Office of the Inspector General
Corporation for National and Community Service

Audit of Corporation for National and Community Service Grant Award No. 95LSGVA013 to Close Up Foundation

Report Number 00-20
August 18, 1999

This report was issued to Corporation management on November 29, 1999. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than May 29, 2000, and complete its corrective actions by November 29, 2000. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of the Inspector General
Corporation for National and Community Service

Audit of
Corporation for National and Community Service
Grant Award No. 95LSGVA013 to
Close Up Foundation

Table of Contents

Page

RESULTS IN BRIEF 1

BACKGROUND 2

OPINION ON COSTS INCURRED 2

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS 3

REPORT ON INTERNAL CONTROLS 3

SCHEDULE OF CLAIMED COSTS 5

NOTES TO THE SCHEDULE OF CLAIMED COSTS 6

APPENDIXES

Close Up Foundation's Response ..... Appendix A

The Corporation's Response ..... Appendix B

CORPORATION
FOR NATIONAL
SERVICE

Office of Inspector General
Corporation for National and Community Service
Audit of
Corporation for National and Community Service
Grant Award No. 95LSGVA013 to
Close Up Foundation

On September 29, 1995, the Corporation for National and Community Service awarded a Learn and Serve America school-based grant to the Close Up Foundation, Grant No. 95LSGVA013. We performed an audit of the costs claimed ($237,532) by Close Up Foundation during the grant period from October 1, 1995 through December 31, 1998. Close Up Foundation entered into subgrant agreements with the El Paso and Canutillo Independent School Districts in Texas and the Giles and Henry County Public Schools in Virginia. Close Up Foundation, however, was considered the recipient of the grant.

The audit objectives were to determine if: (1) the amounts claimed by the auditee were allowable under the grant agreement, its terms and conditions, and applicable Federal laws and regulations; (2) the auditee's internal control structure was adequate to safeguard Federal funds; and (3) the auditee had adequate procedures and controls to ensure compliance with applicable Federal laws, regulations, and award conditions.

RESULTS IN BRIEF

We questioned $9,129, or approximately 4 percent, of the $237,532 claimed under the grant. The majority of these costs, $8,187, was questioned because Close Up Foundation charged textbooks to the grant at a "discounted retail" unit price in lieu of actual cost. The Notes to the Schedule of Claimed Costs provides additional information on this and other costs questioned based on the results of our audit.

The results of our tests of compliance regarding claimed costs disclosed a material instance of noncompliance for which we are recommending corrective action. Close Up Foundation was unable to provide supporting documentation for the costs of textbooks that were charged to the grant at a "discounted retail" price and therefore failed to comply with OMB cost principles. OMB Circular A-122, *Cost Principles of Nonprofit Organizations*, states that "to be allowable under an award, costs must be adequately documented." The term "costs" includes only costs recorded in the grantee's accounts that were paid by cash, check or other form of actual payment or costs accrued in the normal course of business and recorded in the grantee's accounts.

We noted no matters involving the internal control structure and its operations that we consider a reportable condition under the standards established by the American Institute of Certified Public Accountants.

Inspector General
1201 New York Avenue, NW
Washington, DC 20525

BACKGROUND

The Close Up Foundation is a nonprofit, nonpartisan organization established in 1970 whose mission is to encourage responsible participation in the democratic process through civic education programs and publications on government and citizenship.

The purpose of the award was to implement the Scholastic Excellence Through Service Program (SETS). SETS was designed to join students in grades 7 through 12 with older adults in order to solve community problems and teach civic behavior. SETS supports the citizenship curriculum for the participating school districts: the Independent School Districts of El Paso and Canutillo in Texas, and the Public Schools of Giles and Henry Counties in Virginia. Through community and school partnerships, students learn about local government, community agencies, and ways for the students to participate in the activities of these entities.

The Corporation's initial award of the grant to Close Up Foundation totaled $130,000 and covered the period from October 1, 1995 through September 30, 1996. Awards for the second and third program years totaled $202,650 and $100,410, respectively, and extended the program through December 31, 1998.

OPINION ON COSTS INCURRED

We have audited the costs claimed by Close Up Foundation to the Corporation for National Service for Grant No. 95LSGVA013 for the period October 1, 1995, to December 31, 1998. Costs claimed are summarized in the Schedule of Claimed Costs. Costs claimed summarized in the Schedule are the responsibility of Close Up Foundation management. Our responsibility is to express an opinion on costs shown in the Schedule based on our audit.

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

The Schedule is intended to present allowable costs incurred under the contract in accordance with the applicable cost principles and contract terms and conditions. Therefore, it is not intended to be a complete presentation of Close Up Foundation's revenues and expenses.

In our opinion, except for questioned costs of $9,129 in the Schedule of Claimed Costs, the financial schedule referred to above presents fairly, in all material respects, costs claimed by Close Up Foundation for the audit period October 1, 1995, to December 31, 1998, in conformity with the award agreement.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Compliance with applicable laws and regulations related to the grant is the responsibility of Close Up Foundation management. As part of obtaining reasonable assurance that costs are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations related to the grant. Our objective was not, however, to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests of compliance regarding claimed costs disclosed a material instance of noncompliance that is required to be reported under *Government Auditing Standards*. OMB Circular A-122 states that, "to be allowable under an award, costs must be adequately documented." Close Up Foundation charged the costs of textbooks to the grant in the amount of $10,690 based on a "discounted retail" price rather than at its actual costs for the textbooks. Of that amount, Close Up Foundation provided support for $2,503 in printing costs. We questioned the difference of $8,187.

We recommend that Close Up Foundation establish a procedure to identify and document all costs, including the costs of textbooks, in accordance with applicable cost principles and award provisions.

We considered the above a material instance of noncompliance in forming our opinion on whether Close Up Foundation's costs claimed under the grant for the period October 1, 1995, through December 31, 1998, are presented fairly, in all material respects, pursuant to contract terms and conditions and the applicable cost principles. Because of the material instance of noncompliance for which we questioned costs as described in the Notes to the Schedule of Claimed Costs, our opinion on the Schedule is qualified.

REPORT ON INTERNAL CONTROLS

Close Up Foundation management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are 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 financial schedules in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure 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.

In planning and performing our audit, we obtained an understanding of Close Up Foundation's internal control structure. We obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk to determine our auditing procedures for the purpose of expressing an opinion on claimed costs and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted no matters involving the internal control structure and its operations that we consider a reportable condition under the 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 control structure that, in our judgment, could adversely affect an organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules.

RESPONSE TO DRAFT REPORT

We provided a draft of this report to the Close Up Foundation and the Corporation. In its response, Close Up Foundation agreed with the audit findings for labor costs, fringe benefits, and administrative costs associated with these two cost elements. Close Up Foundation did not agree with the audit finding on the cost of the textbooks. Close Up's response is included as Appendix A. Close Up's responses to specific findings are included after each finding, as appropriate. The Corporation's response to the draft report is included as Appendix B. In its response, the Corporation stated that it reviewed the draft report, but did not have specific comments at this time.

This report is intended solely for the use of the Office of the Inspector General, the Corporation for National and Community Service, and Close Up Foundation management.

Inspector General
Corporation for National and Community Service
Washington, D.C.
August 18, 1999

SCHEDULE OF CLAIMED COSTS

Corporation for National and Community Service
Grant No. 95LSGVA013 to
Close Up Foundation
October 1, 1995, to December 31, 1998

	Claimed Costs	Questioned Costs	Notes
Labor	$ 36,912	$ 545	1A
Payroll Taxes & Insurance	9,282	352	1B
Academic Materials	12,705	8,187	1C
Travel	14,015		
Other Direct Costs	6,288		
Subgrantee Reimbursables	149,496		
Subtotal	228,698	9,084	
Administrative Costs	8,834	45	1D
CORPORATION FUNDS	237,532	$9,129	
MATCHING FUNDS	131,358		
TOTAL FUNDS	$368,890		

NOTES TO THE SCHEDULE OF CLAIMED COSTS

Note 1 – Questioned Costs

A. We questioned $545 of labor charged to the grant due to a data entry error. Thirteen hours were charged to SETS which should have been charged to another program. Therefore, we questioned the corresponding amount in labor costs.

B. We questioned a total of $352 in fringe benefit costs charged to the grant. Of this, $136 related to the questioned labor costs noted in A above. In addition, we computed the difference between the year-end fringe benefit rates as reported for the SETS program and compared it against the actual fringe benefits rates based on year-to-date costs. The result was a difference in the amount of $216 (net) based on our computation as follows:

Year-end	Claimed Fringe Benefit Costs	Base of Labor Costs	Claimed Fringe Benefits Rate	Actual Fringe Benefits Rate	Questioned Rate	Amount
1996	$1,806	$7,370	24.5%	24.79%	-.29%	<$21>
1997	$4,663	$17,740	26.28%	24.95%	1.33%	237
1998	$2,276	$9,643	23.6%	23.6%	0%	0
Total Amount (net)						$216
Fringe Benefits Related to Questioned Labor Costs ($545 in Questioned Labor Costs x 24.95%)						136
Total Fringe Benefit Costs Questioned						$352

C. Close Up Foundation used what it termed a "discounted retail rate" to charge the Corporation $10,690 for textbooks used in the SETS program. Close Up Foundation publishes these textbooks and makes them available for purchase by the general public at a retail unit price of $12.95. Close Up Foundation charged the textbooks to the Corporation at a "discounted retail price" of $9.95 per unit. Under the grant provisions, costs incurred under this grant must be shown in the Close Up Foundation's books or records and must be supported by source documents. However, the only actual costs recorded for these textbooks were $2,503 for printing. We questioned the difference of $8,187 because Close Up Foundation was unable to provide supporting documentation for other costs it incurred for the textbooks. OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, requires that costs must be adequately documented.

Close Up Comments. Close Up stated that the textbooks were not developed under the terms of the grant and were provided to the Corporation at a discounted retail price, which is its usual and customary practice. Close Up Foundation also stated that other Government agencies have accepted this practice, and the practice was disclosed to the Corporation. Close Up also disagrees that that its methodology for charging the textbooks represents a material noncompliance with the applicable regulations.

Auditor's Response. OMB Circular A-122 requires that costs be adequately documented. Close Up provided no additional information on the actual costs of the textbooks or other

basis for determining its costs. Therefore, the questioned costs remain. Additionally, we consider the noncompliance to be material based on our observations that Close Up's departure from the documentation requirements of OMB Circular A-122 was not due to being unfamiliar with the requirements, but rather it was an intentional decision made because of the difficulties in establishing the actual costs of the textbooks, and because Close Up has informed us that they still have costs for additional textbooks that are as yet unclaimed on this grant. In addition, because Close Up has received a follow-on grant from the Corporation, the financial impact of the noncompliant methodology for the textbooks could be greater than the questioned costs disclosed in this report.

D. We questioned administrative costs of $45 associated with the questioned costs discussed in Notes 2A and B above (administrative costs were not claimed on the textbooks discussed in Note 2C), as follows:

Questioned Costs	$ 897
Administrative Cost Rate	× 5%
Questioned Administrative Costs	$ 45

APPENDIX A

CLOSE UP FOUNDATION'S RESPONSE

CLOSE UP®
FOUNDATION

44 Canal Center Plaza • Alexandria, Virginia 22314-1592

703-706-3300
Fax: 703-706-0000
www.closeup.org

November 12, 1999

Luise S. Jordan, Inspector General
Corporation for National Service
1201 New York Avenue, NW
Washington, DC 20525

Dear Ms. Jordan:

We have reviewed the draft report on the results of your audit of the Corporation for National Service grant with the Close Up Foundation, Grant Award No. 95LSGVA013, through December 31, 1998.

We do not take issue with the findings stated in paragraphs A (the erroneous labor hours charged), B (the fringe benefits on these labor hours and rate variances), and D (the administrative cost associated with these two items). With regard to paragraph C of your audit report, we strongly disagree that our performance under this grant represents a "material instance of noncompliance" with the applicable regulations.

The textbooks in question were not developed under the terms of this grant. Furthermore, the Program Officer for the Corporation agreed to purchase the textbooks at a 30% discount off the retail price. At all times there has been full disclosure with the Corporation's Grants and Program Officers.

It has been our standard and customary practice over the last 25 years, to include textbooks as a standard and allowable cost in grant activities for the Department of Education, the Department of Interior, and others. For many of our grant activities, the use of textbooks has been included (and accepted by the various agencies) in determining the tuition rates for course offerings. In no case were we asked to justify the cost of a textbook in terms of its development cost, production cost, etc.

Given our standard practice with respect to the use of textbooks on similar grants, the Government's historical acceptance of our standard practice, and our expectation during the conduct of this grant (i.e., the agreement of the Corporation's Program and Grants Officers), we believe it is appropriate, fair, and equitable to reimburse Close Up for the costs of textbooks as submitted for this Grant.

Sincerely,

David Villani
Vice President, Finance and Administration

APPENDIX B

THE CORPORATION'S RESPONSE

CORPORATION
FOR NATIONAL
SERVICE

MEMORANDUM

DATE: November 12, 1999

TO: Luise Jordan, OIG

FROM: Bruce H. Cline, Director, Grants Management Office

CC: Wendy Zenker, COO
Wilsie Minor, Assistant General Counsel

SUBJECT: OIG Report 00-20, Draft Audit of Corporation for National Service with Close Up Foundation

---

We have reviewed the aforementioned draft report and do not have specific comments at this time. We will conduct a more comprehensive review and analysis during the audit resolution process.