Office of Inspector General
Corporation for National and Community Service

AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE GRANTS AWARDED TO THE RHODE ISLAND SERVICE ALLIANCE

OIG REPORT NUMBER 04-22

Corporation for NATIONAL & COMMUNITY SERVICE

Prepared by:

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This report was issued to Corporation management on September 23, 2004. Under the laws and regulations governing audit follow-up, the Corporation is to make final management decisions on the report's findings and recommendations no later than March 23, 2004, and complete its corrective actions by September 23, 2005. 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 04-22

Audit of Corporation for National and Community Service Grants Awarded to the Rhode Island Service Alliance

OIG Summary

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), retained Leonard G. Birnbaum and Company to perform an incurred-cost audit of grants awarded to the Rhode Island Service Alliance (RISA). The objectives of the audit were to determine whether:

- financial reports prepared by RISA presented fairly the financial results of the awards;
- internal controls were adequate to safeguard Federal funds;
- The RISA and its subrecipients had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations, and award conditions, and that member performed service appropriate for the programs;
- award costs reported to the Corporation were documented and allowable in accordance with the award terms and conditions; and
- The RISA had established adequate oversight and informed subrecipients of the Corporation's Government Performance and Results Act (GPRA) goals.

For the grants audited, the Commission claimed costs of $7,939,976, of which the auditors questioned $148,959 of unallowable claimed costs and $32,850 of education awards. Overall, the auditors questioned less than two 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 one internal control finding that is considered to be a material weakness.

The Commission does not agree with the audit report's conclusion that the noncompliance findings and internal control finding are material weaknesses. The RISA disagrees with the auditors' interpretation of grant provisions and whether RISA's policies, procedures and practices meet the requirements of the provisions. These comments and RISA's corrective actions will be reviewed by the Corporation as part of the audit resolution process.

The Office of Inspector General has reviewed the report and the work papers supporting the auditors' conclusions. Our review of the auditors' work papers disclosed no instances where Leonard G. Birnbaum and Company did not comply, in all material respects, with generally accepted government auditing standards.

Audit of Corporation for National and Community Service
Grants Awarded to
Rhode Island Service Alliance
Providence, RI

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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 Rhode Island Service Alliance (RISA) and its subrecipients from July 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 RISA and its subrecipients.

Results in Brief

As a result of our audit, we are questioning costs totaling $181,539, or approximately 2.3 percent of the total $7,939,976 in costs claimed by RISA. 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, $32,580 relate to Education Awards. Other costs questioned include excess living allowance charges, living allowances questioned because key eligibility documentation could not be located, the impact of recorded training hours in excess of Corporation grant limitations, miscellaneous reclassifications and adjustments, and related administrative expenses. Details related to questioned costs appear in the Independent Auditor's Report.

Grant Programs Audited

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

Program	Award Number	Award Period	Audit Period
AmeriCorps	00ASCRI041	8/1/00 to 9/30/03	8/1/00 to 9/30/03
AmeriCorps	00ASFRI041	7/1/00 to 9/30/03	7/1/00 to 9/30/03
Learn & Serve	00LCSRI040	9/1/00 to 12/31/03	9/1/00 to 12/31/03
America's Promise	99APSRI068	10/1/00 to 12/21/01	10/1/00 to 12/21/01
America's Promise	01APSRI068	10/15/01 to 10/14/04	10/15/01 to 12/31/03
Disability Funds	00DSCRI039	1/1/01 to 12/31/03	1/1/01 to 12/31/03
Education Awards	01EDSRI023	1/1/03 to 12/31/03	1/1/03 to 12/31/03
PDAT	95PDSRIA39	1/1/95 to 12/31/01	1/1/01 to 12/31/01
PDAT	02PDSRIA39	1/1/02 to 12/31/02	1/1/02 to 12/31/02
PDAT	03PTHRI001	1/1/03 to 12/31/03	1/1/03 to 12/31/03
Administrative	01SCSRIA39	1/1/01 to 12/31/03	1/1/01 to 12/31/03

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

	Amount	Percentage of Budget/Claimed
Award Budget	$ 8,787,605	-
Claimed Costs	$ 7,939,976	90.3 percent
Questioned Costs (Incl. Ed. Awards)	$ 181,539	2.3 percent

Costs Questioned

The following summarizes the costs questioned on these awards:

AmeriCorps Grant

• AmeriCorps Member Compliance Issues	$ 84,488
• Members' Training Costs in Excess of 20 Percent Ceiling	55,638
• Living Allowance Payments in Excess of Limits	4,664
• Questioned Staff Salaries (Net)	2,008
• Administrative Costs Related to Costs Questioned[1]	2,161
Subtotal Costs Questioned	$ 148,959
Education Awards	$ 32,580

1 Administrative costs questioned pertain to only those subrecipients that had claimed administrative costs at the 5 percent ceiling level. Administrative costs at some subrecipients exceeded the 5 percent ceiling for individual program years. These costs are identified elsewhere as noncompliance issues rather than costs questioned in accordance with the guidance in the Office of Inspector General (OIG) Full Scope Audit Program.

Total Costs Questioned - AmeriCorps $ 181,539

Our audit disclosed certain questionable costs and/or misclassifications in other Corporation grant programs performed by RISA, which were de minimis in amount.

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 RISA did not submit Federal Cash Transaction Reports on a timely basis.
2. The RISA Financial Management System was not maintained in accordance with grant provisions.
3. Non-allocable costs were charged to the PDAT grant.
4. The RISA timekeeping system is not in accordance with OMB Circular A-122.
5. Some subrecipients paid living allowances in excess of authorized amounts.
6. Some subrecipients incurred more time for training of AmeriCorps members than AmeriCorps provisions allow.
7. A subreceipient did not maintain matching cost records in accordance with AmeriCorps provisions.
8. Some subrecipients did not maintain adequate documentation for AmeriCorps member eligibility.
9. Two subrecipients exceeded the administrative cost maximum of 5 percent of total costs.
10. Some AmeriCorps member files were missing required documentation.
11. Some subrecipients included training for the high school equivalency exam in the service time of AmeriCorps members.

These findings are collectively considered to be a material weakness.[2]

2 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 several weaknesses in RISA's internal controls. The RISA's financial management system does not have an adequate disaster/back-up plan. In addition, finding Nos. 1 through 7, and finding No. 9, as set forth in the Compliance section of the report, are also considered a finding on internal control.

Purpose and Scope of Audit

Our audit covered the costs claimed under Corporation Grant Nos. 00ASCRI041, 00ASFRI041, 00LCSRI040, 99APSRI068, 01APSRI068, 00DSCRI039, 01EDSRI023, 95PDSRIA39, 02PDSRIA39, 03PTHRI001, and 01SCSRIA39.

The principal objectives of our audit were to determine whether:

- financial reports prepared by RISA presented fairly the financial results of the awards;
- internal controls were adequate to safeguard Federal funds;
- RISA and its subrecipients had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations, award conditions, and 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
- RISA had established adequate oversight and informed subrecipients 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 *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 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 RISA and its subrecipients in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Our audit also followed up on the findings and recommendations in the Pre-Award Survey Report of RISA dated January 11, 2000 (CNS OIG Report 00-26). We believe our audit provides a reasonable basis for our opinion.

With regard to GPRA, AmeriCorps grantees and subrecipients provide progress reports that are maintained in the Web-Based Reporting System (WBRS). The Corporation develops program reporting guidelines that cascade from its Federal reporting requirements. The RISA does not make continuation grants available to subrecipients that do not meet program objectives, unless extenuating circumstances prevented the subrecipient from meeting its objectives. Evaluation reports from consultants are utilized to monitor and assess program accomplishments. In summary, the process appears to be operating as intended. The RISA is interested in obtaining useful reports from its subgrantees to forward to the Corporation. The evaluation consultant judges the adequacy of information reported on goal accomplishment. The RISA takes corrective action on identified reporting deficiencies.

The contents of this report were disclosed to and discussed with RISA at an exit conference on July 14, 2004. In addition, we provided a draft of this report to RISA and to the Corporation for comment on July 22, 2004, and received responses from both RISA and the Corporation on July 19 and July 23, 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 Act, as amended, awards grants and cooperative agreements to State commissions such as RISA and other entities to assist in the creation of full-time and part-time national and community service programs.

The Rhode Island Commission for National and Community Service (the Commission) is a nonprofit corporation created by an act, incorporating the Rhode Island Commission for National and Public Service, which was enacted by the Rhode Island General Assembly at its January 1994 session. The Commission began operations in October 1994. The Commission is exempt from Federal and State income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code. The Commission is headquartered in Providence, Rhode Island. It is known in the community as the Rhode Island Service Alliance (RISA) and has registered this name as a "fictitious" name with the Rhode Island Secretary of State.

The Commission's primary purpose is to carry out, on behalf of the State of Rhode Island, the objectives of the National and Community Service Trust Act of 1993 and for such other charitable and educational purposes as are within the meaning of Section 501(c)(3) of the Internal Revenue Code.

The RISA has received approximately $8.7 million in funding and exercised $7.9 million in drawdowns from Corporation funds since 2001, including AmeriCorps Formula Funds, AmeriCorps Competitive Funds, Learn & Serve Funds, Disability Funds, Education Award Funds, PDAT Funds, and Administrative Funds. Of this amount, approximately $6.9 million was distributed to subrecipients. The majority of RISA's subrecipients are State entities or nonprofit organizations.

As of December 31, 2003, RISA had received funding from the Corporation for various programs within the scope of this engagement in the amount of $8,787,605. The majority of this amount has been subgranted to numerous entities to carry out community service programs. A brief synopsis of the programs follows:

	Funding Authorized	Claimed within Audit Period	Drawdowns During Audit Period
00ASCRI041 – AmeriCorps – Competitive	$ 5,313,726	$ 5,130,599	$ 4,955,582
00ASFRI041 – AmeriCorps – Formula	1,549,105	1,318,556	1,194,791
Total AmeriCorps Funds	6,862,831	6,449,155	6,150,373
00LCSRI040 – Learn & Serve	705,000	705,000	705,000
99APSRI068 – America's Promise	133,000	-	131,500
01APSRI068 – America's Promise	69,000	-	51,666
Total America's Promise Funds	202,000	-	183,166
00DSCRI039 – Disability Funds	74,000	40,300	40,300
01EDSRI 023 – Education Awards	172,000	-	108,000
95PDSRIA39 – PDAT	101,000	101,000	101,000
02PDSRIA39 – PDAT	111,000	111,000	111,000
03PTHRI001 – PDAT	103,000	103,000	93,000
Total PDAT Funds	315,000	315,000	305,000
01SCSRIA39 Administrative Funds	456,774	430,521	456,774
TOTALS – Grants Administered by RISA	$ 8,787,605	$ 7,939,976*	$ 7,948,613*

*The differences between the amount claimed and amount drawndown are generally due to timing issues.

Report Release

This report is intended for the information and use of the Office of Inspector General, management of the Corporation for National and Community Service, the Rhode Island Service Alliance and its subrecipients, 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 Rhode Island Service Alliance (RISA) for the award numbers 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 RISA's 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	00ASCRI041	8/1/00 to 9/30/03	8/1/00 to 9/30/03
AmeriCorps	00ASFRI041	7/1/00 to 9/30/03	7/1/00 to 9/30/03
Learn & Serve	00LCSRI040	9/1/00 to 12/31/03	9/1/00 to 12/31/03
America's Promise	99APSRI068	10/1/00 to 12/21/01	10/1/00 to 12/21/01
America's Promise	01APSRI068	10/15/01 to 10/14/04	10/15/01 to 12/31/03
Disability Funds	00DSCRI039	1/1/01 to 12/31/03	1/1/01 to 12/31/03
Education Awards	01EDSRI023	1/1/03 to 12/31/03	1/1/03 to 12/31/03
PDAT	95PDSRIA39	1/1/95 to 12/31/01	1/1/01 to 12/31/01
PDAT	02PDSRIA39	1/1/02 to 12/31/02	1/1/02 to 12/31/02
PDAT	03PTHRI001	1/1/03 to 12/31/03	1/1/03 to 12/31/03
Administrative	01SCSRIA39	1/1/01 to 12/31/03	1/1/01 to 12/31/03

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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 the omission of the supporting source documentation related to the $181,539 in questioned costs discussed above, the Consolidated Schedule of Award Costs and the grant-specific Schedules of Award Costs (Exhibits A through D and related Schedules) referred to above present fairly, in all material respects, the costs claimed for the period July 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 June 30, 2004, on compliance and on internal controls over financial reporting.

This report is intended for the information and use of the Corporation for National and Community Service's Office of Inspector General, management of the Corporation for National and Community Service, the Rhode Island Service Alliance and its subrecipients, 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
June 30, 2004

Rhode Island Service Alliance
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
00ASCRI041	AmeriCorps	$ 5,313,726	$ 5,130,599	$ 128,000	$ 21,263	
00ASFRI041	AmeriCorps	1,549,105	1,318,556	20,959	11,317	
Total AmeriCorps		6,862,831	6,449,155	148,959	32,580	Exhibit A
00LCSRI040	Learn & Serve	705,000	705,000	-	-	Exhibit B
99APSRI068	America's Prom.	133,000	-	-	-	
01APSRI068	America's Prom.	69,000	-	-	-	
Total America's Promise		202,000	-	-	-	N/A
00DSCRI039	Disability Funds	74,000	40,300	-	-	
01EDSRI023	Educ. Awards	172,000	-	-	-	N/A
95PDSRIA39	PDAT	101,000	101,000	-	-	
02PDSRIA39	PDAT	111,000	111,000	-	-	
03PTHRI001	PDAT	103,000	103,000	-	-	
Total PDAT Funds		315,000	315,000	-	-	Exhibit C
01SCSRIA39	Administrative	456,774	430,521	-	-	Exhibit D
Totals		$ 8,787,605	$ 7,939,976	$ 148,959	$ 32,580	

Rhode Island Service Alliance
Notes to Consolidated Schedule of Award Costs

1. Summary of Significant Accounting Policies

Reporting Entity

The accompanying consolidated Schedule of Award Costs includes amounts budgeted, claimed, and questioned under AmeriCorps, Administrative, Program Development and Training and other grants awarded to the Rhode Island Service Alliance (RISA) by the Corporation for National and Community Service (Corporation) for the period from July 1, 2000, to December 31, 2003.

The RISA awards its AmeriCorps grant funds to numerous subrecipients that administer the AmeriCorps program and report financial and programmatic results to RISA.

Basis of Accounting

The accompanying Schedule has been prepared to comply with the provisions of the grant agreements between the Corporation and RISA. The information presented in the Schedule has been prepared from the reports submitted by RISA 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 RISA while used in the program for which it was purchased or in other future 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.

Questioned Costs

Questioned costs are costs for which there is documentation that the recorded costs were expended in violation of laws, regulations or specific conditions of the awards, or those costs which require additional support by the grantee, or costs which require interpretation of allowability by the Corporation.

Exhibit A

Rhode Island Service Alliance
Schedule of Award Costs
Corporation for National and Community Service
Award Numbers 00ASCRI041 and 00ASFRI041 (AmeriCorps)
July 1, 2000, to December 31, 2003

Detailed Audits of AmeriCorps Subrecipients	Claimed Costs	Questioned Claimed Costs	Questioned Education Awards	Reference
City Year, Inc.	$2,423,449	$ 42,713	$ 4,725	Schedule A-1
Children's Crusade For Higher Education	1,152,538	4,444	-	Schedule A-2
Public Education Funds – Parents Making a Difference	1,093,710	80,843	16,538	Schedule A-3
International Gallery For Culture & Heritage	1,095,833	20,959	11,317	Schedule A-4
Total – Detailed Audits	$5,765,530	$ 148,959	$ 32,580	Note 1

Notes

1. The total claimed costs reported include costs claimed by subrecipients that were not tested as part of this audit. During the period covered by our audit, RISA had 12 AmeriCorps program subrecipients. Accordingly, we used a sampling approach at the selected field sites to test the costs claimed for Program Years 2000-01 to 2002-03.

Rhode Island Service Alliance
Schedule of Award Costs
Corporation for National and Community Service
Award Number 00ASCRI041
August 1, 2000, to September 30, 2003

City Year, Inc. (CYI)

			Reference
Approved Budget (Federal Funds – 3 Years)		$2,730,000	Note 1
Claimed Costs		$2,423,449	Note 2
Questioned Costs			
Member Compliance Issues	$ 9,152		Note 3
Excess Training Costs	27,541		Note 4
Excess Living Allowance Charges	412		Note 5
Staff Salaries	3,447		Note 6
Administrative Costs	2,161		Note 7
Total Questioned Costs		$ 42,713	
Questioned Education Award		$ 4,725	Note 8

Notes

1. The amount shown above as Approved Budget represents the total gross funding to City Year, Inc. (CYI) for Program Years 2000-01 to 2002-03, according to the budget schedules for the RISA grants.

2. Claimed costs represent CYI's reported expenditures for the program years tested (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 FICA, associated with the unsupported/ineligible members. Questioned costs are summarized by type of missing documentation as follows:

Program Year	Missing Documentation	Amount
2000-01	Missing Contract/Criminal Check	$ 944
2000-02	Missing Contract	2,966
2000-03	Support For Residency Status	5,242
Total Eligibility Issues Questioned (includes FICA)		$ 9,152

4. AmeriCorps Special Provision 7(e) limits to 20 percent the aggregate amount of member service hours that can be spent on education and training activities. City Year exceeded this aggregate limitation in each year audited. We questioned members' living allowances, including FICA, related to this condition as follows:

Program Year	Amount
2000-01	$ 10,088
2000-02	9,876
2000-03	7,577
Total Training Charges Questioned	$ 27,541

5. Costs questioned represent member living allowance payments charged to the grants that exceeded the program year(s) limits. We questioned members' living allowances, including FICA, related to this condition as follows:

Program Year	Amount
2000-01	$ -
2000-02	315
2000-03	97
Total Costs Questioned	$ 412

6. We questioned staff salaries because of an unsupported adjustment to the salary allocation of the Executive Director in program year 2002-03. The amount of the questioned adjustment is $3,447, including FICA.

7. We questioned $2,161 in administrative costs because CYI claimed an administration percentage on the questioned costs in notes 3, 4, 5 and 6 above.

8. We questioned an education award of $4,725 because of member eligibility issues.

RISA's Response

The RISA and CYI disagree with these questioned costs, but acknowledge that (1) member documentation was, in fact, missing from the members' files, (2) training time exceeded the 20 percent limit, but that such training was appropriate, (3) some stipends exceeded the program year's limits, but were nominal, and (4) the allocation of the Executive Director's salary was, in fact, based on the budgeted allocation.

Auditor's Comment

Since RISA's response does not provide evidence disputing the questioned costs, the CYI questioned costs remain unchanged.

Rhode Island Service Alliance
Schedule of Award Costs
Corporation for National and Community Service
Award Number 00ASCRI041
August 1, 2000, to September 30, 2003

Children's Crusade for Higher Education (CCHE)

			Reference
Approved Budget (Federal Funds – 3 Years)		$ 1,256,819	Note 1
Claimed Costs		$ 1,152,538	Note 2
Questioned Costs			
Excess Training Costs	$ 5,883		Note 3
Staff Salaries	(1,439)		Note 4
Total Questioned Costs		$ 4,444	Note 5

Notes

1. The approved budget amount of $1,256,819 represents total gross funding to the Children's Crusade for Higher Education (CCHE) for program years 2000-01 through 2002-03, per the budget schedules for RISA grants.
2. The claimed costs of $1,252,538 represents the amount of reported expenditures of CCHE for the years tested (2000-01 through 2002-03).
3. AmeriCorps Special Provision 7(e) limits to 20 percent the aggregate amount of member service hours that can be spent on education and training activities. The CCHE exceeded this limitation in program year 2000-01. The questioned members' living allowances, including FICA, related to this condition are $5,883.

4. The amount shown as Costs Questioned is due to misclassifications in recording in program year 2000-01.

5. The CCHE did not claim any administrative cost against Federal funds in these program years. All claimed administrative costs were accounted for as matching claims.

RISA's Response

The RISA acknowledges that some subrecipients exceeded the 20 percent training time limitation, but asserts that the aggregate AmeriCorps program training hours, for all subrecipients, were within the limit. Based on this reasoning, RISA does not believe that this AmeriCorps Provision 7(e) should be enforced.

Auditor's Comment

The AmeriCorps Provisions stipulate that "[b]y accepting funds under this Grant, the Grantee agrees to comply with the AmeriCorps Provisions and all applicable federal statutes, regulations and guidelines" The AmeriCorps Provisions also require all grantees "to include in all subgrants the applicable terms and conditions contained in this award." Accordingly, the provision limiting training time applies to RISA's subrecipients. The questioned costs remain unchanged.

Rhode Island Service Alliance
Schedule of Award Costs
Corporation for National and Community Service
Award Number 00ASCRI041
August 1, 2000, to September 30, 2003

Public Education Funds (PEF)
Parents Making A Difference (PMAD)

			Reference
Approved Budget (Federal Funds – 3 Years)		$ 1,258,998	Note 1
Claimed Costs		$ 1,093,710	Note 2
Questioned Costs			
Member Compliance Issues	$ 56,071		Note 3
Excess Training Costs	22,214		Note 4
Excess Living Allowance Charges	2,558		Note 5
Total Questioned Costs		$ 80,843	Note 6
Questioned Education Awards		$ 16,538	Note 7

Notes

1. The approved budget amount represents total gross funding to Public Education Funds (PEF) for program years 2000-01 through 2002-03, per the budget schedules for RISA grants.

2. The claimed costs represent the amount of reported expenditures of PEF for the years tested (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 FICA, associated with the unsupported/ineligible members. Questioned costs are summarized by type of missing documentation, as follows:

Program Year	Missing Documentation	Amount
2000-01	Proof of Citizenship	$ 9,181
2001-02	Various (Citizenship, Education, Criminal Record Check)	27,312
2002-03	Citizenship/Residency Status	19,578
Total Eligibility Amount Questioned (Includes FICA & Health Care)		$ 56,071

4. AmeriCorps Special Provision 7(e) limits to 20 percent the aggregate amount of member service hours that can be spent on education and training activities. The PEF exceeded this limitation in program year 2000-01. We questioned $22,214 in members' living allowances, including FICA, related to this condition.

5. Costs questioned represent member living allowance payments charged to the grants that exceeded the Program Year(s) limit. We questioned members' living allowances, including FICA, related to this condition as follows:

Program Year	Amount
2000-01	$ 732
2001-02	869
2002-03	957
Total Costs Questioned	$ 2,558

6. In Program Years 2000-01 and 2001-02, PEF did not claim reimbursement for administrative costs up to the 5 percent ceiling rate. We performed an analysis of the potential administrative rate that could have been applied, and found that the actual rate would have far exceeded both the claimed rate and the ceiling rate. Consequently, any additional administrative costs available were claimed as matching (or were otherwise available for additional claims). Therefore, we did not make an adjustment for application of the administrative rate to the other questioned costs for this subrecipient.

   However, in program year 2002-03, due to a variety of circumstances, PEF was apparently advised to claim administrative costs at budget figures. This resulted in the claimed administrative costs exceeding the 5 percent limitation on actual costs in the amount of $3,006 in that year. These costs will be identified as noncompliance issues rather than as questioned costs.

7. The questioned education awards represent the value of such awards for those members whose eligibility qualifications could not be validated from supporting documentation.

RISA's Response

Please refer to RISA's response on Schedule A-1.

Auditor's Comment

Please refer to our comments on RISA's response on Schedule A-1.

Rhode Island Service Alliance
Schedule of Award Costs
Corporation for National and Community Service
Award Number 00ASFRI041
July 1, 2000, to September 30, 2003

International Gallery For Culture & Heritage (IGCH)

			Reference
Approved Budget (Federal Funds)		$1,305,500	Note 1
Claimed Costs		$1,095,833	Note 2
Questioned Costs			
Member Compliance Issues	$ 19,265		Note 3
Excess Living Allowance Charges	1,694		Note 4
Total Questioned Costs		$ 20,959	Note 5
Questioned Education Awards		$ 11,317	Note 6

Notes

1. The amount shown above as approved budget represents the total gross funding to the International Gallery for Culture & Heritage (IGCH) for program years 2000-01 through 2002-03, per the budget schedules for RISA grants.

2. Claimed costs represent the amount of reported expenditures of IGCH for the program years tested (2000-01 through 2002-03).

3. Compliance testing of AmeriCorps members' files revealed that key eligibility documentation for some members was missing. Since member eligibility could not be validated through supporting documentation in some cases, we questioned the claimed member living allowances, including FICA, associated with the unsupported/ineligible members. Questioned costs are summarized by type of missing documentary support, as follows:

Program Year	Missing Documentation	Amount
2001-02	Education	$ 11,105
2002-03	Education	8,160
Total Eligibility Costs Questioned		$ 19,265

4. Costs questioned represent member living allowance payments charged to the grants that exceeded the program year(s) limit. We questioned the following members' living allowances related to this condition:

Program Year	Amount
2001-02	$ 1,506
2001-03	188
Total Costs Questioned	$ 1,694

5. In program years 2000-01, the claimed administrative costs exceeded the 5 percent limitation on actual costs in the amount of $3,049. These costs will be identified as noncompliance issues rather than as questioned costs.

6. The education awards amount questioned represents the value of awards for those members whose eligibility qualifications could not be validated with the supporting documentation provided.

RISA's Response

Please refer to RISA's response to on Schedule A-1.

Auditor's Comment

Please refer to our comments on RISA's response Schedule A-1.

Exhibit B

Rhode Island Service Alliance
Schedule of Award Costs
Corporation for National and Community Service
Award Number 00LCSRI040 (L&S)
September 1, 2000, to December 31, 2003

LEARN & SERVE

		Reference
Approved Budget (Federal Funds – 3 Years)	$ 705,000	Note 1
Claimed Costs	$ 705,000	Note 2
Questioned Costs	$ -	Note 3

Notes

1. The amount shown above as approved budget represents the total gross funding to the Learn & Serve (L&S) grant for the grant period, program years 2000-01 through 2002-03, per the budget schedules for RISA grants.

2. Claimed costs represent the amount of reported expenditures of the L&S grant for the program years tested (2000-01 through 2002-03).

3. A misclassification was noted during the audit. The amount involved, however, was considered to be insignificant.

Exhibit C

Rhode Island Service Alliance
Schedule of Award Costs
Corporation For National and Community Service
Award Numbers 95PDSRIA39, 02PDSRIA39 and 03PTHRI001
January 1, 2000, to December 31, 2003

PROGRAM DEVELOPMENT and TRAINING (PDAT)

			Reference
Approved Budget (Federal Funds – For the Three Year Audit Period)			
95PDSRIA39	$ 101,000		
02PDSRIA39	111,000		
03PTHRI001	103,000		
Total Budget – 3 Years		$ 315,000	Note 1
Claimed Costs		$ 315,000	Note 2
Questioned Costs		$ -	Note 3

Notes

1. The amount shown above as approved budget represents the total gross funding to the Program Development and Training (PDAT) grant for the three-year grant period, program years 2000-01 through 2002-03, per the budget schedules for RISA grants.

2. Claimed costs represent the amount of reported expenditures of the PDAT grant for the program years tested (2000-01 through 2002-03).

3. Questioned costs resulting from misclassifications and accounting corrections were noted during the audit, but were considered to be insignificant.

Exhibit D

Rhode Island Service Alliance
Schedule of Award Costs
Corporation For National and Community Service
Award Number 01SCSRI001
January 1, 2001, to December 31, 2003

ADMINISTRATIVE

		Reference
Approved Budget (Federal Funds)	$ 456,774	Note 1
Claimed Costs	$ 430,521	Note 2
Questioned Costs	$ -	Note 3

Notes

1. The amount shown above as approved budget represents the total gross funding to the administrative grant for the grant period, per the budget schedules for RISA grants.
2. Claimed costs represent the amount of reported expenditures of the administrative grant for the program years tested (2000-01 through 2002-03).
3. Certain misclassifications and questionable costs were noted during the audit, but were considered to be insignificant.

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Corporation for National and Community Service

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 RISA under the Corporation awards listed below, and have issued our report thereon, dated June 30, 2004.

Program	Award Number	Award Period	Audit Period
AmeriCorps	00ASCRI041	8/1/00 to 9/30/03	8/1/00 to 9/30/03
AmeriCorps	00ASFRI041	7/1/00 to 9/30/03	7/1/00 to 9/30/03
Learn & Serve	00LCSRI040	9/1/00 to 12/31/03	9/1/00 to 12/31/03
America's Promise	99APSRI068	10/1/00 to 12/21/01	10/1/00 to 12/21/01
America's Promise	01APSRI068	10/15/01 to 10/14/04	10/15/01 to 12/31/03
Disability Funds	00DSCRI039	1/1/01 to 12/31/03	1/1/01 to 12/31/03
Education Awards	01EDSRI023	1/1/03 to 12/31/03	1/1/03 to 12/31/03
PDAT	95PDSRIA39	1/1/95 to 12/31/01	1/1/01 to 12/31/01
PDAT	02PDSRIA39	1/1/02 to 12/31/02	1/1/02 to 12/31/02
PDAT	03PTHRI001	1/1/03 to 12/31/03	1/1/03 to 12/31/03
Administrative	01SCSRIA39	1/1/01 to 12/31/03	1/1/01 to 12/31/03

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 about whether the financial schedules are free of material misstatement.

Compliance

Compliance with laws, regulations, and the provisions of the awards is the responsibility of RISA's 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 laws, regulations, and the terms and conditions of the awards. 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 the award provisions. However, we noted other matters concerning compliance structures and their implementation not related to reportable conditions that we have reported to Corporation management in a separate letter dated July 2, 2004.

Compliance Findings

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

Finding No. 1

Condition

RISA did not submit Federal Cash Transactions Reports (FCTRs) on a timely basis during the period under audit. The FCTR due dates are established by the Department of Health and Human Services, and usually due 45 days after the end of the quarter. Our review disclosed that 4 out of 11, or 36 percent, of the sample reports tested were submitted after the due dates.
The reporting controls and procedures utilized during the three-year audit period apparently did not suitably emphasize the significance of timely and accurate cash management.

The effect of this condition is that Federal cash accountability controls are weakened when FCTRs are not submitted in a timely manner. To ensure funds are being spent for the grant's purpose and in accordance with grant conditions, a timely accounting is necessary. When accounting controls are weak, it becomes easier to circumvent established processes.

It should be noted that the current RISA Compliance Officer was hired in December 2002. Reviews of more recent FCTR submissions show marked improvement in accuracy and timeliness.

Recommendation

We recommend that RISA continue the efforts that resulted in its recent improvement in submitting accurate and timely cash transactions reports. To ensure the improved process continues when future personnel changes occur, policies, procedures and monitoring regarding the reporting of FCTRs should be formalized in writing.

RISA's Response

The RISA disagrees with this finding but acknowledges that 4 of 11 FCTRs sampled were, in fact, not submitted on a timely basis.

Auditor's Comment

The finding and recommendation remain unchanged.

Finding No. 2

Condition

The RISA financial management system was not maintained in accordance with certain Corporation grant provisions. Specifically, PDAT grant and administrative grant transactional details are not segregated by program year.

During the audit period, three PDAT grants were awarded. In RISA's accounting records, PDAT transactions were all recorded to one PDAT account. When funds were exhausted in one grant, the accountant would bill the next PDAT grant for future expenses.

Provision No. 5 of the Corporation's grant provisions, entitled "Financial Management Provisions," requires that "[f]inancial 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 year and by budget category and to differentiate between direct and indirect costs or administrative costs." The RISA PDAT and administrative grants violate this provision.

These conditions make it difficult to compare actual expenditures by programmatic year to budget line items by programmatic year. It becomes potentially more difficult to monitor and control costs if management is unaware of how actual expenditures compare with the annual budget. It is also more difficult for management to determine if they are in compliance with grant provisions. (*See also* Finding No. 3).

This finding is also considered to be an internal control weakness.

Recommendation

We recommend that RISA establish a financial management system with policies, procedures and accounting practices that enable RISA to track and support the funded and expended amounts by grant, program year, and budget line item.

RISA's Response

The RISA disagrees with this finding.

Auditor's Comment

In its response, RISA did not address the substance of the finding (i.e., that it charged costs associated with the PDAT program to a single account and then assigned the costs to grants based on the availability of funds). Since RISA has not presented evidence to refute the substance of the finding, this finding remains unchanged.

Finding No. 3

Condition

Non-allocable costs were charged to the PDAT grant. The review of PDAT's other direct costs revealed various questioned costs that were not allocable to PDAT grants, including some personal items inadvertently charged to the RISA credit card and a book purchase for the Learn & Serve program.

In order for costs to be reimbursable under Corporation grants, the charges must be allowable, allocable and reasonable, and in accordance with grant terms, conditions and governing provisions and regulations.

In addition, RISA's accounting system, as implemented, is not in accordance with Corporation grant provisions. Costs were not segregated by PDAT grant in RISA accounting records. This is not in accordance with Corporation Grant Provision No. 5, "Financial Management," which states, "[f]inancial management systems must be capable of distinguishing expenditures attributable to this Grant from expenditures not attributable to this Grant." (*See also* Finding 2).

The effect of this condition is that unallowable and non-allocable costs were charged to the PDAT grant.

This finding is also considered to be an internal control weakness.

Recommendation

We recommend that RISA establish financial and accounting controls that would preclude charging non-allocable costs to Corporation grants.

RISA's Response

The RISA disagrees with the characterization of this finding as contributing to a collective material noncompliance and internal control weakness, but does not dispute the facts at issue.

Auditor's Comment

Since RISA does not dispute the basic facts supporting the finding and recommendation, they remain unchanged.

Finding No. 4

Condition

The RISA timekeeping system is not maintained in accordance with OMB Circular A-122. It appears that at least some RISA time sheets are being prepared based on the budget rather than on actual work experience. In addition, we found time sheets where the charges were not reflected in the accounting records. An employee charged the administrative grant on the time sheet, but a portion of the administrative charges were instead charged to the disability grant. It appears as if the accounting for time is being controlled by the budget rather than the actual time spent on each Corporation grant. The RISA management indicated they are evaluating the possibility of using time certifications if the Corporation will approve this method. Time certifications are a substitute system whereby the certification shows the ratio of time spent on each grant over several months. Since RISA is registered as a nonprofit organization, we have evaluated the time sheet issue under the cost principles for nonprofits, OMB Circular A-122. This Circular permits the use of a substitute system if approved, in writing, by the Corporation.

OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B, states in part:

> 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.) (emphasis added)
>
> (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.** (emphasis added)

(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.

(c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

(d) The reports must be prepared at least monthly and must coincide with one or more pay periods.

The effect of this condition is that recorded time charges may not reflect actual effort expended against final cost objectives (grants). Therefore, such charges may be inaccurate and appropriate for reporting use in grant claims.

Recommendation

We recommend that RISA revise, or otherwise supplement, its current timekeeping practices to provide for an accurate recording of employees' actual time spent on final cost objectives. The RISA should continue to evaluate the possibility of using time certifications, or a substitute method, if the Corporation will approve this method.

RISA's Response

The RISA disagrees with the finding that its timekeeping system does not comply with OMB Circular A-122. The RISA maintains that its "employees record actual time worked for the time reporting period on their timesheets. On the timesheets, employees allocate time worked to cost objectives based on time studies (periodic testing of actual work performed by employees) that are periodically reviewed and incorporated into budget projections." The RISA adds, "employees are aware of the allocation and the Executive Director reviews the time allocations in accordance with OMB Circular A-122, Attachment B, § 7(m)(2)(a) (Support of Salaries & Wages (c) states that time sheets must be signed by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the time sheet."

Auditor's Comment

The RISA's response does not address the basic issue that charges on time sheets were different from the corresponding charges in its accounting records. We do not agree that RISA's timekeeping system is in compliance with OMB Circular A-122. The use of time studies (periodic testing of actual work performed by employees) does not meet the requirement for an "*after-the-fact* determination of the actual activity of each employee." (OMB Circular A-122, Attachment B, § 7(m)(2)(a)). Accordingly, the finding and recommendation remain unchanged.

Finding No. 5

Condition

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

City Year, Inc.	$ 412
Public Education Funds	2,558
International Gallery For Heritage & Culture	1,694
Total	$ 4,664

Although the above subrecipients cited a number of reasons for overpayments, the most common cause cited was that the members continued on the payroll beyond the time when the living allowance ceiling had been met. While the subrecipient may feel responsible for compensating a member if he/she remains on the payroll, the reimbursement of member living allowances on Corporation grants is limited to the ceiling amount of the living allowance as indicated in the member contract and the grant budget.

This condition causes overcharges to the subrecipients' grants in the amounts shown above.

Recommendation

We recommend that RISA establish oversight policies and procedures to ensure that its subrecipients comply with ceiling limitations for living allowances paid to AmeriCorps members.

RISA's Response

The RISA disagrees with this finding. The RISA asserts that these costs are allowable because (1) the living allowances paid did not exceed the AmeriCorps limitation on living allowances, (2) members were still in service and/or had a longer length of service than their peers, (3) member service occurred within the allowable 12-month window, (4) subgrantee living allowance budgets were not exceeded, and (5) subrecipients appropriately met all other criteria including match requirements for living allowances.

Auditor's Comment

Grant provisions stipulate the maximum amount that may be paid for living allowances with Federal Funds. The RISA exceeded this stipulated amount If circumstances indicate that the member(s) should be paid more than the stipulated amount in their contracts, the contracts should be amended and the Corporation should be notified of the change in the living allowance levels. The finding and recommendation remain unchanged.

Finding No. 6

Condition

Some subrecipients incurred and claimed more than 20 percent of member service hours for training. AmeriCorps Provision (7)(e) states, "[n] o more than 20 percent of the aggregate of all member service hours in a Program may be spent in education, training or other non-direct activities."

This training ceiling limitation was exceeded in various program years by the following subrecipients:

City Year, Inc	$ 28,072
Public Education Funds	$ 22,214
Children's Crusade For Higher Education	$ 5,883
Total	$ 56,169

The RISA and its subrecipients cited various mitigating reasons for exceeding the ceiling. The Corporation should consider these reasons in resolving the issue. However, from an audit standpoint, the above subrecipients were in noncompliance with AmeriCorps Provision (7)(e).

This condition caused an overcharging of training costs to the three subrecipients' grants totaling $56,169.

Recommendation

We recommend that RISA establish oversight policies and procedures to ensure that its subrecipients comply with ceiling limitations for training hours charged to grants.

RISA's Response

The RISA acknowledges that some subrecipients exceeded the 20 percent limitation, but asserts that the aggregate AmeriCorps program training hours, for all subrecipients, were within the limit. The RISA does not believe that the audit's "restrictive interpretation" of the grant provision should be enforced.

Auditor's Comment

We interpret the AmeriCorps Provision to apply to each subrecipient. Accordingly, no single subrecipient may claim more than 20 percent of member service hours for training. Furthermore, the AmeriCorps Provisions stipulate that "[b]y accepting funds under this Grant, the Grantee agrees to comply with the AmeriCorps Provisions and all applicable Federal statutes, regulations and guidelines," and "[t]he grantee agrees to include in all subgrants the applicable terms and conditions contained in this award." Thus, the provision limiting training time applies to RISA's subrecipients. The finding and recommendation remain unchanged.

Finding No.7

Condition

The International Gallery for Heritage & Culture (IGHC) is not in compliance with AmeriCorps provisions regarding in-kind contribution financial records. The AmeriCorps Provision on financial management 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.

For the program years included in this audit, the IGHC accountant calculated 1/12th of the *budgeted in-kind* match, plus other actual in-kind contributions, and inserted the resulting figure in funding requests and grant financial reports (FSRs and PERs). Recordkeeping, including requests to contributors for documentation and organization of incoming documentation, was haphazard at best. The IGHC's Director recognizes that this is an area that must be improved.

As a result of this procedure, we took an analytical approach to ensure the required match of 33 percent was met for AmeriCorps budget categories B through F. The cash match, 15 percent, for members living allowance was verified using payroll records. Using cash match and the available in-kind documentation, we were able to determine that the required match for categories B through F was met.

Recommendation

We recommend that RISA follow up to ensure that the IGHC accounting process is corrected. We also suggest that RISA monitor this area in the future and consider furnishing additional guidance to its subrecipients.

RISA's Response

The RISA has agreed to follow up to ensure that the situation at IGHC is corrected, will continue to monitor this area in its annual site visits, and will include additional coverage in its annual subgrantee fiscal training sessions.

Auditor's Comment

We consider this response to be adequate.

Finding No. 8

Condition

During the periods under audit, the following subrecipients did not maintain, in some members' files, certain required AmeriCorps member eligibility documentation (e.g., proof of citizenship, age, high school diploma or equivalency certificate, criminal record checks as required, and a signed contract):

City Year, Inc.

Public Education Fund

International Gallery For Heritage and Culture

Despite RISA's review of member files and emphasis during subrecipient training, some RISA subrecipients may not have fully understood the importance of maintaining complete member files. It should be noted that the current RISA Compliance Officer is actively reviewing these documentation requirements during site visits to subrecipients.

The AmeriCorps provision on member eligibility, recruitment, and selection, requires that the grantee maintain verifiable records that document each member's eligibility to serve. These programmatic records must be maintained for three years from the submission date of the final FSR.

Without complete member files, RISA 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 $84,488 for those AmeriCorps members whose eligibility documentation was missing. We also questioned corresponding education awards for those members in the amount of $32,580.

Recommendation

We recommend that RISA continue to aggressively follow up on these member documentation requirements and continue providing formal guidance on records management and retention to its subrecipients.

RISA's Response

The RISA states that the audit confirmed its own findings and that it requires subgrantees to eliminate ineligible costs from final claims at or prior to closeout, at which time final FSRs will be corrected and refund checks issued to the Corporation with final closeout documents.

Auditor's Comment

We consider this response to be adequate.

Finding No. 9

Condition

Two subrecipients exceeded the mandated ceiling of 5 percent on administrative costs chargeable to grants. AmeriCorps Provision (23)(b) states that administrative costs cannot exceed 5 percent of total Corporation funds actually expended under the award. The effect of this condition is that the following subrecipients exceeded this ceiling in the amounts indicated:

Public Education Funds	$ 3,006
International Gallery For Heritage and Culture	$ 3,049
Total	$ 6,055

The Office of Inspector General Full Scope Audit Program states:

> If the limit is exceeded, include this as a compliance finding in the audit report. The cost is not necessarily questioned because: a) some costs may be allowed during audit resolution, and b) the administrative cost limit must be calculated at the grant level (not by each subrecipient).

Accordingly, we did not question these costs but instead are treating this finding as a noncompliance issue.

The RISA indicated that there may be mitigating circumstances that caused these imbalances. However, our audit position reflects the provision requirements as stated.

Recommendation

We recommend that RISA include administrative cost limits as an area of emphasis during its monitoring visits of subrecipients.

RISA's Response

The RISA presents two positions on this issue. First, it observes that the Corporation waived this requirement during the program year 2002-2003 because of the freeze on AmeriCorps enrollment. Second, it notes that, at the grant level, administrative costs were below the five percent ceiling.

Auditor's Comment

We consider this response to be adequate.

Finding No. 10

Condition

There were a variety of miscellaneous noncompliance documentation issues related to our review of member files at the subrecipients audited. The issues covered subject areas such as content of member contracts, supervision, member evaluations (mid-term and end-of-term), code of conduct, and timeliness of submissions of required forms (enrollment and exit). The results were sporadic by subrecipient in terms of documentation shortfalls. The subrecipient documentation issues are in addition to the noncompliance issues discussed previously regarding member eligibility.

We provided each subrecipient with the summary schedules of our compliance results during the exit briefings at each location. The RISA representatives were also provided with copies of these schedules, or were otherwise advised of our conclusions.

Recommendation

We recommend that RISA utilize these compliance results schedules for follow-up reviews during its future monitoring visits of these subrecipients.

RISA's Response

The RISA asserts that all subgrantees have systems in place that are fully consistent with all Federal and State grant provisions. The RISA argues that the fact that some required documents were missing from the files of several members does not mean that these systems are inadequate.

Auditor's Comment

The documentation identified by this audit refute RISA's assertion that these systems are adequate. The finding and recommendation remain unchanged.

Finding No. 11

Condition

During our review of AmeriCorps member files, we noted that several individuals were pursuing GED accreditation or other courses, and that this training time was included in the service hours reported by the members. Based on AmeriCorps Provisions (7)(c) and (7)(h), training offered to members should relate directly to the program's objectives in the community, not to the

member's personal training needs or desires. Provision (7)(h) mandates a support system for members to obtain a GED or higher education including counseling members on GED courses or the college application process, but it bars the use of service time to be used for such training. We have not quantified this condition as questioned costs since some of the living allowances of individuals involved have already been questioned for other eligibility reasons. However, based on discussions with the OIG, we have been advised to report this practice as a noncompliance issue.

The RISA does not agree that GED training should be disallowed. In fact, RISA encourages subrecipients to use AmeriCorps training for GED purposes. The RISA officials also stated that some members have children at home, and after serving their AmeriCorps commitment, may not have the time to pursue a GED. The RISA management believes that the allowability of college course time depends on its relationship with AmeriCorps service objectives.

Recommendation

We recommend that RISA limit the reportable member training time to service directly associated with the grant program. The RISA should exclude GED training or other outside courses from the reportable service hours of members. We also recommend that the Corporation provide some clarifying guidance to its grantees on this issue.

RISA's Response

The RISA disagrees with this finding asserting that AmeriCorps Provision 7(b) mandates a support system for members to obtain a GED Certificate or higher education, including counseling members on GED courses. However, the RISA notes that the AmeriCorps Provisions "bar the use of service time to be used for such training."

Auditor's Comment

The RISA has not addressed the issue of individuals pursuing GED accreditation or other courses, while including such time as service hours. Further, we are not persuaded that "a support system for members to obtain a GED" or "counseling members on GED courses" constitutes authorization for members to use service hours to pursue GED accreditation or other courses. Accordingly, the finding and recommendation remain unchanged.

Internal Controls Over Financial Reporting

In planning and performing our audit of awards costs as presented in Exhibits A through D for the period July 1, 2000, to December 31, 2003, we considered RISA'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 RISA 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. Internal controls also help ensure 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 matter that we consider to be material weaknesses:

Finding No. 12

Condition

The RISA financial management system does not have an adequate disaster/backup plan. The "One-Write" checking/record-keeping system utilized by RISA maintains, in one binder, transactional entries for all disbursements, for all years, and for all grants. The sheets and entries are manually posted by month, and retained in the same binder. The outside CPA who provides the monthly write-ups for the financial reports has summary records for the general ledger, but it does not appear that copies of the supporting documentation exist. There is no other backup or disaster plan or process.

In the event of a catastrophe, RISA's transaction documentation would be lost permanently. We believe this constitutes an internal control deficiency.

Recommendation

We recommend that RISA establish plans, policies and procedures for backup and recovery of accounting records in the event of a natural catastrophe (fire, flood, loss, etc.). We also recommend that RISA explore the feasibility (e.g., perform a cost/benefit analysis) of upgrading its current manual system to an automated process.

RISA's Response

The RISA disagrees with this finding, asserting that while it does not have a formal written disaster plan, it has made backup provisions in the event of a disaster and has an adequate protocol in place. The RISA stated that it will formalize its current practices in writing and provide documentation of its established procedures.

Auditor's Comment

We consider this response to be adequate.

Finding Nos. 1 through 7, and No. 9, as set forth in the compliance section of the report, are also considered findings on internal control.

Leonard G. Birnbaum and Company, LLP
Alexandria, Virginia
June 30, 2004

Follow-Up On Pre-Audit Survey Findings

OIG Audit Report No. 00-27, Pre-Award Survey Report of the Rhode Island Service Alliance

The Pre-Audit Survey was performed by Urbach Kahn & Werlin, PC. The Pre-Audit Survey Report was issued to Corporation management on June 23, 2000. Since considerable time has elapsed since the issuance of the report, there have been various changes and actions taken by RISA to address the conditions and findings cited.

A summary of the current status of the Pre-Audit Survey findings is as follows:

CATEGORY	FINDINGS & RECOMMENDATIONS	STATUS / DISPOSITION
ADMINISTRATION OF GRANT FUNDS	The pre-audit survey found no evidence to document review of subgrantee FSRs and matching recalculations prior to 1999. The pre-audit survey recommended that RISA implement new procedures to review subgrantees' FSRs, recalculate matching requirements, and document results of such reviews.	One error was found on an FSR in 1998 (transposition) and corrected in the next FSR. This error is considered immaterial. The RISA has developed and implemented the use of a checklist. This procedure is now considered effective.
	The pre-audit survey found that cash basis reporting for Learn & Serve subgrantees does not appear to conform to Corporation requirements.	This finding apparently was not discussed at the exit conference. The RISA disagrees with the conclusion. We evaluated Learn & Serve reporting during the full-scope audit and now find general compliance with Corporation requirements.

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

Appendix A

Response of the Rhode Island Service Alliance

RHODE ISLAND SERVICE ALLIANCE

September 9, 2004

Carol Bates
Acting Assistant Inspector General for Audit
Corporation for National and Community Service
Office of Inspector General
1201 New York Avenue, NW
Suite 830
Washington, DC 20525

Dear Ms. Bates:

Attached please find the Rhode Island Service Alliance's (RISA) response to OIG Audit Report Number 04-22 dated July 22, 2004. Subgrantees' comments are included in Attachments 1-4.

As you know, RISA and its subgrantees have worked cooperatively with the CNCS IG auditors over the course of the ten months of audit fieldwork and have continually demonstrated responsiveness to requests for information and feedback since audit inception.

Similarly, we are prepared to work cooperatively with the CNCS Audit Resolution Specialist over the coming months to resolve any disagreements we have with the audit findings, to provide additional documentation for consideration, and to implement corrective action as appropriate. In fact, we are already aware of additional documentation available from two of our subgrantees (The Education Partnership and the International Gallery for Heritage & Culture) that should reduce questioned costs related to member compliance issues by 50% ($42,141 – before considering related education awards).

As explained in our audit response, we respectfully and strongly disagree with the audit findings and recommendations. At present, the report lacks objectivity. Government auditing standards require that the entire audit report be balanced in content, that it should not be misleading and that it should place the audit results in perspective. We do not believe the audit report is balanced in content, in certain sections the audit report is misleading, and audit findings are not placed in appropriate context. Additionally, the audit report does not recognize any positive aspects of the programs under audit, of which there are many; recognizing such positive aspects was directly applicable to audit objectives. We also do not believe that our feedback to date has been fully considered by the auditors.

In summary:

1. The auditors consider that the late filing of 4 of 11 Federal Cash Transactions Reports contributes to a collectively material noncompliance and internal control finding. The auditors disregard extenuating circumstances related to the late

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filing of 3 of the 4 reports (technical glitches in the on-line reporting system), RISA's historical track record for timely reporting, and our overall internal controls over cash management. All of this information should be taken into consideration.

2. The auditors assert that RISA's Financial Management System was not maintained in accordance with grant provisions and this contributes to a collectively material noncompliance and internal control finding. The auditors ignore the fact that (a) our current system and memorandum records allow us to segregate transactions by time period, (b) RISA conducts a detailed review of transactions before filing Financial Status Reports to ensure expenditures are charged to the correct grant, (c) our existing system is entirely appropriate for the size and scope of our organization, and (d) our current system is in complete compliance with grant provisions and fully supported by favorable A-133 audit opinions, favorable Pre-Audit Surveys and Standards Visits, and a total lack of material noncompliance findings and questioned costs attributable to the use of this system during the audit.

3. The auditors assert that non-allocable costs were charged to the PDAT grant and that this contributes to a collectively material noncompliance finding and a collectively material internal control weakness. The auditor disregards the fact that this finding is immaterial representing less than .2% ($715/$315,000) of claimed PDAT costs and that the immaterial misposting error has since been corrected.

4. The auditors assert the RISA timekeeping system is not maintained in accordance with OMB Circular A-122 and that this contributes to a material noncompliance and internal control weakness. We disagree with the audit assertion: our current system is adequate, accurate, and results in a "reasonable distribution of the actual work performed" in accordance with OMB Circular A-122 m (Support of Salaries & Wages [c]). Not insignificantly, favorable A-133 audits, standards visits and Pre-Audit Surveys also support our system.

   Please note that in order to be responsive to OIG audit recommendations, we have (a) proposed supplementing our procedures with a Level of Effort Certification for all employees, and (b) requested formal CNCS approval for this practice in an email dated August 5, 2004. We expect to receive formal CNCS approval during the audit resolution process.

5. The audit report asserts that some subrecipients were paid living allowances in excess of authorized amounts and that this contributes to a "collectively material noncompliance" and "internal control weakness." We disagree with the auditors' interpretation that grant-authorized living allowances were exceeded and that this contributes to a collectively material noncompliance and internal control weakness.

The auditors disregard the fact that the questioned amount is *immaterial* (representing .07% of total AmeriCorps Funds claimed--$4,664/$6,449,155) and also allowable as (a) the stipends paid did not exceed the AmeriCorps cap or limitation on stipends, (b) members were still in service and/or had a longer length of service than their peers, (c) member service occurred within the allowable 12-month window, (d) sub-grantee stipend budgets were not exceeded, and (e) the subrecipients appropriately met all other criteria, including match requirements for stipends.

6. The audit report notes that some subgrantees incurred and claimed more than 20 percent of member service hours for training but does not consider mitigating circumstances for the excess hours. The auditors assert that this finding contributes to a material noncompliance and internal control weakness; we disagree with this assessment.

   While we acknowledge that some subrecipients exceeded the 20% ceiling limit for training individually, in aggregate, AmeriCorps Program training hours were within the ceiling limit with 19.77% of training to total service hours (166813.66 /843941.80) for the period under review. On balance, we believe our programs are doing their best to prepare members for service and to recruit a diverse corps without adversely impacting quality service delivery or compromising service hours. In practice, the training hour limit is difficult if not impossible for programs or RISA to monitor in a meaningful way; please see our audit response for a detailed explanation. We will also forward our comments to CNCS for consideration in the rulemaking process.

7. The audit report asserts that one subrecipient is not in compliance with AmeriCorps provisions regarding in-kind contribution financial records and this contributes to a collectively material noncompliance and internal control weakness.

   While this one sub-recipient *made technical errors* in reporting match in its official books and records, it did not result in a "collectively material noncompliance and internal control weakness." In this case, the sub-grantee provided source documentation to the auditors confirming that the match on the grant was actually met. While we think the sub-grantee should take corrective action, this does not constitute a "collectively material weakness," since there is no resulting cost questioned and compensating controls are clearly in place. The auditors disregard this information.

8. Missing documentation for certain aspects of member eligibility (Citizenship and Education) should not result in a finding of a "collectively material" noncompliance. While it is true that some sub-grantees did not maintain adequate documentation for member eligibility *in a small number of member files*, the report overstates the issue by classifying this as contributing to a material noncompliance.

Furthermore, all costs questioned relating to citizenship eligibility (the majority of questioned costs) were already evidenced in our site visit reports and continue to be actively monitored and pursued; the audit only confirmed our own findings. The Service Alliance did not fail to act: the audit occurred while the monitoring process was still in progress and on track to successful completion. As planned, eligibility issues remaining at the time of closeout will be backed out of the sub-grantees' final claims, corrected on the final FSRs, and refund checks will be issued to CNCS with final closeout documents.

9. The report asserts that two subrecipients exceeded the mandated AmeriCorps provisional ceiling of 5 percent on administrative costs chargeable to grants resulting in a "collectively material noncompliance" and internal control weakness.

   Not only is the amount described *immaterial* (representing .09% of total AmeriCorps Funds claimed--$6,055/$6,449,155), half of the amount cited as a noncompliance was in fact authorized and in accordance with CNCS guidelines. The remaining amount in question was the result of a bookkeeping error in a subrecipient's accounting system. This error, which would have been detected following routine review of the program's final drawdown request, has since been corrected. The auditors disregard the above facts.

10. We disagree with the opinion that the finding "some AmeriCorps member files were missing required documentation" can be interpreted as contributing to a "collectively material noncompliance." The report does not provide appropriate perspective on the significance of the reported finding. Government Auditing Standards (8.41) specify that "Giving report users an adequate and correct understanding means providing perspective on the extent and significance of reported findings, such as the frequency of occurrence relative to the number of cases or transactions tested..." Such information is clearly missing from the audit report. All subgrantees funded by the Service Alliance have systems in place that are fully consistent with all federal and state grant provisions. During on-site visits conducted by the Service Alliance staff, we monitor subgrantees' use of the established systems by reviewing member files individually and assessing the overall condition of subgrantees' files.

    Combined, the 4 AmeriCorps subgrantees audited maintained more than 40,000 pages of documentation for the period under review. The fact that some required documents were missing from the files of several members does not mean that the systems that our subrecipients have in place are not adequate or contribute to a collectively material weakness. Moreover, the fact that most member files had all required documentation suggests not only that existing systems are adequate, but also that the Service Alliance is successful in ensuring that these systems are used consistently.

11. During the review of AmeriCorps member files, the auditors noted that several individuals were pursuing GED accreditation and that this training time was included in the service hours reported by members. The auditor believes GED training should be disallowed as it is somehow prohibited by grant provisions and only personally beneficial to the member. The auditors assert that this finding contributes to a collectively material noncompliance.

    We strongly disagree with the audit finding and continue to find the language used to describe the finding confusing and misleading. The auditor inaccurately implies that member service time was used for GED training when in fact member training time was appropriately used for GED training. The audit misstates and misinterprets the cited grant provisions to argue for disallowance of GED training time as they consider it unrelated to program objectives and believe GED training is provided only to meet a member's personal training needs and desires.

    The grant provisions cited by the auditor (and provided in full text in our response) do not support the audit conclusions. The provisions do not state that training should only benefit the program and not benefit the member. The provision does not bar the use of GED time as training time. This longstanding practice in Rhode Island has been fully and traditionally authorized by CNCS and not barred by AmeriCorps grant provisions as asserted in the audit.

    A member's pursuit of a GED absolutely relates directly to the program's objectives in the community. National and Community Service funding in the state of Rhode Island is exclusively earmarked for education-related programs. Members largely work with children in school and in after-school settings implementing tutoring, literacy, stay-in-school, homework clubs, and other similar programs. It is absurd to imply that this training is simply to meet a member's personal training needs and desires. Programs train members so they will be prepared to deliver impactful services to the community and also be prepared for success in their own lives. The training questioned by the auditors is dictated by AmeriCorps requirements and program, partner agency, and service recipient needs. Therefore, the GED training is entirely appropriate, and in no way contributes to a collectively material noncompliance.

12. The audit report is inaccurate in its assertion that "RISA's Financial Management System does not have an adequate disaster/back-up plan" and that this finding results in an internal control weakness.

    Although RISA does not have a formal written disaster plan, we have made provisions for an accounting disaster and have an adequate protocol in place. Therefore, our current practice does not contribute to a collectively material noncompliance. Copies of the cash disbursement journal, cash receipts journals, general journal and ledger are kept off premises in our CPA's office. The bank stores copies of our checks. Finally, a computer back up disc is burned bi-weekly

and kept in a fireproof safe off-site. We will commit our current practice to writing to provide documentation of our established procedures.

We look forward to receiving a copy of the final audit report that will incorporate our responses and provide meaningful feedback regarding the auditors' consideration of our response.

Respectfully,

Leo A. Beliveau III
Chair
Rhode Island Service Alliance

Rhode Island Service Alliance and Subgrantee Responses to the

CNCS Office of Inspector General's (OIG) Draft Report of Audit Findings for The Rhode Island Service Alliance

OIG Audit Report Number 04-22, dated July 22, 2004

Introduction

The following comments were prepared in response to the CNCS Office of Inspector General's draft report of audit findings for the Rhode Island Service Alliance (OIG Report Number 04-22), dated July 22, 2004.

It is important to note that the Rhode Island Service Alliance (RISA) was not informed about the characterization of audit findings, i.e. the audit opinion, until the July 14, 2004 exit briefing. During the exit briefing we were informed of 13 material audit findings related to instances of noncompliance and internal control weaknesses. During the ten-month audit process, we were never informed of the audit opinion and not given appropriate time to respond to this characterization of audit findings (we were given 2-3 days to respond to the material findings of noncompliance and internal control weaknesses).

Additionally, during the exit briefing, we were informed by the partner-in-charge of the audit that there would be no "substantive" changes to the "preliminary" draft audit report and no "issue" changes would be considered – just changes to "form." He suggested that since we had been so cooperative during the audit process, there was little we could add at this point to what the auditors already know.

In response to the surprising audit opinion findings contained in the "preliminary" draft report provided to us during the July 14, 2004 audit exit briefing, and the statements made by the partner regarding the "preliminary" draft audit report, we contacted the Inspector General's office, providing

them both verbal and written comments citing our objections to the audit findings and to the final stages of the process.

We provided timely verbal and written responses to the Inspector General on July 15 and 16, 2004. Our written response included 8 pages of comments citing objections to the audit findings, including factual errors, as well as a cover letter that outlined our concerns regarding this process. It is important to note that the process surrounding the issuance of the draft audit report was not representative of the cooperation and communication extended by RISA and the auditors during the 10 months of audit fieldwork. While we do not know the exact cause of the breakdown in communication, we suspect it relates to time pressure to issue the audit report.

The majority of our comments cited below were provided to the Office of Inspector General for consideration in informing the final draft of the audit report. We believe that our feedback was not fully considered before issuance of the Final Draft audit report on July 22, 2004. The report was issued 4 business days after our written response date. We were informed at the exit briefing that it takes 1 week for internal routing of the audit report before we would receive the final draft. Given the situation, the course of the 10-month audit, and the serious nature of our objections, we were surprised at speed in which the "preliminary" report was finalized and issued and to what little consideration was given to our audit response.

As a result of these conditions, we are forced to address issues in our response to the draft audit report that should have been raised and resolved long before the IG's audit fieldwork concluded. This draft audit report artificially gives weight to "audit findings" which are indeed not "audit findings" at all. As it is currently presented, we strongly believe that the audit report is not objective. As supported by our responses to audit findings and comments on the audit report presentation, the report is clearly not balanced in content, in certain sections the audit report is misleading, and audit findings are not placed in appropriate context. Additionally, the audit report does not recognize any positive aspects of the programs under audit, of which there are many; recognizing such positive aspects was directly applicable to audit objectives. Also, since our feedback has not been fully considered in this expedited process, we have no confidence that it will be considered at all. In any case, our responses are, once again, included below.

Overview

The draft audit report lists 11 compliance findings that "are collectively considered to be material weaknesses" and of which "findings No. 1 through 7 and finding 9" are also considered findings on internal control. The draft audit report lists a 12th finding which is considered a finding on internal control.

In response to our request to the IG for clarification of the draft audit opinion findings, we were notified by the IG's Office that the auditors will revise the draft audit report to reflect that (1) these noncompliance findings are collectively considered a material noncompliance finding and (2) audit findings regarding internal control weaknesses are collectively considered a material internal control weakness.

The report identifies questioned costs related to RISA subrecipients including City Year Rhode Island (Schedule A-1), The Rhode Island Children's Crusade for Higher Education (Schedule A-2), the Parents Making a Difference Program (Schedule A-3) and The International Gallery for Heritage and Culture (Schedule A-4). Subrecipients' comments are attached to this report as Attachments A-1 to A-4 respectively.

The following responses, prepared by RISA, specifically speak to the "collectively material" compliance and internal control findings listed in the report, the questioned costs attributable to subgrantees, and include other comments on audit report presentation.

RISA Response to Finding 1

We disagree with compliance finding No. 1. "Late" submission of our Federal Cash Transaction Report (FCTR) should not be interpreted as a "collectively material noncompliance" and internal control weakness; this finding is inaccurate. We also disagree with the audit report assertion that RISA's reporting controls and procedures "did not suitably emphasize the significance of timely and accurate cash management."

Our procedures suitably emphasize the significance of timely and accurate cash management (please be aware that these procedures and internal controls are not limited to timely and accurate FCTR filing alone). In terms of FCTR filing, our accountant prepares the Quarterly Federal Cash Transaction Report and provides it to our Executive Director or Compliance

Officer for review and approval well before the established deadline. If any discrepancies are noted, they are reviewed and reconciled with the accountant and the FCTR is revised as needed before final submission by the due date. If a problem exists with the online Payment Management System (PMS), we contact the responsible official at PMS and work with them to correct any inaccuracies as needed so we can file appropriately. During the period under audit the FCTRs were either manually or electronically submitted to PMS by RISA's Executive Director or electronically submitted by RISA's Compliance Officer. The position descriptions and reporting responsibility levels of the Executive Director and Compliance Officer, as well as our practices, emphasize the importance of meeting federal reporting requirements.

During the period under review the FCTR changed from a manual to an electronic reporting system. We experienced many technical problems while trying to file reports from a Mac platform – for example, the report forms could not be downloaded, reports were not posted on-line until or immediately before the deadline, and beginning balances were simply incorrect. One FCTR during this period inaccurately indicated that we had a beginning cash balance of 11 million dollars. We were unable to change this amount, however, and could not correctly report online until the error was corrected by our contact at the Payment Management System (PMS). Also, in some cases the electronic Federal Cash Report was not available to us because it was not corrected and released to us online in time to file before the deadline. These problems, of course, impacted the filing of more than one FCTR. Per our procedures, we were in close contact with our PMS representative during this time period to rectify the situation. Our grant officer was continually kept informed of these impediments to timely filing and in fact was the one to advise us when the system finally allowed us to file our reports accurately via the electronic method.
It should be noted that the purpose of the Federal Cash Transaction Report and its supporting regulations is to ensure the appropriate management of Federal dollars by Grantees. Our practices of timely and accurate preparation and filing of FCTRs and our review and reconciliation procedures allowed us to detect errors in the federal cash system itself. The fact that we were able to recognize and rectify these problems working with our PMS Representative and our CNCS Grants Officer testifies to our vigilance in federal cash reporting.

While 4 of our 11 reports were not submitted "on a timely basis" during the period under review, 7 reports were filed, on average, 14 days early. Additionally three of the 4 late reports that were filed were due to technical glitches in on-line reporting. In all cases our hard copy reports were completed by the deadline.

The audit finding disregards the extenuating circumstances that resulted in the "late" filing of electronic reports and the Service Alliance's historical track record and practice for filing the reports both accurately and on time.

RISA Response to Finding 2

We disagree with compliance finding No. 2 that asserts "RISA's financial management system has not been maintained in accordance with Corporation grant provisions" and the interpretation that this is a "collectively material noncompliance" and internal control weakness.

While we recognize that our financial management system is not the most flexible or modern (we are investigating transitioning to a computerized system as budget and resources allow), it is certainly adequate and in complete compliance with grant provisions. Not insignificantly, it is also supported by favorable A-133 audit opinions, favorable Pre-Audit Surveys and Standards Visits, and a total lack of material noncompliance findings and questioned costs attributable to the use of this system during the audit.

Use of our existing systems allows us to properly identify expenditures "attributable to this grant" from an expenditure "not attributable to this grant" and to "identify cost by year and by budget category" as specified in the Corporation's Financial Management grant provisions.

Our manual one-write system, computerized General Ledger, monthly financial statements, chart of accounts, and memorandum records (discussed below) allow us to properly segregate AmeriCorps, Learn & Serve, Federal Administrative, State Administrative, PDAT and Disability expenditures by grant, by type of expense, and by time period of expenditure.

While a separate account is not established for each grant year in the accounting system, transaction dates are assigned to all accounting entries so that expenses can be identified to the proper accounting period. For example, we produce monthly financial statements without assigning a

specific account number to each month of the year. Additionally, we maintain sufficient memorandum records that permit for a proper segregation of costs and also allow for a precise and accurate reporting of expenditures on our Financial Status Reports.

It is important to note that our administrative funds are awarded on a calendar year basis and do not frequently overlap. We review our cash disbursements journal and payroll expenses to assure that appropriate expenses have been charged to the appropriate time period before filing FSRs. Since we are a relatively small Commission with 5 employees (only 2 full-time) our volume of transactions is small and these types of expenditures can be readily identified in review of the accounting records. On average, we have 8 or fewer active grant accounts in a 12-month period. Our internal funds make up 10% or less of our revenue and represent half of our 8 accounts.

In terms of our AmeriCorps and Learn & Serve funds, which are largely pass-through, we maintain Excel spreadsheets (memorandum records) that record payments made to subgrantees by year, thereby providing an ongoing comparison of budget to actual expenditures (Federal and Match) and resulting available balances for each active program year.

While we recognize that this system of reporting would not be practicable for a very large organization (which we are not), our current system is cost effective, manageable, and in complete compliance with Corporation Grant Provisions.

RISA Response to Finding No. 3

We do not agree that non-allocable costs of $741 charged to PDAT should result in a finding of collectively material noncompliance and internal control weakness. The finding is immaterial representing less than .2% ($715/$315,000) of claimed PDAT costs. The majority (84%) of the non-allocable costs charged to PDAT ($621) represent books that were purchased for the Learn & Serve Program and are an allowable expenditure. The Executive Director indicated on the invoice that the expense should be charged to Learn & Serve but they were inadvertently charged to the PDAT account. Since PDAT funds are traditionally used for training, book charges would normally be charged to PDAT. Additionally, because the books were used for training and program development for National Service Program

Directors, they are an allowable and allocable charge to the PDAT grant. The above factors contributed to the misposting error.

The balance of the "non-allocable" costs relate to $69.00 for personal charges that were incorrectly posted to PDAT (and properly refunded to RISA) and a $51.00 refund that was posted to the wrong account in error.

Please note that we have since corrected these mispostings in our accounting system.

The immaterial mispostings to PDAT described in the audit finding were due to human error, which invariably occurs. This is an unfortunate but sometimes unavoidable situation. The audit report overstates the importance of this immaterial finding. RISA's policies, procedures and practices are adequate to ensure that charges to grants are allowable, allocable and reasonable and in accordance with grant terms, conditions and governing provisions and regulations. This is supported by favorable A-133 audit opinions, favorable Pre-Audit Surveys and Standards Visits, and a total lack of material noncompliance findings and questioned costs attributable to the use of this system during the audit. (See also our response to Finding 2 above).

RISA Response to Finding No 4

We disagree with the audit assertion that our timekeeping system is not in accordance with OMB Circular A-122 and that this contributes to a material noncompliance and internal control weakness. Our current approach (described below) is adequate, accurate and results in a "reasonable distribution of the actual work performed" in accordance with OMB Circular A-122 m (Support of Salaries & Wages [c]). Not insignificantly, favorable A-133 audits, standards visits and Pre-Audit Surveys also support our system.

However, in order to be responsive to OIG audit recommendations, we have (1) proposed supplementing our procedures with a Level of Effort Certification for all employees, and (2) requested formal CNCS approval for this practice in an email dated August 5, 2004. We expect to receive formal CNCS approval during the audit resolution process.

Since 1997, Service Alliance timekeeping practices have been in accordance with "Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations," specifically "Time Reporting for Functional Expense Accounting" which requires that "Functional expense distribution of compensation of staff members engaged in more than one service during an accounting period requires the accumulation of reliable data upon which such allocations can be made" and that "... accumulation of daily detail time reports is not required in all instances; rather periodic testing of the actual work done by employees ...may provide the data needed to determine allocations."

Service Alliance employees record actual time worked for the time reporting period on their timesheets. On the timesheets, employees allocate time worked to cost objectives based on time-studies (periodic testing of actual work performed by employees) that are periodically reviewed and incorporated into budget projections. Employees are aware of the allocation and the Executive Director reviews the time allocations in accordance with OMB Circular A-122 m (Support of Salaries & Wages [c]) that states "...the reports must be signed by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports." If the reports do not reflect a reasonable distribution of actual work performed, the Executive Director will initiate adjustments.

RISA employs a small staff of 5 (only 2 full-time) who perform indirect grant administration type functions that only benefit the CNCS funded programs we serve. Staff functions include program and fiscal monitoring, training and technical assistance, and evaluation and reporting among others. In our case completion of daily detailed time reports is not necessarily informative or practical. For example, on one day our Office Manager may process Accounts Payable issuing 40 checks to a variety of organizations, including AmeriCorps and Learn & Serve subgrantees and various vendors (i.e. PDAT and Disability consultants and trainers). On the same day she could answer 20 telephone inquiries from a variety of sources. In practice, it is not a practical or productive exercise for the Office Manager to attempt to allocate her time (on her timesheet) to this level of detail on a daily basis. This example holds true for RISA staff. Our current practice described above (or as supplemented by a level of effort certification by RISA staff) is both practical and accurate resulting in a reasonable distribution of the actual

work performed and an acceptable approach in accordance with OMB Circular A-122.

RISA Response to Finding No. 5

We disagree with Audit finding Number 5. The audit report erroneously claims that some subrecipients were paid living allowances in excess of authorized amounts and that this contributes to a "collectively material noncompliance" and "internal control weakness."

Not only is the questioned amount *immaterial* (representing .07% of total AmeriCorps Funds claimed--$4,664/$6,449,155), it is also allowable as (1) the stipends paid did not exceed the AmeriCorps cap or limitation on stipends, (2) members were still in service and/or had a longer length of service than their peers, (3) member service occurred within the allowable 12-month window, (4) sub-grantee stipend budgets were not exceeded, and (5) the subrecipients appropriately met all other criteria including match requirements for stipends.

RISA Response to Finding No. 6

While we acknowledge that some subrecipients exceeded the 20% ceiling limit for training individually, in aggregate, AmeriCorps Program training hours were within the ceiling limit with 19.77% of training to total service hours (166813.66 /843941.80) for the period under review.

In practice, the training hour limit is difficult if not impossible for programs or RISA to monitor in a meaningful way. For example, a large part of member training hours occur prior to members being placed in service. This pre-service training can average 80 hours per member. Training hours are also recorded on an intermittent basis throughout the year as members attend weekly or biweekly trainings as required. Since the training hours are "front loaded" in this way, the program can be exceeding the ceiling limit for almost the entire program year. As more and more service hours are accrued each month, the ratio of training to service hours declines. It is usually not until the last quarter of the year when it becomes evident that the ceiling limit will be met. This problem is also compounded by attrition: while 100% of our AmeriCorps members receive training, a smaller percentage completes service. Without being able to place a member in service (who would also need training!) or to otherwise increase member service hours to

offset the effects of attrition, the only other option is to eliminate training that is necessary for effective service, thus diminishing program quality.

Our subgrantees strive to recruit a diverse corps to work with the diverse communities we serve. Each member brings their unique perspective, experiences, skills and abilities to our AmeriCorps programs, all contributing to each program's success. Understandably, members come from different socio-economic and educational backgrounds and training needs can vary significantly among members and across programs. On balance, we believe our programs are doing their best to prepare members for service and to recruit a diverse corps without adversely impacting quality service delivery or compromising service hours.

We believe that, over time, by enforcing the most restrictive interpretation of this grant provision, CNCS would unknowingly be adversely impacting program diversity and, therefore, quality. For the risk-averse, the surest way to avoid exceeding the training ceiling limit is to exclusively or primarily recruit college–educated members. This would have disparate impact on poor communities and communities of color as education levels vary significantly with socio-economic status and not all members would have an equal chance to serve. Effective community development efforts are most effective when service comes from within and draws from the talents of the community.

RISA Response to Finding No. 7

A discrepancy between recorded and actual match for one sub-grantee does not constitute a "collectively material noncompliance" and internal control weakness. While this one sub-recipient *made technical errors* in reporting match in its official books and records, it did not result in a "collectively material noncompliance and internal control weakness." In this case, the sub-grantee provided source documentation to the auditors confirming that the match on the grant was actually met. While we think the sub-grantee should take corrective action, this does not constitute a "collectively material weakness," since there is no resulting cost questioned and compensating controls are clearly in place.

RISA addresses matching requirements during the entire grant life cycle. Potential subgrantees are informed of match requirements during our Request for Proposal (RFP) process and during our RFP Training Sessions. Program Directors receive annual training at the Program Director's Retreat.

At this training, Program Directors receive a Program Director's Manual which includes our site visit tool (the tool includes specific monitoring steps for match requirements), our drawdown request checklist for match requirements, sample forms to be used to document match, and CNCS grant provisions for match requirements. Each subgrantee must also complete a "Fiscal Management Self Reporting Tool" (FMSRT) (included in the Program Director's Binder) which includes a separate disclosure section on how the organization accounts for match. The organization also must pass a fiscal fitness screening process which includes a review by RISA of the organization's FMSRT disclosure. We also provide specific training to program fiscal personnel each year. The fiscal training encompasses specific match reporting and documentation requirements.

In addition to the above internal controls, RISA monitors match with each drawdown request to be sure it is keeping pace with federal expenditures and meeting match requirements. We also conduct annual site visits over the 3-year grant cycle and review match documentation. This includes a review of payroll records to ensure stipends (cash match) are being paid appropriately. We also review source match documentation during our site visits to ensure that the sub-grantee is achieving match (copies of checks and transmittal letters, in-kind donation vouchers etc.). Because there is frequently a delay in recording in-kind match in the accounting system (and that some in-kind match is appropriately not recorded in financial statements), we also rely on source documentation during our site visit for verification.

During our most recent site visit of the International Gallery, the outside accountant was not available to review match documentation with us due to health issues. Consequently, we noted in our file and to our sub-grantee that this documentation would be required and reviewed before grant closeout, which in this case is pending. Therefore, any reporting problems would have been detected before grant closeout and issuance of the Gallery's final Financial Status Report.

It should be noted that RISA's review of subgrantee match documentation occurs at-a-point-in time during RISA's annual subgrantee site visits. On average, site visits are conducted over a 1 or 2 day time period and usually involve 2 staff members. The site visit covers all aspects of program operations, including fiscal and grant compliance. During the period under review, anywhere from 12 to 16 site visits were conducted by RISA on an annual basis. We are a small Commission with limited resources (five

employees, only 2 full-time) and correctly rely on our extensive internal control procedures and our subgrantee's internal controls (including A-133 audits) and certifications to reasonably assure that grant requirements are being met.

In contrast, the IG's review of subgrantee match documentation was a detailed, after-the-fact full scope review of match requirements including specific tests of accounting records and verification procedures at each location. During the course of this audit, 2 auditors spent an average of 2 weeks at each of the 8-subgrantee sites audited, not including fieldwork at RISA.

We will follow up to ensure that the situation at the Gallery is corrected. We will continue to monitor this area in our annual site visits and will include additional coverage in our annual subgrantee fiscal training sessions as appropriate. However, it is important to note that the purpose of our site visit is not to conduct an Inspector General-style audit, nor do we have the resources to do so.

RISA Response to Finding No. 8

Missing documentation for certain aspects of member eligibility (Citizenship and Education) should not result in a finding of a "collectively material" noncompliance. While it is true that some sub-grantees did not maintain adequate documentation for member eligibility *in a small number of member files*, the report overstates the issue by classifying this as contributing to a material noncompliance.

The audit report is not specific regarding the number of member files reviewed and the number of files that did not contain adequate documentation (was it 1 of 100 files reviewed? 1 of 250?). It also misleads the reader by suggesting that three sub-grantees did not maintain required eligibility documentation for their members, when in fact all sub-grantees maintained such documentation, but had several documents missing at the time of the audit. Government Auditing Standards (8.41) specify that "giving report users an adequate and correct understanding means providing perspective on the extent and significance of reported findings, such as the frequency of occurrence relative to the number of cases or transactions tested." The report clearly failed to meet this requirement.

Combined, the 4 AmeriCorps subgrantees audited maintained 555 member files over the period under audit. Based on feedback from these programs, the average member file contains 73 pages of documents. We estimate these programs maintained 40,515 pages of documents it total, not considering other program documentation maintained outside the member files.

The audit report is inaccurate in its assertion that "Without complete member files, RISA cannot verify that member eligibility requirements are being met" when in fact all of our sub-grantees have systems for maintaining files which we can –and do- readily review during site visits to determine whether or not eligibility documentation is appropriate. When such documentation is missing we routinely take appropriate corrective action in accordance with our own established policies and procedures. Since such policies were made available to auditors, it should have been obvious that appropriate checks and monitoring systems were in place, not to prevent but to immediately address human errors, which invariably occur.

Furthermore, **all costs questioned relating to citizenship eligibility (the majority of questioned costs) were already evidenced in our site visit reports and continue to be actively monitored and pursued; the audit only confirmed our own findings.** RISA requires subgrantees to back out ineligible costs from final claims at or prior to closeout. Because of the OIG audit, RISA delayed closeout to provide greater flexibility to auditors and to discourage confusion at the subgrantee level. The Service Alliance did <u>not</u> fail to act, the audit occurred while the monitoring process was still in progress and on track to successful completion. As planned, eligibility issues remaining at the time of closeout will be backed out of the sub-grantees' final claims, corrected on the final FSRs, and refund checks will be issued to CNCS with final closeout documents.

As discussed at the exit briefing, we conduct extensive training for our sub-grantees annually (both Program Directors and Fiscal Staff) and this is clearly documented. The purpose of the training is to make sure sub-grantees are well versed in AmeriCorps requirements and have the tools they need to ensure compliance. A Program Director's binder is provided that includes the grant provisions as well as copies of RISA's site visit tools. The binder also includes examples of appropriate immigration forms and documentation, member file checklists, sample member contracts and other examples of best practices.

We also conduct comprehensive annual site visits of each sub-grantee and did so during the time period under review. We use a site visit tool (similar to an audit program) that is provided to our sub-grantees in their Program Director's Binder. The site visit tool includes both programmatic and compliance checklists. We perform a 100% member file review for citizenship eligibility. On a test basis we take a random sample of member files and verify both that eligibility documentation exists and that it is adequate (age, education, etc). We also review member files for other attributes, examine financial records for compliance and documentation, interview AmeriCorps members, staff, and make observations at service sites. The sub-grantee is put on notice of any deficiencies in a site visit report. In the case of missing documentation, the policy of the Service Alliance is that all outstanding issues need to be rectified at or prior to closeout. Our sub-grantees have been actively seeking any missing documentation in anticipation of this process and some of this documentation has been provided to the auditors for examination during the audit.

RISA Response to Finding No. 9.
"Two subrecipients exceeded the mandated AmeriCorps provisional ceiling of 5 percent on administrative costs chargeable to grants."

We disagree that the condition described in the audit finding results in a "collectively material noncompliance" and internal control weakness. Not only is the amount described *immaterial* (representing .09% of total AmeriCorps Funds claimed--$6,055/$6,449,155), half of the amount cited as a noncompliance was in fact authorized and in accordance with CNCS guidelines. The remaining amount in question was the result of a bookkeeping error in a subrecipient's accounting system. This error, which would have been detected following routine review of the program's final drawdown request, has since been corrected.

In the case of the Public Education Fund, its' 02-03 administration expenses were both authorized and allowable. While other budget changes were made during the program year, reductions were not made to the administrative budget due to the impact of the enrollment freeze in accordance with CNCS guidelines. CNCS issued the guidance as a result of the CNCS' 02-03 member enrollment freeze that prevented programs from enrolling members although they had received grant awards and were fully staffed for that

specific purpose. The guidance was issued in recognition that organizations had fixed costs that they were not able to avoid because the Corporation unilaterally froze enrollment. We explained this to the auditors during the audit and provided them with a copy of the relevant CNCS guidance.

International Gallery for Heritage & Culture. The International Gallery made a bookkeeping error in posting administrative expenses to the grant. The Gallery has already made an adjusting entry in their books and records. The correction will be reflected in the Corporation's Web Based Reporting System (WBRS) and in the final Financial Status Report on closeout. We monitor the administrative ceiling limits when we review each drawdown request. While the Gallery has not submitted a final drawdown request that reflected the limit was exceeded, the program did update their Periodic Expense Report in WBRS that reflected the bookkeeping error. Our closeout certification process also provides final verification procedures to assure match requirements are met and documented and that expenditures are within administrative limits on the grant. This grant is subject to closeout. This error would have been detected with the final drawdown request and in the closeout certification process.

In any case, as stated in the audit report, this 5% limit is administered on a grant-wide basis. We are fully in compliance with the 5% grant-wide limit.

RISA Response to Finding No. 10
Misc. non compliance documentation issues.
We disagree with the opinion that Compliance Finding No. 10 ("some AmeriCorps member files were missing required documentation") can be interpreted as contributing to a "collectively material noncompliance." The report finding does not provide appropriate perspective on the significance of the reported finding. Subgrantees have systems in place for member files. Combined, the 4 AmeriCorps subgrantees audited maintained more than 40,000 pages of documentation for the period under review. Government Auditing Standards (8.41) specify that "Giving report users an adequate and correct understanding means providing perspective on the extent and significance of reported findings, such as the frequency of occurrence relative to the number of cases or transactions tested..."

All subgrantees funded by the Service Alliance have systems in place that are fully consistent with all federal and state grant provisions. During on-site visits conducted by the Service Alliance staff, we monitor subgrantees' use

of the established systems by reviewing member files individually and assessing the overall condition of subgrantees' files. The fact that some required documents were missing from the files of several members does not mean that the systems that our subrecipients have in place are not adequate or contribute to a collectively material weakness. The fact that most member files had all required documentation suggests not only that existing systems are adequate, but also that the Service Alliance is successful in ensuring that these systems are used consistently.

Subgrantees maintain extensive member files and have systems and checklists in place to track receipt and completeness of required documentation. Combined, the subgrantees listed in Audit Schedules A-1 to A-4 maintained 555 member files during the 3-year period under review. On average, each subgrantee member file contained 72 pages of documentation representing a total of 40,515 pages of documents. This documentation includes, but is not limited to, member contracts, member handbooks, position descriptions, applications, reference checks, interview notes, emergency contact information, healthcare enrollment forms or waivers, acceptance letters, mid- and end- of term performance evaluations, citizenship, education and age eligibility documentation, I-9 and W-4 forms for members, enrollment forms, exit forms, and required certification among others.

As explained in our response to Finding No. 7 and 8, and in addition to subgrantee internal controls, RISA has extensive monitoring policies (CNCS Standards and Pre-Audit Survey approved), procedures and practices in place. These procedures include an annual review of member files at each subgrantee site. RISA conducts annual subgrantee site visits over a 1 to 2 day time period by 2 staff members. During the period under review, anywhere from 12 to 16 site visits were conducted by RISA on an annual basis. In contrast, 2 IG auditors spent an average of 2 weeks at each of the 8-subgrantee sites audited, not including fieldwork at RISA.

While we appreciate the auditors' concern that some files were missing documentation, and the suggestion that we utilize their procedures for monitoring subgrantees, no level of external review can provide complete assurance that all documents will be included in each file, especially considering the sheer volume of paperwork involved.

We are a small Commission with limited resources (five employees, only 2 full-time) and correctly rely on our extensive internal control procedures and our subgrantee's internal controls (including A-133 audits) and certifications to reasonably assure that grant requirements are being met. The purpose of our site visit is not to conduct an Inspector General - style audit, nor do we have the resources to do so.

RISA Response to Finding No. 11
"Based on AmeriCorps Provisions 7c and 7h, training offered to members should relate directly to the program's objectives in the community, not to the member's personal training needs or desires. Provision 7h mandates a support system for members to obtain a GED or higher education including counseling members on GED courses, or how to apply to colleges, but it bars the use of <u>service time</u> to be used for such training.

We disagree with the audit finding: it is inaccurate and does not result in a "collectively material noncompliance."

The finding inaccurately implies that member <u>service</u> <u>time</u> was used for GED training when in fact member <u>training</u> <u>time</u> was appropriately used for GED training. The audit misstates and misinterprets the cited grant provisions to argue for disallowance of GED training time as they consider it unrelated to program objectives and believe GED training is provided only to meet a member's personal training needs and desires.

First, the auditor is misrepresenting the cited grant provisions; the specific language of the provisions follows:

> **7c. Training.** Consistent with the approved budget, the grantee must provide members with the training, skills, knowledge and supervision necessary to perform the tasks required in their assigned project positions, including specific training in a particular field and background information on the community served.
>
> The Grantee must conduct an orientation for members and comply with any pre-service orientation or training required by the Corporation. This orientation should be designed to enhance member security and sensitivity to the community. Orientation should cover

member rights and responsibilities, including the Program's code of conduct, prohibited activities, requirements under the Drug-Free Workplace Act, suspension and termination from service, grievance procedures, sexual harassment, other non-discrimination issues and other topics as necessary.

7h. Support Services. The Grantee must provide specific support services to members who are school dropouts by assisting them in earning the equivalent of a high school diploma; and to members who are completing a term of service and are making the transition to other education and career opportunities.

The cited provisions do not state that training should only benefit the program and not benefit the member. The provision does not bar the use of GED time as training time. This longstanding practice in Rhode Island has been fully and traditionally authorized by CNCS and not barred by AmeriCorps Provisions as asserted in the audit.

Additionally, a member's pursuit of a GED absolutely relates directly to the program's objectives in the community. National and Community Service funding in the state of Rhode Island is exclusively earmarked for education related programs. Members largely work with children in school and in after-school settings implementing tutoring, literacy, stay-in-school, homework clubs, and other similar programs. It is absurd to imply that this training is simply to meet a member's personal training needs and desires. Programs train members so they will be prepared to deliver impactful services to the community and prepared for success in their own lives. Training is dictated by AmeriCorps requirements and program, partner agency, and service recipient needs. At the same time programs cannot ignore the fact that members come from a variety of backgrounds and training plans are appropriately tailored so both individually and collectively members are prepared to serve.

It comes as no surprise to us that some training offered by AmeriCorps Programs may personally benefit AmeriCorps members. We can all acknowledge that, to some extent, people personally benefit from most learning experiences. Likewise, AmeriCorps members may personally benefit from both their AmeriCorps training and the AmeriCorps Service experience itself. Grant provisions do not prohibit member learning and growth; they encourage it.

Since Rhode Island's AmeriCorps portfolio is entirely education-focused, it is not a coincidence that programs attract individuals interested in education, teaching, and working with children. Often a member's personal training needs and desires may overlap with a program's training plan. We consider this circumstance serendipitous and a beneficial aspect of AmeriCorps that positively contributes to member service, retention and development. It is absurd to suggest otherwise.

RISA Response to Finding No. 12
"The RISA financial management system does not have an adequate disaster/back-up plan.

The audit report is inaccurate in its assertion that "RISA's Financial Management System does not have an adequate disaster/back-up plan" and that this finding results in an internal control weakness. Although RISA does not have a formal written disaster plan, we have made provisions for an accounting disaster and have an adequate protocol in place. Copies of the cash disbursement journal, cash receipts journals, general journal and ledger are kept off premises in our CPA's office. (Executive Director was not aware that copies of the cash disbursement journal have been kept at our CPA's office at the time of the formal entrance conference.) The bank stores copies of our checks. Finally, a computer back up disc is burned bi-weekly and kept in a fireproof safe off-site. We will commit our current practice to writing to provide documentation of our established procedures.

RISA Comments on Questioned Costs

City Year (Schedule A-1), RI Children's Crusade for Higher Education (Schedule A-2), Parents Making A Difference Program (Schedule A-3), International Gallery for Heritage & Culture (Schedule A-4).

Questioned costs related to the above subgrantees are contained in the referenced audit schedules. Our subgrantees have provided specific comments related to cost questioned in Attachments 1 to 4. Additionally, as discussed in our responses to individual Audit Findings:

- **AmeriCorps Members Compliance Issues $84,488 and related questioned education awards $32,580.**

While some subgrantees' documentation was missing at the time of issuance of this audit report (similar findings regarding missing documentation for citizenship/residency status was included in our own site visit reports), our subgrantees have been actively seeking missing documentation (see our response to Audit Finding No. 8 and subgrantee responses include as Attachments 1.a.1, 1.a.2, and as Attachments 3 and 4). We believe that some of the costs questioned will be in fact supported during the audit resolution process and before grant closeout. Indeed, in response to the audit findings, The Education Partnership (successor fiscal agent of the Parents Making A Difference program) provided additional documentation to the IG auditors that they believe will reduce the member compliance cost questioned by $22,876 (see Attachment 3).

Also, with regard to questioned education awards, many of these awards have been placed on hold by the Trust based on notification from the Service Alliance as a result of missing documentation noted at site visits. Therefore, the "cost questioned" is overstated as these education award expenses will not materialize even if the subgrantee cannot provide required eligibility documentation.

Please note we do not agree with the Education Partnership's assertion (Attachment 3) that ineligibility issues identified during RISA site visits were resolved with PMD Program Directors. Outstanding issues with program documentation remained and needed to be resolved before closeout. The program was notified of RISA's site visit findings during each site visit and through written site visit reports provided to the program. The PMD program did not receive funding for program year 03-04. The program was disbanded and all records were sent to the Education Partnership as successor fiscal agent. RISA notified the Education Partnership's new Finance Director of the outstanding documentation that would be needed prior to closeout. Apparently, the Finance Director was not aware of the outstanding issues prior to that date. In any case, we view this as an internal communication problem at the program and fiscal agent level.

- **Member Training Costs in Excess of 20% Ceiling $55,638**
  While we acknowledge that some subrecipients exceeded the 20%

ceiling limit for training individually, in aggregate AmeriCorps Program training hours were within the ceiling limit with 19.77% training to total service hours. See our detailed response to Audit Finding No. 5 included and subgrantee responses included as Attachments 1b, 2 and 3.

Please note we do not agree with the Education Partnership's assertion that "The Rhode Island Service Alliance reviewed and authorized these expenses in their fieldwork." We believe this is a misconception. RISA reviews program training plans to ensure that training meets CNCS grant provision requirements. Also, on a test basis, RISA reviews expense documentation during site visits to verify they are authorized and allowable and agree with information reported to RISA and CNCS. We do not "authorize" expenditures during our site visits.

- **Living Allowance Payments in Excess of Limits $4,664**
  We don't agree that "some subrecipients were paid living allowances in excess of authorized amounts," as noted in our detailed response to Audit Finding No. 5. See also subgrantee responses included as Attachments 1c, 3, and 4.

- **Questioned Staff Salaries (Net) $2,008**
  Please see individual subgrantee responses included in Attachments 1d and 2.

- **Administrative Costs Related to Cost Questioned $2,161**
  A final determination will be made during the audit resolution process as questioned administrative costs would be applied only to questioned costs remaining at that time and as applicable.

RISA Comments on Audit Report Presentation

Basis of Accounting Section – draft audit report page 10

The audit report is inaccurate in its description of our Basis of Accounting for Equipment (draft audit report page 10). In 1994, RISA's Board approved a policy to capitalize all equipment purchases over $1,000 and depreciate them over their useful life. This is evidenced in RISA's audited

financial statement, specifically the Statement of Financial Position (see equipment.)

Definition of Questioned Costs – draft audit report pages 1 & 11
The definition of questioned costs used in the audit report (pages 1 and 11) is misleading and does not agree with the standard A-133 and 7CFR definitions of questioned costs. Government Auditing Standards (GAS) require that the audit report be accurate (8.43), objective and not misleading (8.46).

The draft audit report asserts questioned costs were expended in "violation of laws" when the A-133 and 7CFR definitions use different language: "<questioned costs are costs> which resulted from a violation or possible violation of a provision of a law..." This is an important distinction, as the definition as its stands implies that laws (and not provisions of laws) were violated, not possibly violated.

Also, on page 11, the same non-standard definition of questioned costs immediately precedes a listing/presentation of questioned costs.

"Questioned costs are costs for which there is documentation that the recorded costs were expended in violation of laws, regulations or specific conditions of the awards, or those costs which require additional support by the grantee, or costs which require interpretation of allowability by the Corporation."

Grammatically the definition employs parallelism by using the word "or" in its sentence structure: there is an implicit hierarchy of value in this clause. As such, this sentence is misleading in that it implies that questioned costs were largely in violation of the law, secondarily in violation of specific conditions of the awards, or costs which require additional support by the grantee, and lastly that they were costs which may require interpretation of allowability by the Corporation. This is misleading, as "questioned costs" listed in the draft report appear largely to be matters of lack of documentation or, perhaps, interpretation.

Compliance Section– draft audit report Page 3
The audit cites "instances of noncompliance with Federal laws, applicable regulations and award conditions." Again, the auditor's interpretation is not

a noncompliance with a "provision of a law" but with "Federal laws" themselves. This is inaccurate.

The audit report enumerates 11 instances of noncompliance that are "collectively" considered to be material. If this is the case, the audit findings should be numbered 1a, 1b, 1c etc. so as to put audit findings in an appropriate context in accordance with Government Auditing Standards on Objectivity (see below). In the current audit report presentation, it is difficult to discern any difference between the prior audit report version that cited all these items as "material" instances of noncompliance and the most recent version where they are considered "collectively material" but the weight of their presentation in the audit report is unchanged.

Objectivity

Government Auditing Standards (8.46 – 8.53) on "Objectivity" require that the entire audit report be balanced in content, that it should not be misleading and that it should place the audit results in perspective and context. This includes recognition of the positive aspects of the program reviewed if applicable to the audit objectives. (Please note: the Audit Program/Objectives (31 pages) required review of many aspects of Commission and subgrantee operations including the Commission's Selection of Subgrantees, RISA's administration and monitoring of grant funds and subgrantees and AmeriCorps Member Service and Program Accomplishments.)

As currently presented, we strongly believe that the audit report is not objective. As supported by our responses to audit findings and comments regarding audit report presentation, the report is clearly not balanced in content, in certain sections the audit report is misleading, and audit findings are not placed in appropriate context. Additionally, the audit report does not recognize any positive aspects of the programs under audit, of which there are many, and this was directly applicable to audit objectives.

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: Michelle Guillermin, Chief Financial Officer
Rosie Mauk, Director of AmeriCorps

Date: August 23, 2004

Subject: Response to OIG Draft Audit Report 04-22, Audit of Corporation for National and Community Service grants awarded to the Rhode Island Service Alliance

We have reviewed the draft audit report of the Rhode Island Service Alliance grants. Due to the limited timeframe for response, we have not yet conducted a comprehensive review nor analyzed documentation from the Rhode Island Commission supporting the questioned costs. We will respond to all findings and recommendations when the audit is issued and we have reviewed the findings in detail.