

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

**AUDIT OF FINANCIAL MANAGEMENT SYSTEMS OF
AMERICAN RECOVERY AND REINVESTMENT ACT
GRANTEES**

OIG REPORT 11-10



Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

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This report was issued to Corporation management on April 15, 2011. 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 October 17, 2011 and complete its corrective actions by April 16, 2012. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



April 15, 2011

TO: Margaret Rosenberry
Director, Office of Grants Management

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

SUBJECT: Office of Inspector General's (OIG) Report 11-10: *Audit of Financial Management Systems of American Recovery and Reinvestment Act (ARRA) Grantees*

Attached is the final report on the OIG's *Audit of Financial Management Systems of American Recovery and Reinvestment Act Grantees*. This audit was performed by OIG staff in accordance with generally accepted government auditing standards.

Under the Corporation's audit resolution policy, a final management decision on the findings in this report is due by October 17, 2011. Notice of final action is due by April 16, 2012.

If you have questions pertaining to this report, please contact me at (202) 606-9360 or s.axenfeld@cncsoig.gov; or Thomas Chin, Audit Manager, at (202) 606-9362 or t.chin@cncsoig.gov.

Attachment

cc: Robert Velasco II, Chief Operating Officer & Acting Chief of Program Operations
William Anderson, Chief Financial Officer
John Gomperts, Director of AmeriCorps
Wilsie Minor, Acting General Counsel
Claire Moreno, Audit Liaison, Office of Grants Management
Jack Goldberg, Audit Resolution Specialist, Office of Grants Management

CONTENTS

Section	Page
Executive Summary	1
Results of Audit	2
Objectives, Scope, and Methodology	8
Background	10
Exit Conference	10
Corporation Response	10
OIG Comment	10

Appendix

A: Corporation's Response to Draft Report

TABLE OF ACRONYMS

ARRA	American Recovery and Reinvestment Act of 2009
CFR	Code of Federal Regulations
FFR	Federal Financial Report
GAAP	Generally Accepted Accounting Principles
OIG	Office of Inspector General
OMB	Office of Management and Budget

EXECUTIVE SUMMARY

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), performed individual audits of financial management systems of Corporation grantees that received American Recovery and Reinvestment Act of 2009 (ARRA) funding. Our objective of the Audit of Financial Management Systems of ARRA Grantees was to determine whether the ARRA grantees had adequate accounting systems to properly account for these funds. Additionally, we assessed grantee capability to comply with ARRA accountability requirements and to ensure: (1) recipients of funds and uses of all funds were transparent; (2) the reporting of the public benefit of ARRA funds was clear, accurate, and timely; (3) funds were used for authorized purposes and internal controls were in place to mitigate fraud, waste, error, and abuse; and (4) controls were in place to avoid unnecessary delays and cost overruns.

We performed site visits at 11 ARRA grantees. Of that total, we found that seven grantees had financial management systems that were either inconsistent or were not in compliance with applicable regulations. We also noted the following nine findings:

- Unallowable Member Living Allowance
- Unallocable Expenditures
- Timekeeping Deficiencies
- Timesheets Were Not Signed and/or Dated
- Incorrect Amounts Reported on Federal Financial Report
- Incorrect Parent Allocation Calculation
- Undocumented Methodology for Reporting Member Living Allowance
- Misclassification of Line-Item Expenses
- Accounting System Did Not Include Automated Budget Controls

As a result of reviewing a sample of grantees' reported expenses, the following costs were noted for 6 of 11 grantees:

Reason	Grant No.	Questioned Amounts
Unallocable payroll expense	09RNHMD002	\$6,788
Unallocable evaluation expense	09RCHCA0020010	1,400
Unallowable living allowance	09RCHCA0020007	445
Unallowable living allowance	09RCHCA0020010	680
Total Questioned Amount		<u>\$9,313</u>

Reason	Grant No.	Other Adjusted Amounts
Unsupported living allowance	09RCHCA0020002	(\$394)
Unsupported payroll expense	09RCHCO0020001	(69,242)
Unallowable payroll expense	09RCHNY0020014	(265)
Total Other Adjusted Amount		<u>(\$69,901)</u>

RESULTS OF AUDIT

Finding 1. Unallowable Member Living Allowance

For 2 of the 11 grantees, we noted questioned costs associated with member living allowances. For one grantee, we identified a \$445 discrepancy between the member's timesheet and the costs reported against the ARRA grant as living allowance expenses. The member's timesheet documented no hours served, and therefore the member was ineligible to receive the living allowance for the final pay period.

For another grantee, it was determined that a member was erroneously charged to the ARRA grant after he had departed the AmeriCorps program. The member's \$680 living allowance was still included in the total living allowance balance claimed in the subsequent pay period. Both instances caused an overstatement of \$1,125 in the reporting of Federal funds against the ARRA grants.

AmeriCorps 2009 Grant Provisions, Section IV. F.1. *Living Allowance Distribution*, states:

A living allowance is not a wage. Grantees must not pay a living allowance on an hourly basis. Grantees should pay the living allowance in regular increments, such as weekly or bi-weekly, paying an increased increment only on the basis of increased living expenses such as food, housing, or transportation. Payments should not fluctuate based on the number of hours served in a particular time period, and must cease when a member concludes a term of service.

AmeriCorps 2009 Grant Provisions, Section IV.C.4. *Timekeeping*, states:

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

Recommendation 1

We recommend the Corporation:

- a) Verify the grantees have resolved the questioned costs and adjust the Federal costs accordingly to the state commissions; and
- b) Review the grantees' policies and procedures related to review and reconciliation between its accounting records and Federal financial reports. This will ensure member living allowance payments are consistent with and adhere to the AmeriCorps grant provisions and the grant agreements with state commissions.

Finding 2. Unallocable Expenditures

For 2 of the 11 grantees, we determined costs associated with their AmeriCorps State and National Direct grants were improperly charged and reported to the ARRA grant. One of the grantee's costs was for member living allowances and the other was for evaluation assessment expenditures. We further identified that living allowances associated with ARRA grant were charged to the AmeriCorps National Direct grant during the same period.

Both grantees indicated that the errors have been corrected in the subsequent reporting period. For one of the grantees, the error was corrected during our fieldwork, allowing the OIG auditors to review the corrected journal entry and supporting documentation. For the other grantee, the questioned costs of \$1,400 were addressed subsequent to our fieldwork.

Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A. *Basic Considerations*, Paragraph A.4. *Allocable costs* at subsection (b) states:

Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.

Consequently, though the net effect of the error for the two grants is \$0, it could potentially cause an overstatement on the ARRA grant's budget for evaluation expenses.

Recommendation 2

We recommend the Corporation:

- a) Review the supporting documents and financial reports based on the grantees' corrected journal entries for both the ARRA grant and the AmeriCorps National Direct grant; and
- b) Review the two grantees' policies and procedures related to the recording and review of its Federal award allocations. This will ensure program payments are consistent with the AmeriCorps grant provisions and the grant agreements with state commissions.

Finding 3. Timekeeping Deficiencies

a. Employees were not using activity based timesheets

For 2 of the 11 grantees, we identified that employees' timesheets did not segregate employees' time by project in accordance with OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. Without activity based timesheets, the potential exists for labor costs to be incorrectly recorded, and not allocated to the appropriate grant.

b. Accounting System inaccurately reports budgeted amounts

For 1 of the 11 grantees, we determined that it reported employee wages based on predetermined grant budgeted amounts rather than actual time worked. Without the preparation of financial reports based on actual time worked on the program, the grantee cannot adequately support its charges. Also, management oversight and budgeting of grant labor costs could be weakened without an actual history of labor costs.

OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B. *Selected Items of Cost*, Paragraph 8. *Compensation for personal services*, states:

m. Support of salaries and wages.

(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency. (See subparagraph E.2 of Attachment A.)

(2) 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. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:

(a) 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.

(b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

Recommendation 3

We recommend that the Corporation:

- a) Ensure that the grantees utilize activity-based timesheets for all employees whose compensation and services are directly charged to the grant; and

- b) Verify any newly implemented timekeeping procedures to ensure they document actual labor costs and after-the-fact time charged to AmeriCorps grants.

Finding 4. Timesheets Were Not Signed and/or Dated

For 4 of the 11 grantees, we determined two grantees had member timesheets that were not signed or dated by either the member or program supervisors. We also noted that two other grantees had member timesheets that were signed but not dated by the members and/or program supervisors. AmeriCorps requirements do not directly address specific timesheet procedures, which are the responsibility of the grantee or subgrantee. It is, however, good business practice to sign and date documents. As a result, accountability is maintained, and timesheets are consistent with member and management intentions.

AmeriCorps 2009 Grant Provisions, Section IV C. 4. states:

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

Recommendation 4

We recommend that the Corporation ensure the grantees' staff conduct and document periodic reviews of member timesheets to ensure that required signatures and dates by both members and supervisors are included.

Finding 5. Incorrect Amounts Reported on Federal Financial Report

For 3 of the 11 grantees, we determined three separate instances where discrepancies were identified between the reported expenditures from the grantees' Federal Financial Report (FFR) and the supporting documentation and accounting records. For the three grantees, the effects of these errors resulted in understated grant expenses of \$265, \$69,242, and \$284, respectively.

OMB Circular A-122, Cost Principles for Non-Profit Organizations, Paragraph A. *Basic Considerations*, 2. *Factors Affecting Allowability of Costs*, states:

To be allowable under an award, costs must meet the following general criteria:

- a. *Be reasonable for the performance of the award and be allocable thereto under these principles.*
- b. *Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.*

- c. *Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization.*
- d. *Be accorded consistent treatment.*
- e. *Be determined in accordance with generally accepted accounting principles (GAAP).*
- f. *Not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or a prior period.*
- g. *Be adequately documented.*

Recommendation 5

We recommend the Corporation:

- a) Review the understated costs against the grant and verify they were corrected by the grantee; and
- b) Review the grantees' procedures for requiring personnel to review and reconcile the FFRs and supporting documentation before they are submitted.

Finding 6. Incorrect Parent Allocation Calculation

For 1 of the 11 grantees, we identified that the indirect cost allocation from the parent organization for three administrative employees charged to the ARRA grant award was incorrectly calculated. The grantee identified the \$6,788 error that was overbilled to the grant. A correcting entry was prepared by the grantee, which we reviewed, noting the calculation for the transactions to the employee contracts, check requests, and check stubs were adequate and proper.

OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment A. *Basic Considerations*, Paragraph 2. *Factors Affecting Allowability of Costs*, states:

Factors affecting allowability of costs, states an award cost must be adequately documented in order to be allowable.

Recommendation 6

We recommend the Corporation:

- a) Review the grantee's revised costs for both the AmeriCorps National Direct and ARRA grant on the subsequent FFR submissions; and
- b) Ensure the grantee strengthens its controls for verifying and preparing parent allocations to ensure costs are being equitably charged.

Finding 7. Undocumented Methodology for Reporting Member Living Allowance

For 1 of the 11 grantees, we determined that its' accounting policies do not address processes for recording member living allowances. The detailed calculation and reconciliation of living allowance is complicated, and it is necessary to understand and document the methodology for the calculation, which is a material Federal expenditure to the ARRA grant. The grantee recently developed a fiscal tracking system that will provide the organization with more accurate accounting for member living allowances.

45 Code of Federal Regulations (C.F.R.) § 2543.21, *Standards for financial management systems*, subsections (b)(2) and (b)(3) state:

- Recipients' financial management systems shall provide for the following:*
- (1) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.*
 - (2) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.*

Recommendation 7

We recommend that the Corporation verify the grantee's new tracking system to ensure that the grantee thoroughly documents its methodology for recording member living allowance expenses.

Finding 8. Misclassification of Line-Item Expenses

For 1 of the 11 grantees, we identified two instances where an expense was incorrectly recorded as another line item expense. The first instance was \$83 of employee training and travel expenses that were erroneously claimed against the ARRA grant as member training costs. This caused an overstatement of \$83 in member training Federal and match expenses. The second instance was \$1,390 for employee travel expenses that were erroneously claimed against the ARRA grant as employee training expenses. This caused an overstatement of \$1,390 of employee training charged to Federal and match expenses.

AmeriCorps 2009 Grant Provisions, Section V.B. *Financial Management Standards* states:

- 1. General. The Grantee must maintain financial management systems that include standard accounting practices, sufficient internal controls, a clear audit trail and written cost allocation procedures, as necessary. Financial management systems must be capable of distinguishing expenditures attributable to this grant from expenditures not attributable to this grant. The systems must be able to identify costs by programmatic year and by budget category and to differentiate between direct and indirect costs or administrative costs.*

Although the net effect of the error within the grantee's accounting system is \$0, it could potentially cause an overstatement on the ARRA grant's budget for employee and member travel and training costs.

Recommendation 8

We recommend the Corporation ensure the grantee improves its budget-line item classification accounting practices and strengthens its budget monitoring procedures.

Finding 9. Accounting System Did Not Include Automated Budget Controls

For 1 of the 11 grantees, we determined that its' accounting system general ledger operating system does not include an automated control utility to prevent obligations from being incurred in excess of total funds available. Instead, manual budget controls are used to monitor the grantee's financial position. However, the accounting system has a budget module, which the grantee has not yet utilized. The grantee indicated that it intends to activate the budget module in the next fiscal year and update its policies and procedures accordingly. Until that occurs, excess expenditures may not be promptly detected if the grantee experiences unanticipated staffing changes, absence of key personnel due to illness or travel obligations, or other unforeseen events.

Recommendation 9

We recommend that the Corporation:

- a) Ensure the grantee activates and implements the budget module as soon as possible to enhance controls over its budget monitoring process; and
- b) Review grantee's policies and procedures and ensure they are updated to incorporate the new procedures related to the budget module.

OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted our audit in accordance with generally accepted government audit standards. Those standards required that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit objective was to determine whether the ARRA grantees have adequate accounting systems to properly account for these funds. Additionally, it was to assess recipient capability to comply with ARRA accountability requirements and to:

1. Ensure that recipients of funds and uses of all funds are transparent;
2. Ensure the reporting of the public benefit of ARRA funds is clear, accurate, and timely;
3. Ensure funds are used for authorized purposes and internal controls are in place to mitigate fraud, waste, error, and abuse; and
4. Ensure controls are in place to avoid unnecessary delays and cost overruns.

The OIG judgmentally selected a sample of grantees according to the following criteria:

- ARRA grant recipients of \$500,000 or more in Federal funds,
- ARRA recipients who had an existing State or National Direct grant (VISTA ARRA recipients were not required to be existing grant recipients), and
- ARRA grant recipients which were not the subjects of a recent, prior audit or review by the OIG.

Of the initial 21 grantees selected, the OIG cancelled ten of the grantee reviews due to resource constraints and other assignment priorities. The 11 grantees that we audited are listed below:

GRANTEE	LOCATION	GRANT No.	AWARDED AMOUNT	FFR PERIOD
BOSTON PLAN FOR EXCELLENCE	BOSTON, MASSACHUSETTS	09RCHMA0020002	\$540,000	7/1/2009 TO 12/31/2009
CALIFORNIA CONSERVATION CORPS	SACRAMENTO, CALIFORNIA	09RCHCA0020002	\$1,552,000	7/1/2009 TO 6/30/2010
GOODWILL INDUSTRIES INTERNATIONAL	ROCKVILLE, MARYLAND	09RNHMD001	\$693,481	7/1/2009 TO 9/30/2009
KEYSTONE SMILES COMMUNITY LEARNING CENTER	HARRISBURG, PENNSYLVANIA	09RCHPA0020002	\$789,745	7/1/2009 TO 3/31/2010
MILE HIGH YOUTH CORPS (YEAR ONE, INC)	DENVER, COLORADO	09RCHCO0020001	\$832,831	6/1/2009 TO 9/30/2009
NAPA COUNTY OFFICE OF EDUCATION	NAPA, CALIFORNIA	09RFHCA0010001	\$1,657,168	7/1/2009 TO 6/30/2010
NOTRE DAME MISSION VOLUNTEERS PROGRAM, INC.	BALTIMORE, MARYLAND	09RNHMD002	\$550,224	9/1/2009 TO 03/31/2010
REDWOOD COMMUNITY ACTION AGENCY	EUREKA, CALIFORNIA	09RCHCA0020007	\$784,655	3/1/2010 TO 06/30/2010
SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA	SLIPPERY ROCK, PENNSYLVANIA	09RCHPA0020003	\$549,534	1/1/2010 TO 03/31/2010
THE AFTER-SCHOOL CORPORATION	NEW YORK, NEW YORK	09RCHNY0020014	\$512,616	7/1/2009 TO 3/31/2010
WEINGART CENTER ASSOCIATION	LOS ANGELES, CALIFORNIA	09RCHCA0020010	\$800,296	3/1/2010 TO 06/30/2010
		TOTAL AWARDED	\$9,262,550	

We conducted site visits for the above 11 grantees and held interviews with the grantees' personnel. We obtained and reviewed correspondence, memoranda, and various documents and records prepared by grantees. We also reviewed grantees' accounting systems, policies, and procedures. We reviewed the grantees' accounting systems and FFRs for the period of July 1, 2009, through June 30, 2010. We conducted our audits between September 2009 and December 2010.

BACKGROUND

The Corporation's appropriation for the ARRA was approximately \$201 million, of which approximately \$154 million was granted to place approximately 13,000 additional AmeriCorps*State and National and AmeriCorps*VISTA members to meet the needs of vulnerable populations and communities during the economic recession. ARRA funding was also used to provide current grantees with relief from requirements to provide matching funds. The Corporation also received ARRA funding to improve its information technology systems.

ARRA AmeriCorps funding was awarded to existing national, regional, and local grantees with proven track records that could demonstrate the capacity to efficiently and effectively draw upon ARRA resources to assist communities in need.

To ensure transparency and promote competition to the greatest extent practical, the Corporation, as part of its Fiscal Year 2009 grant-making process, announced the availability of one-time funding for "Recovery Grants" to existing grantees to augment their current programs. The notice of funding included specific instructions and guidance for the match-waiver requirements, along with instructions that ARRA funding was designed to increase the number of serving members.

EXIT CONFERENCE

We discussed the contents of this draft report with Corporation representatives at an exit conference on February 25, 2011. The Corporation's response to the draft report has been included in this final report as Appendix A.

CORPORATION RESPONSE

The Corporation stated the Office of Grants Management will follow up with each individual grantee audit results to determine the corrective action needed after the OIG's final report has been issued.

OIG COMMENT

Subsequent to the individual grantee audits, the OIG provided each grantee's results letter to the Office of Grants Management. Although the ARRA grants have ended, a majority of the programs covered in our audit report are current Corporation grant recipients. The OIG will work with the Corporation to provide further information, as needed, during audit resolution process.

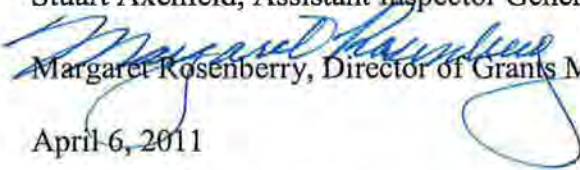
/s/

Stuart Axenfeld, Assistant Inspector General for Audit
Office of Inspector General
Corporation for National and Community Service

Appendix A

Corporation's Response to Draft Report

Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

To: Stuart Axenfeld, Assistant Inspector General for Audit
From:  Margaret Rosenberry, Director of Grants Management
Date: April 6, 2011
Subj: Response to OIG Draft Report on the Audit of Financial Management
Systems of American Recovery and Reinvestment Act Grantees

Thank you for the opportunity to comment on the OIG draft report of the financial management systems of Recovery Act grantees. We will need the working papers in order to identify the programs associated with each recommendation in your report. Once the report is issued as final and OIG can provide those working papers, we will follow up with each program, determine corrective action needed and provide our management decision at that time.

Cc: William Anderson, Chief Financial Officer
John Gomperts, Director of AmeriCorps
Wilsie Minor, Acting General Counsel

