of the required 15 percent matching. Therefore, MEO requests that $7,506 of the overpaid members' living allowances, including FICA, worker's compensation, and health care expenditures in, for PY 2001-2002 be allowed.
>
> The Commission will also propose that the Corporation allow MEO and LASH the opportunity to adjust the five percent administrative cost by reducing the allowable living allowance and collect the difference.

Auditor's Comment

We consider the response regarding compliance to be adequate. We leave the methodology for the recovery of related unallowable costs, to the discretion of the Corporation. However, we have no objection to the proposals set forth in the Commission's response.

Finding No. 13

Condition

As part of our audit, we reviewed compliance with AmeriCorps provisions regarding the documentation that should be included in subgrantee member files. The files included much of the necessary documentation; however, the schedule below lists missing documentation that requires corrective action.

Missing Documentation	No. Files Tested	Files Lacking Documentation: No. Files Missing Documentation	Files Lacking Documentation: Percentage of Files Missing Documentation
Enrollment Eligibility:			
Volunteer Legal Services Hawaii	19	4	21%
Member Contract Contents:			
Volunteer Legal Services Hawaii	19	2	11%
Member Mid & End-of-Term Evaluations:			
Volunteer Legal Services Hawaii	23	13	57%
Legal Aid Society of Hawaii	28	6	21%
Maui Economic Opportunity, Inc.	18	16	89%
	No. Forms Tested	No. Forms Submitted Late	Percentage of Forms Submitted Late
Member Enrollment & Exit Forms Submitted on Time:			
Volunteer Legal Services Hawaii	36	16	44%
Legal Aid Society of Hawaii	35	16	46%
	No. Awards Tested	Awards Not Granted	Percentage of Awards Tested and Not Granted
Education Award (At least 15% of Service Hours Completed but Award Not Granted):			
Maui Economic Opportunity, Inc.	12	3	25%

This condition may be caused by the lack of Commission guidance to, and oversight of, subgrantees. The Commission did not suitably emphasize the importance of maintaining current and complete member files.

Two of the above noncompliance incidents can have a cost impact:

1. Member Eligibility: If verifiable eligibility documentation on age, citizenship and education are not in the member file, expenses for living allowances and awards may be questioned.

2. Education Awards: If a subgrantee does not report correct education award information to the Corporation, the member may earn but not be approved for an education award.

Member evaluations include feedback regarding the quality and quantity of their work. They provide supervisors with an opportunity to give guidance, correct misunderstandings, offer praise, share experiences, and increase confidence. Evaluations that are missed or delayed often result in members not having a clear understanding of their strengths, weaknesses, and areas for improvement. We note that, based on other information contained in the files tested, some organizations were performing member evaluations, but documents were not in the member files.

Without accurate member enrollment and exit information, the Corporation cannot compute accurate education award commitments. This information is also critical for internal evaluations of the program's success. Other uses, such as measuring the ability to attract and retain members, are also hampered without accurate and timely enrollment and exit information.

Recommendation

All of the subgrantees we spoke with were aware of most of the AmeriCorps member file documentation requirements. However, documentation was still not retained. The Commission's monitoring program should establish which subgrantees need improvement on member record procedures. Based on the monitoring results, the Commission should concentrate its correction efforts on those subgrantees with the greatest risk of missing member information. To ensure important documents are not lost, the Commission should consider the cost-benefit relationship of retaining electronic versions of the documents.

Commission's Response

The Commission agrees with the finding and recommendation.

> The Commission acknowledges that during the audit period, the auditors found member files to be missing certain required documents and that member documents were not submitted on a timely basis. As a result of the hiring of two staff members raising the total staff to three, the Commission has developed a comprehensive instruction for subgrantees that details all the necessary member documents that are required by the Corporation. Staff now make risk-based and early visits to the programs to ensure that member files are current and that necessary documents are filed in a timely manner.
>
> In the case of VLSH and the other subgrantees, the Commission will provide them the

opportunity to obtain necessary documentation of members eligibility, i.e., birth certificates, etc. in order to correct this issue.

Auditor's Comment

We consider this response to be adequate.

Internal Controls Over Financial Reporting

In planning and performing our audit of the award costs presented in Exhibits A through D for the period September 1, 2000, to December 31, 2003, we considered the Commission's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal controls over financial reporting.

The Commission's management is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs on internal control policies and procedures. The objective of internal controls is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial schedules in accordance with generally accepted accounting principles of the United States of America. Because of inherent limitations in any internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of internal controls would not necessarily disclose all matters of internal control over financial reporting that might be reportable conditions. Under standards established by the American Institute of Certified Public Accountants, reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls, that, in our judgment, could adversely affect the entity's ability to record, possess, summarize and report financial data consistent with the assertions of management in the financial schedules. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts, which would be material in relation to the financial schedules being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Internal Control Findings

We noted the following internal control matters that we consider to be reportable conditions:

Finding No. 14

Condition

The Commission lacks enough evidence on the implementation of internal controls on subgrantee monitoring to determine if the controls are adequate to safeguard Federal funds. In 2004, the Commission developed policies to evaluate and monitor subgrantees. However, there is not enough supporting documentation to determine if the policies have been fully implemented and are effective.

To adequately administer an AmeriCorps Program, the Commission staff should establish and implement a system of internal controls to evaluate and monitor subgrantees. Many State commissions have developed monitoring instruments for site visits. These commissions prepare working papers of the results of site visits, communicate the results to subgrantees, and follow up on the subgrantee's corrective actions.

The Commission's lack of monitoring was caused by inadequate staff resources. The Commission staff was limited to one person for an extended period. During the 2002-03 Program Year, two staff positions were added. We note that the additional staff has started to improve Commission monitoring of subgrantees.

As a result of this condition, subgrantees made incorrect decisions and improperly claimed Federal expenditures and matching amounts. For example, one subgrantee's A-133 report included a management letter that contained information on incorrect matching costs. Commission staff should have followed up on this finding to ensure proper corrective action was taken. In another example, one subgrantee's claim of Federal and matching expenditures exactly equaled the figures in the approved budget. The Commission should have realized that the claims were not based on actual costs. Further, two subgrantees' A-133 reports stated that the AmeriCorps program was not selected as a "major program." This fact should have alerted the Commission that monitoring was needed.

This condition is a material weakness. The lack of a strong internal control program to evaluate and monitor subgrantees can result in significant misstatements in financial reports.

Recommendation

Since the Commission now has the staff to fully implement its policies, it should exhibit sound, effective leadership in training and monitoring subgrantee activities as follows:

a) Conduct more frequent on-site monitoring of AmeriCorps subgrantees. Priority should be given to the high-risk subgrantees. The three largest subgrantees during this audit period accounted for 82 percent of claimed AmeriCorps expenditures, and we recommend that on-site monitoring begin with these three subgrantees.

b) Documentation of monitoring needs to be more structured and formalized. There should be a documented audit trail specifically depicting monitoring actions, including testing, testing results, conclusions, subgrantee reactions, corrective actions, and follow-up activities.

c) Improve AmeriCorps subgrantees' financial management. The Commission may want to supplement its monitoring capabilities of subgrantees by soliciting assistance from outside organizations (e.g., The University of Hawaii Fiscal Management Office, the University of Hawaii Internal Audit Office, and the Hawaii State Auditor Office).

Commission's Response

The Commission agrees with the finding and recommendation as it pertains to prior periods.

> The Commission agrees that the lack of monitoring during the audit period was due to inadequate staff resources. However, the Commission currently has policies and procedures implemented to oversee its subgrantees. The Commission added two additional staff and also sought the assistance of the California Commission to help develop and improve its monitoring system. The Commission also developed policies regarding the evaluation and monitoring of subgrantees, as well as a more detailed computerized testing form that is used when monitoring subgrantees. As a result, staff is now using a computerized version of the form that the auditors use when reviewing programs. Itis designed to cover every aspect of an audit in regards to compliance issues.
>
> On-site monitoring of programs is now done more frequently and priority is given to high-risk subgrantees. A documented audit trail, specifically depicting monitoring actions, including testing, testing results, conclusions, subgrantee reactions, corrective actions, and follow-up activities, is now a part of the Commission's monitoring system. The Commission will continue to utilize the services of the University of Hawaii's Fiscal Management Office and the University's Internal Audit Office.

Auditor's Comment

We consider this response to be adequate.

Finding No. 15

Condition

The Commission has not issued guidance to subgrantees on obtaining criminal record checks. Two of the AmeriCorps programs audited had some members in close contact with children and individuals considered vulnerable. The VLSH program had a process to perform record checks at a local State office, that procedures only identified individuals with criminal records in Hawaii. The Commission's AmeriCorps programs attract a considerable number of applicants from other States.

The other program, LASH, received case assignments from the State court system. When assigned a case involving children, LASH would provide a list of all people (including AmeriCorps members) participating in the case work. The courts were to solicit criminal background record checks on all assigned personnel. The LASH then relied on the courts to perform the record checks for members assigned to any case work involving children. In this situation if a member without a record check had to be transferred quickly from a child's case, unacceptable delays might arise.

The AmeriCorps Provisions provide direction on when a record check should be made. Since at least two Commission programs had a potential for close contact with vulnerable people, a policy should have been in place to evaluate the criminal records of all AmeriCorps applicants accepted into these programs.

The cause of the lack of record check guidance for subgrantees is the fact that the Commission lacked the staff to identify significant problems, develop potential solutions, and implement decisions.

If the Commission failed to conduct a background check of a member with a record of previous abuse of vulnerable people and an incident occurred, the viability of the entire AmeriCorps Program could be threatened. Because funding for the AmeriCorps Program including local matching sources, could be significantly reduced or terminated by a serious incident, this condition is considered a material internal control weakness.

Recommendation

The Commission should develop procedures for obtaining broadly based criminal background checks and disseminate this information to their subgrantees.

Commission's Response

The Commission agrees with the finding and recommendation as it pertains to prior periods.

> The Commission responded that not enough guidance was given in the past to programs on obtaining criminal record checks. As a result, the Commission is working with the state Judiciary Department to establish guidelines that will be consistent for all programs. The Commission will develop a listing of all the agencies that a subgrantee can contact in order to obtain the necessary information regarding potential members.

Auditor's Comment

We consider this response to be adequate.

Finding Nos. 1 through 5, 7, and 9 through 13, as set forth in the compliance section of the report, are also considered findings on internal control.

Findings Nos. 4, 14, and 15 are considered material internal control weaknesses.

This report is intended for the information and use of the Office of Inspector General, the Corporation, the Commission and its subgrantees, and the U.S. Congress. However, this report is a matter of public record and its distribution is not limited.

Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
October 20, 2004

Appendix A

Response of the Hawaii Commission For National and Community Service

Stacy S.K. Higa
Chairman

Dennis M. Dunn
Vice Chairman

Isaac V. Watson
Executive Director

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Hawai'i Commission for National and Community Service
University of Hawai'i
Queen Lili`uokalani Center for Student Services
2600 Campus Road, Room 405
Honolulu, Hawaii 96822

January 7, 2005

Mr. Stuart Axenfeld
Audit Manager
Office of the Inspector General
1201 New York Avenue, NW
Suite 830
Washington, DC 20525

Dear Mr. Axenfeld:

Enclosed for your information and review is our response to the recent audit of Corporation for National and Community Service Grants Awarded to the Hawaii Commission for National and Community Service, OIG Report Number 05-09, conducted by Leonard Birbaum and Company.

While we agree with most of the audit findings and recommendations, there were a couple of items that the Commission disagrees with and have tried to express our views in our comments to the audit report. We look forward to working with the Corporation in the coming months to settle any disputes identified in the report. I would also like to thank the auditors, Mr. Frank Dolan and Mr. Will Cochrane, Jr., for their professionalism and courtesy while conducting the audit. Mr. Dolan and Mr. Cochrane were also very helpful in getting the Programs and the Commission staff to not only understand the requirements of the audit but also to clarify some of the rules and regulations for us.

Thank you for the opportunity to respond to the report and for allowing the Hawaii Commission extra time to submit our responses. Should you have any questions, please feel free to call me at 808-956-3001.

Sincerely,

Isaac V. Watson

Isaac V. Watson
Executive Director

Audit of Corporation for National and Community Service Grants Awarded to the Hawai'i Commission for National and Community Service

OIG Report Number 05-09

Responses to the Report by the Hawai'i Commission for National and Community Service

Submitted
January 4, 2005

The Hawai'i Commission for National and Community Service agrees with most of the findings and recommendations of the audit report except where noted. While the Commission agrees with most of the findings of the audit, the Commission needs the Corporation to remember that the audit was done during the period when the Commission did not have adequate staffing and was having major conflicts with its host agency the state Department of Labor and Industrial Relations/Office of Community Service (DLIR/OCS).

The Hawaii Commission was established in 1994 and until June 1, 2002, the Commission did not have an Executive Director to implement the policies and procedures of the Commission. The Commission was staffed by one individual, a Program Specialist within the Office of Community Services (OCS) which hosted the Commission. The Program Specialist was assigned to assist the Commission in trying to implement its objectives with the approval of the OCS Director. The OCS was responsible for the fiscal and program monitoring of the Commission's programs as well as the expenditure of the Commission's budget. According to the OCS Director, based on advise from the state Attorney General's office, since the OCS Director signed the contract agreements with the subgrantees and the Corporation funds were in the OCS account, then the OCS Director was responsible for the Commission and its activities. In short, the Commission needed the approval of the OCS Director to spend any of its resources and to implement any activities.

As a result of this setup, the programs were monitored sporadically and sometimes not at all. The decision on whether to monitor was left up to the OCS Director. The Commission made many attempts to persuade the OCS to release the Commission's administrative funds in order to hire additional staff in order to assure that the programs were operating according to the Corporation guidelines; however, the Commission's request for additional staffing was repeatedly turned down by the OCS Director.

Many of the findings within the audit, especially those related to the Volunteer Legal Services Hawaii, were brought to the attention of the OCS Director and the attention of the Director and Deputy Director of the state Department of Labor and Industrial Relations (DLIR) by the Commission on numerous occasions in hopes that action would be taken to correct those deficiencies. Unfortunately, no action was ever taken by either the DLIR and/or the OCS and as a result, the program continued to make the mistakes that were pointed out in the audit report.

During the period of this audit, the Commission was in constant conflict with the host agency (OCS) regarding the authority of the Commission and the staff assigned to assist the Commission. As a result, the programs were overlooked and very little monitoring of the subgrantees were done. In addition, during the period from February 2002 to September 2002, the Chair of the Commission, with the assistance of the Senior Program Officer from the Corporation was left to administer the program due to a lengthy illness of the staff assigned to assist the Commission.

As a result of the constant conflict with its host agency, and the lack of support and corporation, the Commission introduced legislation to move the Commission from the DLIR/OCS to the University. In 2001, the state legislature approved the transfer of the Commission to the University along with state matching funds for the Commission's administrative budget. At the recommendation of the DLIR/OCS, the Governor vetoed the legislative bill. The Commission again submitted legislation in 2002 to transfer the Commission to the University along with state matching funds for the Commission's administrative budget. Again in 2002, with the strong support of the state legislature, the Commission was successful in getting legislation passed. This time, the DLIR/OCS was willing to let the Commission move to the University of Hawaii only on condition that the legislature removes any funding to the Commission. Reluctantly, the Commission removed all state funding from its legislative package in order to assure itself that the legislative bill would pass and that the Commission would be transferred to the University in order that the Commission may be able to administer its own programs and develop its own administrative policies and procedures.

On June 1, 2002, the Hawaii Commission officially transferred to the University of Hawaii and hired its first Executive Director. Shortly thereafter, the Executive Director hired two Program Officers to assist in the development and implementation of the Commission and its objectives.

Although the Commission was not able to administer its own programs and implement its own policies and procedures under the host agency DLIR/OCS, since moving to the University of Hawaii, the Commission for the first time is able to take control of its own destiny. With the additional staff and the assistance of the University, the Commission has developed new standards and guidelines for implementing its programs. Programs are now monitored on-site regularly on a risk-based basis and fiscal monitoring is also monitored with limited procedures, including desk monitoring. Programs receive more in-depth training on Corporation rules and regulations and fiscal policies.

In short, the Commission has managed to correct all the deficiencies that the auditors have found during the audit period covering 9/1/2000 to 12/31/03. As a result of these changes, the Commission was able to successfully pass its Administrative Standards earlier this year. In addition, the Commission also conducts quarterly Program Director meetings/training for its subgrantees.

Compliance Issues

1. **The Commission did not have an adequate timekeeping system.**

   The Commission does not agree with the findings of compliance issue #1.

   The University is required, under Office of Management and Budget (OMB) Circular A-21, to develop a payroll distribution system which documents personnel costs that are chargeable to federally sponsored agreements. This documentation is necessary to verify the allowable cost of work performed by the University under sponsored agreements.

   Report 1289, "FTE Certification by Account Code" is used to document personnel costs charged to federally sponsored projects. These certifications are required for all regular employees that are charged to federally sponsored projects. This procedure is outlined in A8.948 of the University of Hawaii System-wide Administrative Procedures manual.

The University's Vice President for Student Affairs, who previously served on the Commission and is currently the University's liaison to the Commission, certifies the allowable cost of work performed by the Executive Director. In turn, the Executive Director certifies the staff's allowable cost of work performance.

2. **The Commission paid consultants in excess of the maximum amount allowed by the AmeriCorps Provisions.**

The Commission does not agree with the findings of compliance issue #2.

The Commission paid trainers to conduct workshops and guest speakers' honorariums for its Commission sponsored Statewide AmeriCorps Cross-Stream conferences during the period of the audit. Although the cost paid to these individuals were more than the authorized amount of $443 per day, the amount paid to these individuals included the cost of preparation and follow-up to the Commission which was not identified in the invoice. This included the speaker's honorarium which also included a half-day of preparation and the actual delivery of the speech. In each instance, if the billing were actually itemized, then the cost to these individuals would not have been questioned by the auditors.

Based on discussions with the auditors, the Commission staff now understands that the expenses for the trainers and speakers need to be itemized by preparation time, delivery time, and follow-up feedback time and not just a lump-sum figure. As a result, Commission staff made sure that no one got paid more than the allowable cost for a consultant during the recent Commission sponsored training held last week. The Commission has taken steps to assure that no one will be paid more than the allowable cost again by highlighting this section of the audit report and its fiscal manual.

3. **The Commission and subgrantees did not submit Financial Status Reports (FSRs) on a timely basis.**

The Commission agrees with the findings and recommendations of Compliance issue #3.

During the period of the audit, Financial Status Reports (FSRs) were not submitted in a timely manner. During the audit period, the Commission was housed in the DLIR/OCS and the filing of late FSRs were not considered a major issue. FSRs for most programs within OCS were submitted late and nothing was ever done to correct this problem. In spite of numerous requests by the Commission to get the reports in a timely manner, the reports continued to be submitted late. Even the subgrantees were allowed to submit their FSRs late and were never reprimanded for it. Since the contracts agreements with the subgrantees were signed by the Executive Director of OCS and not the Commission, the OCS Director felt that it was his responsibility to deal with late FSRs in his own manner. Unfortunately, nothing was ever done to ensure timeliness.

During the transition of moving from the OCS to the University of Hawaii, the University spent a great deal of time and effort trying to get information from the OCS in order to submit the necessary FSR's on time, but was not successful in getting any information at all. Therefore, the University had to basically reconstruct the previous expenditures with the help of the subgrantees, which was very time consuming, in order to submit an FSR to the Corporation for funds expended while the Commission was housed in the OCS.

Now that the Commission is established within the University of Hawaii, the University has required that all subgrantees submit their FSRs, quarterly program reports, etc. on a timely basis in order that the University can submit the Commissions reports on time. The subgrantees have been notified that untimely submittals could jeopardize funding for the subgrantees. The Commission has also posted the necessary due dates for submitting reports on its website.

4. **The Volunteer Legal Services Hawaii (VLSH) did not have proper documentation for donated supervision time credited for matching purposes.**

The Commission agrees with the findings and recommendations of compliance issue #4.

It is the understanding of the Commission that the required supervision time sheet of the law firms that AmeriCorps members were assigned to were not provided to VLSH in spite of its efforts to acquire the necessary documentation. Without the necessary documentation from these law firms, VLSH had to estimate the amount of supervision time provided by the law firms which was to be used as a match for the program. As a result of VLSH estimating the donated supervision, VLSH claimed matching expenses that could not be supported with proper documentation thereby having the auditors disallow the match resulting in a questionable cost of $160,406.

The Commission also recognizes that no law firm would allow a volunteer or an AmeriCorps member to work within its office without proper supervision, therefore, the Commission will be assisting VLSH in trying to get the proper documentation from the various law firms that members were assigned to.

It has also been brought to our attention that since the audit was completed, VLSH has met with their auditors to discuss this issue and have been notified by their auditors that VLSH was in compliance. The Commission will discuss this matter with VLSH and their auditing firm to get a clearer understanding of their findings. The Commission will also work with the VLSH on having them provide documentation for their match.

As a result of this matter, the Commission has developed a training manual that includes matching documentation requirements. Commission staff will also conduct more frequent monitoring of the subgrantees to assure compliance and also that an internal control has been setup by the subgrantees to ensure all matching is adequately supported by documentation before it is claimed.

5. **The VLSH did not have adequate supporting documentation for salaries and wages.**

   The Commission agrees with the findings and recommendations of the audit for compliance issue #5.

   The Commission recognizes that during the three year period under audit, VLSH has changed their accounting system a number of times and as a result, incorrect labor charges may have been applied to the grant. The Commission no longer funds this program and will not consider any future funding for the agency until they have shown that their systems are in place. The Commission has taken steps to train and monitor subgrantees on proper timekeeping methods.

6. **The VLSH claimed a portion of the A-133, audit as a direct grant cost under the Internal Evaluation category.**

   The Commission agrees with the finding and recommendation of compliance issue #6.

   At the time of the audit, the IG auditors did find that a portion of the A-133 audit fees were charged as a direct program cost under the Internal Evaluation category rather than an indirect administrative cost. This was also done without approval from the Commission or the Corporation. As a result of this condition, the subgrantee was found to have an improper direct charge to the grant of $24,486 over the three year audit period.

   The Commission will work with VLSH to have the agency reclassify the charge as administrative costs rather than a direct program cost under the Internal Evaluation category and collect the differences. The Commission will also ensure that all subgrantees are made aware that administrative costs are not charges as AmeriCorps program costs.

7. **The VLSH did not maintain required AmeriCorps member eligibility documentation.**

   The Commission agrees with the findings and recommendations of compliance issue #7.

   As a result of VLSH not maintaining proper member files, including the required AmeriCorps member eligibility documentation, including proof of citizenship, age, high school diploma or equivalency certificate, and signed contracts, the Commission cannot verify that member eligibility requirements were met.

   As a result, $15,891 for those AmeriCorps members whose eligibility documentation was missing is considered questionable costs by the auditors. Furthermore, the auditors also must question the corresponding education award for one member in the amount of $4,725.

   Since the Commission did not have adequate staffing at the time of the audit period, the Commission was unable to ensure that proper documentation was included in every member's file. Although the VLSH program has been discontinued, the Commission will work with VLSH to see if proper documentation could be recovered. The Commission has also setup a procedures manual for the subgrantees that identify the required documentation for members. The Commission now monitors the subgrantees early in order to assure compliance with the AmeriCorps provisions. The Commission recently completed its review of member documentation for this program year.

8. The VLSH incorrectly paid health benefits for a part-time member.

The Commission agrees with the finding and recommendation of compliance issue #8.

Since very little fiscal monitoring was done by the Commission's previous host agency, DLIR/OCS, it would have been difficult for the Commission to detect that a part-time member was incorrectly paid health benefits in the amount of $565 and that an additional $208 were paid to a full-time member for health care coverage for two additional months after the member had resigned.

Now that the Commission is housed within the University of Hawaii, the Commission has been able to hire additional staff and have setup necessary procedures to ensure that subgrantees are made more aware of the limits on health benefits during its monitoring visits.

9. The Legal Aid Society of Hawaii (LASH) did not segregate grant expenditures by program year.

The Commission agrees with the finding and recommendation of compliance issue #9.

While there were no questionable costs involved in this compliance issue, the Commission agrees that LASH needs to establish a separate accounting code for each AmeriCorps program year, in accordance with the AmeriCorps provisions and not put expenditures from all program years together.

LASH previously used to run reports on different grant years which involved specifying the dates of the grant year rather than individual account numbers of the grant years. Using this method, they were able to track and account for expenditures for their AmeriCorps program. In response to the audit report findings, LASH has adjusted their method and assigned individual account numbers for each grant year. Now they will be able to track expenditures by account number rather than date.

The Commission has been assured by LASH that with these changes, this problem would not occur again.

10. The LASH did not regularly reconcile recorded expenditures with claimed expenditures.

The Commission agrees with the finding and recommendation of compliance issue #10.

In the past, Legal Aid has had different methods of requesting payments for awarded grants. During the first program year, LASH operated on cash advances from the Corporation which they then had to account for through subsequent reporting. This first year had the greatest reported discrepancy. Accounting mistakes were made which resulted in the unreconciled claimed expenditures. Specifically,

--Charges were made for members who had left the program but whose files had not yet been updated throughout the system. Especially in the first year when they were operating on a cash advance system, they could not foresee when members might leave, but they had the money for the members already. This does not mean that the members received the money after they left, but there was some confusion on how to reconcile the difference.

--Living allowances for some members who were "ed award only" were claimed on accident that shouldn't have been. This was not intentional, but a mistake and LASH has taken action to be more aware of this possible pitfall.

--When calculating the amount of benefits they can claim, LASH took 10% of the cost of all benefits rather than 10% of the costs of each member. They did it this way because not all members received benefits and they thought 10% of the total would be a more accurate accounting of how much benefits would cost. After talking with the auditors, LASH was informed that this method was not the correct way to calculate and so they have made adjustments to the way they are doing it now, which is the cost per each individual member.

The next two years saw great improvements after LASH switched from cash advances to a reimbursement process. None of the compliance errors were done purposefully and they have taken appropriate steps to adjust and correct the way they claim program costs so that they are in compliance with Commission and Corporation procedures.

While there were no questionable costs related to this issue, the Commission during its monitoring visits will review the procedures established by LASH to ensure that this does not occur again.

11. Maui Economic Opportunity (MEO) incorrectly paid members a living allowance after they ended their AmeriCorps service.

The Commission does not agree with the findings of compliance issue #11.

After carefully studying the AmeriCorps Provision 11 b in the Fiscal Manual received from the Commission staff, MEO still does not agree with the auditors in their interpretation of Provision 11b. MEO has always exited its members at the end of the program year even though some members may have finished their hours earlier. Since the members were not officially exited from the program until the end of the program year, MEO considered the members to be still actively involved in the AmeriCorps program until they are officially exited. Furthermore, the regulation requires MEO to pay the living allowance in increments, such as weekly or bi-weekly and is not clearly defined that the member's participation in the program means actively giving the designated service hours, especially since members receive their living allowance regularly regardless of how many hours they serve during a given period. MEO, therefore, does not agree that the $4,944 should be a questionable cost.

MEO has informed the Commission that from the program year 2003-2004 and on, MEO will change its policy should the Corporation determine that MEO is indeed incorrect in its interpretation of the AmeriCorps Provision 11b.

12. Grant-authorized living allowance payments to AmeriCorps members were exceeded by three subgrantees.

The Commission agrees with the finding and recommendation of compliance issue #12.

The Commission agrees that there were instances that over payment to members were made during the audit period. In the case of VLSH, two members were designated as team leaders and paid an additional $100 per month even though VLSH did not receive prior written approval from the Commission or the Corporation to adjust their budgets or approval to create a new budgetary line item amounting to an overpayment cost of $2,940.

LASH had indicated in their budget that a certain number of AmeriCorps members would be paid would paid by LASH and /or a participatory agency and not by the Corporation. However, when expenditure claims were submitted to the Commission, the claim incorrectly included costs for non-federal members in the amount of $45,570

In the case of MEO, based on the total claimed costs of $238,691.11, the required 15% cash matching is $35,803.67 ($238,691.11 X 15%). However, the total cash matching for Member Living Allowance paid by MEO is $49,884.74, which is $14,081.07 in excess of the required 15% matching. Therefore, MEO request that $7,506 of the overpaid members' living allowances including FICA, worker's compensation, and health care expenditures in 2001-2002 be allowed.

The Commission feels that this would not have happened if there was adequate monitoring by the DLIR/OCS and if the Commission had the necessary staffing during the period of the audit period. However, since the Commission has moved to the University of Hawaii, the Commission now has the necessary staff and does train subgrantees to ensure proper compliance with the AmeriCorps provisions.

The Commission will also allow MEO and LASH the opportunity to adjust the 5% administrative cost by reducing the allowable living allowance and collect the difference.

13. **Subgrantees' member files did not contain certain required documents, and member documents were not submitted on a timely basis.**

The Commission agrees with the finding and recommendation of compliance issue #13.

The Commission acknowledges that during the audit period, member files were found by the IG auditors to be missing certain required documents and that member documents were not submitted on a timely basis. As a result of the hiring of three staff members for the Commission, staff has developed a comprehensive package which includes all the necessary member documents that are required by the Corporation. Staff now make risk-based and early visits to the programs to ensure that member files are up to date and that necessary documents are filed in a timely manner. More emphasis has been placed on those subgrantees with the greatest risk of lacking member information. The subgrantees also receive emails from staff reminding them of reporting due dates. Member exit and enrollment will be monitored thru WBRS to ensure timely submittals to the Corporation.

In the case of VLSH and the other agencies in question, the Commission will provide them the opportunity to obtain necessary documentation for members eligibility, i.e., birth certificates, etc. in order to correct this issue.

14. **The Commission has developed policies to evaluate and monitor subgrantees, but evidence of implementation is minimal.**

The Commission agrees with the finding and recommendation of compliance issue #14 pertaining to the earlier period of the audit.

The Commission agrees that the lack of monitoring during the audit period due to inadequate staff resources. However, the Commission currently has policies and procedures implemented to oversee our subgrantees. The Commission has added two additional staff and has also sought the assistance of the California Commission to help develop and improve its monitoring system. The Commission has also developed policies regarding the evaluation and monitoring of subgrantees as well as a more detailed computerized testing form that is used by staff whenever monitoring is done. As a result, staff is now using a computerized version of what the auditors use when they review programs. The computer program is designed to cover every aspect of an audit in regards to compliance issues.

On-site monitoring of programs is now done more frequently and priority is given to the high-risk based subgrantees. A documented audit trail specifically depicting monitoring actions, including testing, testing results, conclusions, subgrantee reactions, corrective actions, and follow-up activities are now a part of the Commission's monitoring system. The Commission will continue to utilize the services of the University of Hawaii's Fiscal Management Office and the University's Internal Audit Office.

15. **The Commission has not issued sufficient guidance to subgrantees on obtaining criminal record checks.**

The Commission agrees with the finding and recommendation of compliance issue #15 for prior periods.

Not enough guidance was given in the past to programs on obtaining criminal record checks. In the past, the programs were told were to look or whom to call in order to get a criminal background check on a member, however, the IG auditors felt that this was not sufficient. As a result, the Commission is working with the state Judiciary Department to establish guidelines that will be consistent for all programs. The Commission will develop a listing of all the agencies that a subgrantee can contact in order to get the necessary information regarding a potential member.

Conclusion:

The Commission recognizes the findings of the audit and will continue to re-visit the problem areas that were cited within the report. With its current staffing and strong commitment, the Commission is determined to making sure that those issues that were cited in the audit report do not happen again.

Appendix B

Response of the Corporation for National and Community Service

Corporation for
NATIONAL &
COMMUNITY
SERVICE

To: J. Russell George, Inspector General

From: Margaret Rosenberry, Director of Grants Management

CC: Andrew Kleine, Acting Chief Financial Officer
Rosie Mauk, Director of AmeriCorps State/National

Date: December 7, 2004

Subject: Response to OIG Draft Audit Report 05-09: Incurred Cost Audit of Grants Awarded to the Hawai`i Commission for National and Community Service

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We have reviewed the draft audit report of the grants awarded to the Hawai`i Commission for National and Community Service. Due to the limited timeframe for response, we have not analyzed documentation provided by the Hawai`i Commission supporting the questioned costs nor reviewed the audit work papers. We will respond to all findings and recommendations when the audit is issued and we have reviewed the findings in detail.