Office of Inspector General
Corporation for National and Community Service

AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE GRANTS AWARDED TO THE EDUCATIONAL SERVICE DISTRICT 112

OIG REPORT NUMBER 05-12

Corporation for NATIONAL & COMMUNITY SERVICE

Prepared by:

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This report was issued to Corporation management on March 2, 2005. Under the laws and regulations governing audit follow-up, the Corporation is to make final management decisions on the report's findings and recommendations no later than September 2, 2005, and complete its corrective actions by March 2, 2006. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of Inspector General
Corporation for National and Community Service
Audit Report 05-12

Audit of Corporation for National and Community Service Grants Awarded to the Educational Service District 112

OIG Summary

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), retained Conrad and Associates, L.L.P. (Conrad) to perform an incurred-cost audit of grants awarded to the Educational Service District 112 (ESD). The contract required that the audit be done in accordance with generally accepted government auditing standards.

In accordance with our statutory responsibilities, we reviewed Conrad's report and related audit documentation, interviewed their representatives, and performed other procedures as we deemed appropriate in the circumstances to provide reasonable assurance that the audit was performed in accordance with generally accepted government auditing standards. Our review was not intended to enable us to express, and we do not express, opinions on ESD's Consolidated Schedule of Award Costs or internal control or on conclusions on compliance with laws and regulations. Conrad is responsible for the attached reports dated October 22, 2004, and the conclusions expressed therein. However, our review disclosed no instances where Conrad did not comply, in all material respects, with generally accepted government auditing standards.

For the grants audited, ESD claimed costs of $10,090,080, of which the auditors questioned $9,537 of unallowable claimed costs. Overall, the auditors questioned less than one percent of claimed costs. The auditors also noted instances of noncompliance with provisions of Federal laws, regulations and grant award provisions. The auditors concluded that the Consolidated Schedule of Award Costs presents fairly the costs claimed by ESD, except for the questioned and unsupported costs identified in the report, and the effects of any adjustments.

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

The Office of Inspector General provided officials of the Educational Service District 112 and the Corporation with a draft of this report for their review and comment. Their responses are included as Appendices A and B, respectively.

Corporation for National and Community Service
Grants Awarded to the Educational Service District 112
Vancouver, Washington

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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 Educational Service District 112 (ESD) and its subrecipients from August 1, 2000, through June 30, 2004, 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 ESD and its subrecipients.

Results in Brief

As a result of our audit, we are questioning costs totaling $9,537, which represents less than 1 percent of the total $10,090,080 in costs claimed by ESD. 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. Costs questioned include costs not allocable to the grants and costs not adequately supported by documentation. The Independent Auditor's Report includes further detail on these questioned costs.

Grant Programs Audited

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

Program	Award Number	Award Period	Audit Period
AmeriCorps	00ADNOR005	8/1/00 to 12/31/01	8/1/00 to 12/31/01
AmeriCorps	01ADNOR005	8/1/01 to 12/31/04	8/1/01 to 6/30/04
Learn & Serve	00LCGWA006	9/1/00 to 9/30/04	9/1/00 to 6/30/04

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES PRACTICE SECTION

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

	Amount	Percentage of Budget/Claimed Costs
Award Budget	$ 12,002,322	-
Claimed Costs	$ 10,090,080	84.1 percent
Questioned Costs	$ 9,537	

Costs Questioned

The following summarizes the costs questioned on these awards:

• Unallowable Direct Costs	$ 2,489
• Unsupported Direct Costs	2,710
• Unallocable Direct Costs	2,268
• Unallocable Payroll Costs	2,070
Subtotal of Costs Questioned	$ 9,537
Education Awards	$ 0
Total Costs Questioned	$ 9,537

We used judgmental sampling methodology 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. 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. AmeriCorps member files were missing required documentation.
2. The ESD did not obtain background checks on some AmeriCorps members who served with children.
3. One AmeriCorps member file did not contain adequate documentation validating eligibility.
4. AmeriCorps enrollment and exit forms were not submitted on a timely basis to the National Service Trust database in accordance with the AmeriCorps Provisions.
5. Program income was improperly credited to the grant during the grant award period.

Internal Controls

Finding Nos. 1 through 5, as set forth in the Compliance section of the report, are also considered internal control findings. We also noted instances of costs claimed that were non-allocable and unallowable to the grants, which we consider to be internal control weaknesses. Lastly, we noted inconsistencies in calculating the prorated share of the final payment to members who exit the program early.

Purpose and Scope of Audit

Our audit covered the costs claimed under Corporation Grant Nos. 00ADNOR005, 01ADNOR005, and 00LCGWA006.

The principal objectives of our audit were to determine whether:

- Financial reports prepared by ESD fairly presented the use of the awards;
- Internal controls were adequate to safeguard Federal funds;
- The ESD and its subrecipients had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations, and award conditions, and that member services were appropriate for the programs;
- Award costs reported to the Corporation were documented and allowable in accordance with award terms and conditions; and
- The ESD 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 generally accepted government auditing standards. 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 C), are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Exhibits A through C. 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 ESD and its subrecipients in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. 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 ESD does not make continuation grants available to subrecipients that do not meet program objectives unless

extenuating circumstances prevented the subrecipient from meeting its objectives. Program effectiveness is monitored through site visits and data found within WBRS.

The contents of this report were disclosed to and discussed with ESD at an exit conference on October 28, 2004. In addition, we provided a draft of this report to ESD and to the Corporation for comment on December 8, 2004, and received responses from both ESD and the Corporation on January 6, 2005, and December 27, 2004, respectively. Their responses are included in their entirety as Appendices A and B, respectively.

In their response, ESD noted that the total amount of questioned costs identified in the report represented an immaterial percentage of the total expenditures audited and cited OMB Circular A-133, Section E.510, regarding the threshold for auditors reporting a finding. ESD maintained that the less than one percent of questioned costs identified did not meet the criteria in Circular A-133 requiring the auditors to make a finding or for the Federal government to recover funds.

Although ESD is correct about the requirements of OMB Circular A-133 and the materiality thresholds specific to a Single Audit, we were not engaged to perform a Single Audit. As such, we did not conclude on costs claimed using the criteria applicable to OMB Circular A-133.

Background

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

The ESD is one of nine service districts in the State of Washington established to provide services to local schools within their service area. The expressed purpose of ESD is to ensure equal opportunities for quality education and lifelong learning for all by acting as a liaison between local school districts and the State Office of the Superintendent of Public Instruction. The ESD serves six counties in Southwest Washington.

The ESD has received approximately $12 million in funding and exercised $10 million in draw downs from Corporation funds since 2000, including AmeriCorps and Learn & Serve funds. The ESD had one subrecipient of its AmeriCorps 01ADNOR005 grant, which received a total of $563,612 during a two-year period.

As of June 30, 2004, ESD had received funding from the Corporation for various programs within the scope of this engagement in the amount of $12,002,322. A brief synopsis of the programs follows:

	Funding Authorized	Costs Claimed Within Audit Period	Draw Downs During Audit Period
00ADNOR005 – AmeriCorps	$2,342,522	$ 2,342,522	$ 2,342,522
01ADNOR005 – AmeriCorps	8,864,800	6,952,558	6,952,736
Total AmeriCorps Funds	11,207,322	9,295,080	9,295,258
00LSGWA006 – Learn & Serve	795,000	795,000	780,528
TOTAL – Grants Administered by ESD	$12,002,322	$10,090,080*	$ 10,075,786*

* The differences between the amounts claimed and amounts drawn down are generally due to timing issues.

Report Release

This report is intended for the information and use of the Office of Inspector General, the Corporation for National and Community Service, the Educational Service District 112 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 Educational Service District 112 (ESD) 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 C), are the responsibility of ESD management. Our responsibility is to express an opinion on the Consolidated Schedule of Award Costs and Exhibits A through C based on our audit.

Program	Award Number	Award Period	Audit Period
AmeriCorps	00ADNOR005	8/1/00 to 12/31/01	8/1/00 to 12/31/01
AmeriCorps	01ADNOR005	8/1/01 to 12/31/04	8/1/01 to 6/30/04
Learn & Serve	00LCGWA006	9/1/00 to 9/30/04	9/1/00 to 6/30/04

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

In our opinion, except for the omission of the supporting source documentation related to the $9,537 in questioned costs discussed in the compliance section of the report, the Consolidated Schedule of Award Costs and the grant-specific Schedules of Award Costs (Exhibits A through C and related Schedules) referred to above present fairly, in all material respects, the costs claimed for the period August 1, 2000, to June 30, 2004, in conformity with generally accepted accounting standards in the United States of America.

In accordance with the generally accepted government auditing standards, we have also issued our report, dated October 22, 2004, on compliance and on internal controls over financial reporting.

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES PRACTICE SECTION

This report is intended for the information and use of the Office of Inspector General, the Corporation for National and Community Service, Educational Service District 112 and its subrecipients, and the U.S. Congress. However, this report is a matter of public record and its distribution is not limited.

Conrad And Associates, L.L.P.

Conrad And Associates, L.L.P.
Irvine, California

October 22, 2004

Corporation for National and Community Service
Educational Service District 112
Consolidated Schedule of Award Costs
August 1, 2000, to June 30, 2004

Award Number	Program	Approved Budget	Claimed Costs	Questioned Costs	Reference
00ADNOR005	AmeriCorps	$ 2,342,522	$ 2,342,522	$ 1,676	Exhibit A
01ADNOR005	AmeriCorps	8,864,800	6,952,558	3,253	Exhibit B
Total AmeriCorps		11,207,322	9,295,080	4,929	
00LSGWA006	Learn & Serve	795,000	795,000	4,608	Exhibit C
Total		$12,002,322	$10,090,080	$ 9,537	

Corporation for National and Community Service
Educational Service District 112
Notes to Consolidated Schedule of Award Costs
August 1, 2000, to June 30, 2004

Summary of Significant Accounting Policies

Reporting Entity

The accompanying Consolidated Schedule of Award Costs includes amounts budgeted, claimed, and questioned under AmeriCorps and Learn & Serve grants awarded to the Educational Service District 112 (ESD) by the Corporation for National and Community Service (Corporation) for the period from August 1, 2000, to June 30, 2004.

Of the two AmeriCorps grants audited, the ESD had no subrecipients for the first grant awarded, grant number OOADNOROO5. For the second grant awarded, grant number 01ADNOR005, the ESD awarded AmeriCorps grant funds to one subrecipient that administered an AmeriCorps program and reported financial and programmatic results to ESD.

Basis of Accounting

The accompanying Schedules have been prepared to comply with the provisions of the grant agreements between the Corporation and ESD. The information presented in the Schedule has been prepared from the reports submitted by ESD 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 ESD while used in the program for which it was purchased or in other programs that will be authorized in the future. However, the Corporation has a reversionary interest in the equipment. Its disposition, as well as the ownership of any proceeds therefrom, is subject to Federal regulations.

Inventory

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

Exhibit A

Corporation for National and Community Service
Educational Service District 112
Schedule of Award Costs
Award Number 00ADNOR005 (AmeriCorps)
August 1, 2000, to December 31, 2001

Detailed Audits of AmeriCorps	Claimed Costs	Questioned Claimed Costs	Reference
00ADNOR005 - ESD	$2,342,522	$ 1,676	
Subrecipients	-	-	
Total – Detailed Audits	$2,342,522	$ 1,676	Schedule A-1

Schedule A-1

Corporation for National and Community Service
Educational Service District 112
Schedule of Award and Questioned Costs
Award Number 00ADNOR005
August 1, 2000, to December 31, 2001

			Reference
Approved Budget		$2,342,522	
Claimed Costs		$2,342,522	
Questioned Costs			
Payroll Costs not Allocable to Grant	$ 1,453		Note 1
Unallowable Direct Costs	223		Note 2
Total Questioned Costs		$ 1,676	
Questioned Education Awards		$ -	

Notes

1. The ESD inadvertently claimed 100 percent of a member's living allowance to the grant rather than the required allocation of 85 percent to the grant and 15 percent to the grant match. The questioned costs represent the portion that should have been recorded to the grant match. See Compliance Finding Number 3, Part B for further details.

2. We noted two transactions that did not meet the prescribed cost principles or grant provisions. See Compliance Finding Number 1, Parts D and E for further details.

Exhibit B

Corporation for National and Community Service
Educational Service District 112
Schedule of Award Costs
Award Number 01ADNOR005 (AmeriCorps)
August 1, 2001, to June 30, 2004

Detailed Audits of AmeriCorps	Claimed Costs	Questioned Claimed Costs	Reference
01ADNOR005 - ESD	$6,388,946	$ 3,180	
Subrecipient: The "I Have a Dream" Foundation	563,612	73	
Total – Detailed Audits	$6,952,558	$ 3,253	Schedule B-1

Schedule B-1

Corporation for National and Community Service
Educational Service District 112
Schedule of Award and Questioned Costs
Award Number 01ADNOR005
August 1, 2001, to June 30, 2004

			Reference
Approved Budget		$8,864,800	
Claimed Costs		$6,952,558	
Questioned Costs			
Unallowable Direct Costs	380		Note 1
Unallocable Direct Costs	1,143		Note 2
Payroll Costs not Allocable to Grant	617		Note 3
Unsupported Costs	165		Note 4
Ineligible AmeriCorps member	875		Note 5
Unsupported Subrecipient Costs	73		Note 6
Total Questioned Costs		$ 2,378	

Notes

1. We noted three transactions that did not meet the prescribed cost principles or grant provisions. See Compliance Finding Number 1, Parts A, B and C for further details.

2. We noted one transaction that was not allocable to the grant. See Compliance Finding Number 3, Part A for further details.

3. We noted one instance where an ESD administrative employee's time was inadvertently claimed to the grant. Effort of this employee, however, was not allocable to the grant. See Compliance Finding Number 3, Part B for further details.

4. The questioned costs represent the amount ESD would normally charge persons to be fingerprinted. AmeriCorps members, however, were not charged a fee for fingerprinting. The ESD recorded the funds that normally would have been received ($15 per person) as an expenditure chargeable to the grant. See Compliance Finding Number 2 for further details.

5. The questioned costs represent two months of living allowance claimed to the grant for a member that ESD could not provide proof of citizenship.

6. We noted three transactions where The "I Have a Dream" Foundation members submitted handwritten receipts as documentary evidence of costs incurred for mentoring local high school students. See Compliance Finding Number 2 for further details.

Exhibit C

Corporation for National and Community Service
Educational Service District 112
Schedule of Award Costs
Award Number 00LCGWA006 (L&S)
September 1, 2000, to June 30, 2004

LEARN & SERVE

			Reference
Approved Budget (Federal Funds – 3 Years)		$ 795,000	
Claimed Costs		$ 795,000	
Claimed Costs - ESD	$ 408,017		
Claimed Costs - Subrecipients	$ 386,983		
Questioned Costs		$ 4,608	Schedule C-1

Schedule C-1

Corporation for National and Community Service
Educational Service District 112
Schedule of Award and Questioned Costs
Award Number 00LCGWA006
September 1, 2000, to June 30, 2004

			Reference
Approved Budget		$795,000	
Claimed Costs		$795,000	
Questioned Costs			
Unsupported Subrecipient Costs	$ 2,472		Note 1
Unallocable Direct Costs	1,125		Note 2
Unallowable Direct Costs	1,011		Note 3
Total Questioned Costs		$ 4,608	

Notes

1. We reviewed a Langley Middle School journal entry that did not have documentation necessary to support the costs claimed to the grant. See Compliance Finding Number 2 for further details.

2. We noted six transactions that were not allocable to the Learn & Serve grant. One transaction was credited from the grant by ESD when questioned during fieldwork. The costs questioned do not include that transaction. See Compliance Finding Number 3, Part A for further details.

3. We noted three transactions that did not meet the prescribed cost principles or grant provisions. See Compliance Finding Number 1, Parts A, B and D for further details.

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

We have audited the Schedules of Award Costs, as presented in Exhibits A through C, that summarize the claimed costs of ESD under the Corporation awards listed below, and have issued our report thereon, dated October 22, 2004.

Program	Award Number	Award Period	Audit Period
AmeriCorps	00ADNOR005	8/1/00 to 12/31/01	8/1/00 to 12/31/01
AmeriCorps	01ADNOR005	8/1/01 to 12/31/04	8/1/01 to 6/30/04
Learn & Serve	00LCGWA006	9/1/00 to 9/30/04	9/1/00 to 6/30/04

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

Compliance

Compliance with laws, regulations, and the provisions of the awards is the responsibility of ESD'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.

A. Compliance Findings Resulting in Questioned Costs

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

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Finding No. 1

Condition

Unallowable costs totaling $1,614 were charged to the grants as identified below:

A. The ESD claimed costs incurred to prepare proposals without obtaining prior approval from the Corporation. These costs are not allowed to be claimed as direct charges unless prior approval is obtained from the Corporation according to OMB Circular A-87, Attachment B, section 34. The ESD charged $844 to Learn & Serve grant number OOLCGWA006 in January 2004 and $66 to AmeriCorps grant number 01ADNOR005 in March 2002.

B. The ESD paid consultants in excess of the allowed $443 per day as prescribed in the AmeriCorps and Learn & Serve grant provisions. Costs for a consultant to provide first aid training were charged to grant number 01ADNOR005, and costs for Learn & Serve assistance to grant number 00LCGWA006. The fee was $500 per day for two days in October 2001 and $490 per day for two days in March 2002. As such, we have questioned the difference between the actual costs claimed less allowable costs, or $114 ($57 x 2 days) and $94 ($47 x 2 days), respectively.

C. The ESD claimed donations totaling $200 to an environmental law conference that AmeriCorps members attended under AmeriCorps grant number 01ADNOR005. The donations were paid to help cover the cost of childcare for attendees. These costs are not allowable per OMB Circular A-87, Attachment B, section 12(a):

> Contributions or donations, including cash, property, and services, made by the governmental unit, regardless of the recipient, are unallowable.

D. The ESD claimed costs in excess of the allowable lodging rates on two occasions. OMB Circular A-87 requires the grantee to claim costs in accordance with its own travel policies. As such, we compared costs claimed to costs allowed according to ESD policies. We noted one instance where lodging for a speaker at Trout Lake, Washington, was provided at $178 per night. The allowable rate was $55 per night. We have questioned the difference ($123) claimed to grant number 00ADNOR005. We noted another instance where an ESD employee incurred costs exceeding the allowable rate while performing a Learn & Serve site visit. The cost incurred was $138 per night while the allowable rate was $65 per night. We have questioned the difference ($73) claimed to grant number 00LCGWA006.

E. The ESD claimed costs to AmeriCorps grant number 00ADNOR005 for a scholarship provided to a high school student for $100 of computer-related supplies. Per discussion with the grantee, the scholarship was established for the purpose of promoting the AmeriCorps program. OMB Circular A-87, Attachment B, section 1(f)(3) stipulates that the costs of promotional items are unallowable.

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.

The effect of this condition is that unallowable costs were charged to the various grants audited as noted.

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

Recommendation

We recommend that the Corporation determine the allowability of the costs in question as identified above. Based on the resolution, we recommend that ESD adjust its completion of future financial status reports for ongoing grants accordingly. In addition, we recommend that ESD establish financial and accounting controls that would preclude charging unallowable costs to Corporation grants.

ESD's Response

A. The ESD agreed that prior approval should have been obtained before claiming proposal costs, and will do so in the future.

B. The ESD disagreed with the questioned costs. It agreed that there is a cap on the amount that a contractor can receive per day, however, that amount is not inclusive of indirect expenses, travel, and supplies that may be charged, as stated in Corporation guidelines. The ESD argued that the identified unallowable costs represented other charges, beyond the daily rate charged by the contractor, and should be allowed.

C. The ESD disagreed with the questioned costs. It indicated that the payment of $200 was not a donation to cover the cost of childcare, as the members did not bring any children to this conference. The ESD maintained that the fee was for registration at the conference ($25 per person). It further indicated that this outlay was clearly listed as a registration fee on the registration form. The ESD acknowledged that the word donation also appeared on the form; however, it interpreted the charge as a fee for attending the conference and believes the cost should be an allowable charge to the grant.

D. The ESD disagreed with the questioned costs and stated that its policy includes several exceptions to the maximum lodging rules that were not noted by the auditors. The policy provides that, in certain situations, the agency head or an authorized designee may approve payments in excess of 150 percent of the applicable maximum per diem amount.

E. The ESD concurs that this is an unallowable cost and no longer provides this scholarship. This occurred in Program Year 2000-01 and this type of expenditure was discontinued the following year.

Auditor's Comment

A. Inasmuch as ESD does not dispute the facts of the finding, the finding remains unchanged.

B. Our interpretation of the provisions limits labor costs paid to consultants to $443 per day. Although the provisions allow for costs exceeding $443 per day (for costs such as indirect expenses, travel and supplies) to be paid to consultants, the documentation reviewed during our testing indicated the costs were specific only to labor costs. The ESD's response did not provide any specific documentation to support that the excess costs claimed represented anything other than labor costs. Accordingly, the finding and the disallowed costs remain unchanged.

C. Based on the text contained on the registration form, we still believe these costs represent donations. Specifically, an excerpt from the form states, "As you may well know, organization of the Conference is entirely voluntary and no attendees are turned away. We offer a sliding scale entrance fee and ask those who can afford it to pay more. Donations allow us to invite speakers and panelists who, without your assistance, could not be at the Conference. Donations also help us pay for other expenses, such as printing, mailing, telephone, facility use, and summer stipends to students accepting public interest law positions." Based on the language in the form, it appears as though the members would have been allowed to attend the conference whether or not payment had been made. Therefore, we consider payments made to the Friends of Land Air Water to be donations. Accordingly, the finding and disallowed costs remain unchanged.

D. In order for the 150 percent rule to be applied, the agency head or an authorized designee must approve the payment of excess lodging expenses. Had approval been obtained, we would have applied the 150 percent excess rate structure to the lodging and calculated the difference. The recalculated difference between lodging claimed and lodging, using the inflated rate, would have been as follows:

- Trout Lake costs claimed - $178; inflated (150 percent) lodging rate per policies ($55) = $83.
- Learn & Serve site visit - $138; inflated (150 percent) lodging rate per policies ($65) = $98

Even if approval had been obtained, and the 150 percent rule been applied, the costs claimed would have still exceeded those allowable per the policies and per the recalculated figures above. However, since approval was not obtained, the finding and disallowed costs remain unchanged.

E. Inasmuch as ESD does not dispute the facts of the finding, the finding and disallowed costs remain unchanged.

Finding No. 2

Condition

Costs not supported by proper documentation were charged to the grants as noted in the following table:

Grantee	Grant	Amount
ESD	01ADNOR005	$ 165
The "I Have a Dream" Foundation	01ADNOR005	73
Total Grant 01ADNOR005		$ 238
Langley Middle School	00LCGWA006	$2,472
Total Unsupported Costs		$2,710

OMB Circular A-110, Subpart C, §_.53(b) requires that "[f]inancial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report." Without proper supporting documentation, a determination of allowability, allocability and reasonableness cannot be determined.

The effect of this condition is that unallowable and non-allocable costs may have been charged to the grants noted.

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

Recommendation

We recommend that the Corporation determine the allowability of the costs identified above. We further recommend that ESD strengthen controls to ensure that costs charged to Federal awards are properly supported by appropriate documentation.

ESD's Response

The ESD agreed that the $73 of undocumented expenditures by its subgrantee, the I Have a Dream Foundation, should not have been paid. In addition, ESD also agreed that the payment of $2,472 to Langley Middle School should not have been allowed. The ESD stated that, in the future, it will work with its subgrantees to assure they have the proper documentation to substantiate their expenditures. In addition, backup documentation will be reviewed during site visits.

The ESD disagreed with the disallowance of $165 charged by ESD's fingerprinting department to fingerprint 11 members ($15 per fingerprint). It stated that it operates a fingerprinting service for ESD programs and local school district staff and that a nominal fee is charged to cover the staff charges for this service. The ESD stated that each ESD program is self sufficient and if the $15 fee was not collected, ESD could not offer this service. The ESD believes this should be an

allowable cost because it is charged to everyone who uses the service and is not an arbitrary fee imposed by ESD to generate additional revenues.

Auditor's Comment

The costs claimed for fingerprinting amounted to $704, of which $539 was paid to the Washington State Patrol for processing the fingerprinting. There was no exchange of funds by ESD or the members that supports the remaining $165. Additional costs incurred by the ESD's fingerprinting department would be recovered under the grant's Administrative rate applied to costs claimed. We therefore continue to believe that the costs should be disallowed.

Inasmuch as ESD agrees with the finding pertaining to unsupported subgrantee costs, the disallowed costs remain unchanged.

Finding No. 3

Condition

A. Non-allocable direct costs were charged to two of the three grants under review. A review of these costs revealed instances of costs that were not allocable to the AmeriCorps program. Our testing included a transaction totaling $5,372 charged to AmeriCorps grant 01ADNOR005 for individuals to attend a National and Community Service Program entitled "Mining our Gold" in Bonneville, Washington. The costs covered registration and meals for 47 people. We noted, however, that 10 of those people (or 21.28 percent) were not involved with the AmeriCorps program, so their costs for the event should not have been claimed to the grant. Rather, these costs should have been charged to the appropriate cost centers consistent with how their labor was recorded. Accordingly, we applied 21.28 percent to the total cost of the event to determine the unallocable costs charged to the AmeriCorps grant, which amounted to $1,143 ($5,372 x 21.28 percent).

B. There were also costs charged to Learn & Serve grant 00LCGWA006 that were not allocable to the grant. These costs concerned an ESD employee whose level of effort was mostly related to another Learn & Serve grant the Corporation awarded to ESD. The unallocable costs included registration fees for an event, miscellaneous mileage for use of the motor pool vehicle, and print center charges to reproduce a publication. Total non-allocable costs charged to the grant amounted to $1,125.

C. Non-allocable payroll costs were charged to AmeriCorps grants 00ADNOR005 and 01ADNOR005 in the amounts of $1,453 and $617, respectively. We found one instance where an AmeriCorps member's living allowance was charged entirely to grant number 00ADNOR005, rather than the required allocation between costs charged to the Corporation (85 percent) and costs charged to the grant match (15 percent). The costs questioned of $1,453 represent the amount that should have been charged to the match. We found one instance where an ESD employee's time was allocated to the 01ADNOR005 grant, but whose level of effort did not benefit the AmeriCorps program.

The costs questioned of $617 represent the total unallocable charges to the grant.

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.

OMB Circular A-87, Attachment A, section C(3) states in part: "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

The effect of these conditions was that $4,338 of non-allocable costs was charged to the grants.

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

Recommendation

We recommend that the Corporation determine the allowability of the costs identified above. We further recommend that ESD strengthen controls to ensure that costs charged to Federal awards are allocable to the grants.

ESD's Response

A. The ESD stated that these costs were applied incorrectly by ESD and that the costs will be segregated according to the assignment of staff.

B. The ESD concurred with the finding and stated that it would more closely monitor expenditures in like programs to determine the correct allocation of costs.

C. The ESD agreed with the finding and stated that it will monitor payroll distribution reports to assure that costs are allocated correctly between the grant and the match account.

Auditor's Comment

Inasmuch as ESD agrees with the findings, the disallowed costs remain unchanged.

Finding No. 4

Condition

The ESD enrolled a member into the AmeriCorps program under Grant Number 01ADNOR005 in May 2004 without having received completed eligibility documentation. Specifically, the I-9 form,[1] used by ESD for purposes of eligibility verification, was incomplete because the member never completed the section confirming that he was a United States citizen or national, an alien

1 The I-9 form is a U.S. Department of Justice, Immigration and Naturalization Service, Employment Eligibility Verification form.

authorized to work, or a lawful permanent resident.

AmeriCorps Provision 6, Eligibility, Recruitment, and Selection, requires that the grantee maintain verifiable records that documents each member's eligibility to serve.

Without complete member files, ESD 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.

It should be noted that ESD requested and received a new I-9 form from the member subsequent to the audit exception being identified in early October 2004. ESD included the new I-9 form with its response. The new form, however, was still not properly completed. It lacked proper supporting documentation to provide proof of citizenship. We therefore continue to question the two months of living allowance claimed against the grant for that member totaling $875.

Documentation acceptable under the requirements of 45 CFR § 2522.200 include: (1) birth certificate; (2) United States passport; (3) State Department report of birth abroad; (4) State Department certificate of birth-foreign service; (5) State Department certification of report of birth; (6) certificate of naturalization issued by the Immigration and Naturalization Service; or a (7) certificate of citizenship issued by the Immigration and Naturalization Service. ESD's internal policies were commensurate with the requirements of the CFR.
This finding is also considered to be an internal control weakness.

Recommendation

We recommend that:

1. ESD follow its established procedures for proof of citizenship;
2. ESD obtain documentation to establish proof of citizenship and submit this documentation to the Corporation.

ESD's Response

The member in question returned the completed I-9 in early October. The ESD disagrees with this finding as the auditor looked at 148 files and found only one form missing. The ESD believes, on a statistical basis, this should not be a reportable finding. The ESD will, however, include this as an item to check when it audits files. In addition, ESD will attempt to obtain the birth certificate of the member in question.

Auditor's Comment

Our sampling approach was not statistical and therefore exceptions, regardless of immateriality, are reported. We agree with ESD's approach to verify that I-9's are completed when auditing files.

B. Compliance Findings

Finding No. 5

Condition

The ESD did not require its part-time AmeriCorps members to have criminal record checks for the first year of its 00ADNOR005 grant representing the period August 1, 2000, through July 31, 2001. AmeriCorps Provision 6(h) states that criminal record checks should be performed for members in accordance with State law. The Washington State law requires persons, including minors who participate in unsupervised contact with children, to receive criminal background checks.

We identified 28 part-time members meeting the following criteria:

1. The member received an education award;

2. The member service involved interaction with children;

3. The member was enrolled in the program without ESD running a criminal record check; and,

4. There was no evidence of supervision during the member's time spent with children.

Education awards totaling $31,884 were awarded to these 28 members. As such, we are questioning these awards on the basis that the members should have received background checks prior to being accepted into the AmeriCorps program. Alternatively, we are questioning these awards because ESD did not provide evidence that supervision occurred while the members interacted with children. The current practice at ESD is to require all members, full-time and part-time, to receive a background check prior to enrollment. This finding is also considered to be an internal control weakness.

Recommendation

We recommend that ESD continue its current practice of requiring all prospective members to receive background checks. We also recommend that the Corporation determine the allowability of the education awards paid to the 28 individuals in question should ESD be unable to find acceptable documentation to negate the effect of this finding.

ESD's Response

The ESD contacted the supervisors of the 28 part-time members and received 17 responses that acknowledged the members were supervised at all times during any contact with children. The ESD is awaiting responses covering the remaining 11 members and believes these members also were supervised during contact with children or had background checks conducted by the agency for which they worked. The ESD further stated that, since 2001, fingerprinting has been done for

all full and part-time members.

Auditor's Comment

The ESD has been able to support the fact that most members were supervised while working with children. Of the 75 members originally identified as working with children, ESD has resolved all but 11 exceptions. The ESD's success in resolving most of the exceptions, and the fact that ESD's current policy from 2001 to current, is to require background checks for all members, has caused us to change our position on the finding. Although the condition still constitutes a compliance finding, we do not feel it appropriate to question the education awards granted to the remaining members. We have omitted those costs from the questioned cost included in the Exhibits and Schedules.

Finding No. 6

Condition

Our review of 148 member eligibility files disclosed the following exceptions:

Type of Exception	Number of Exceptions	Grant Number
File did not include mid-year or year-end evaluations	7	00ADNOR005
File did not include a W-4 form	2	00ADNOR005
File did not include member orientation documentation	12	00ADNOR005
File did not include member orientation documentation	20	01ADNOR005

The AmeriCorps Provisions state the following:

B(7)(g) The grantee must conduct at least a mid-term and end-of-term written evaluation of each member's performance.

B(11)(d)(iii) The grantee must withhold Federal personal income taxes from member living allowances, requiring each member to complete a W-4 form at the beginning of the term of service.

B(7)(c) The grantee must conduct an orientation for members and comply with any pre-service orientation or training required by the Corporation.

Recommendation

We recommend that ESD reiterate to its staff the importance of retaining eligibility documentation in each member file in order to achieve compliance with all applicable provisions.

ESD's Response

The ESD will make sure that all proper documentation is included in member files. Future audits of files will include these items.

Auditor's Comment

We agree with ESD's response.

Finding No.7

Condition

Member information submitted to the National Service Trust database via the Web-Based Reporting System (WBRS) by ESD has not been entered in a timely manner. AmeriCorps Provision 8(c) requires that grantees input member enrollment and exit information within 30 days. The information on 51 enrollment forms and 25 exit forms was entered into WBRS after the allotted 30 days. The information entered into WBRS ranged from four days late to 178 days late.

The ESD subrecipient, The "I Have a Dream" Foundation, also submitted member information to WBRS late. There were 11 instances of information on enrollment forms being entered late. The information entered into WBRS ranged from 14 days late to 163 days late. There was also one instance of an exit form being entered into WBRS 34 days late.

Twenty-nine of the enrollment forms and two of the exit forms for ESD were entered late because the Corporation's Grants Office had not entered the Grants Information Profile into WBRS. This precluded ESD from accessing WBRS. For the other forms, the audit identified no specific cause for ESD or its subrecipient entering the data late.

The effect of this finding is that the National Service Trust database does not contain current and accurate information.

Recommendation

We recommend that:

1. The ESD more closely monitor its members and its subrecipient's members to ensure that the AmeriCorps Provisions are being followed regarding National Service Trust database member information; and,

2. The Corporation enters the Grant Information Profiles into WBRS in a timely manner to ensure that grantees can comply with the grant provisions that require enrollment and exit information to be entered in WBRS within 30 days.

ESD's Response

The ESD agrees with the auditor's recommendation and will report information on a timely basis.

Auditor's Comment

We agree with the ESD's response.

Finding No. 8

Condition

The ESD's Mount Adams facility in Trout Lake, Washington, generates income from the fees it charges for the AmeriCorps members to live on-site. The expenditures incurred to maintain the facility are reduced by these fees. During the period of August 2000 through December 2001 for grant number 00ADNOR005, the facility earned income of $114,104, which exceeded the $112,315 of expenditures by $1,789. The income in excess of expenses represents project income.

AmeriCorps Provision 24(a)states that:

> Income earned as a direct result of the Program's activities during the award period may be retained by the Grantee and used to finance the non-Corporation share of the Program.

According to 45 CFR § 2541.250(g):

> Program income shall be deducted from outlays which may be both Federal and non-Federal as described in paragraphs (g)(1) and (2) of this section, unless the Federal agency regulations or the grant agreement specify another alternative (or a combination of the alternatives). In specifying alternatives, the Federal agency may distinguish between

income earned by the grantee and income earned by subgrantees and between the sources, kinds, or amounts of income. When Federal agencies authorize the alternatives in paragraphs (g)(2) and (3) of this section, program income in excess of any limits stipulated shall also be deducted from outlays.

(1) *Deduction.* Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs. Program income shall be used for current costs unless the Federal agency authorizes otherwise. Program income which the grantee did not anticipate at the time of the award shall be used to reduce the Federal agency and grantee contributions rather than to increase the funds committed to the project.

(2) *Addition.* When authorized, program income may be added to the funds committed to the grant agreement by the Federal agency and the grantee. The program income shall be used for the purposes and under the conditions of the grant agreement.

(3) *Cost sharing or matching.* When authorized, program income may be used to meet the cost sharing or matching requirement of the grant agreement. The amount of the Federal grant award remains the same.

Recommendation

We recommend that ESD credit the 00ADNOR005 grant by the amount of $1,789.

ESD's Response

The ESD does not dispute the calculation for the 00ADNOR005 grant year. The residential facilities account is running with a deficit balance for the 01ADNOR005 grant (2001-04) of roughly $8,000. This program has been ongoing for the last ten years and ESD requests that the Corporation view the issue from an ongoing program standpoint and not from a single grant year. The deficit in this account was created by startup costs that were incurred due to the membership and funding pause that occurred when the Corporation experienced a funding shortage from September 2003 to January 2004. In closing and reopening the center, many unnecessary costs were incurred which have forced this account into a deficit situation. A return of these funds will only increase the deficit.

Auditor's Comment

Based on the scope of our audit and our requirements to audit by applying applicable cost principles to grant costs, we feel the finding should remain as stated. The response is directed mostly to the Corporation, and as such we suggest ESD work with the Corporation to resolve the issue.

Finding No. 9

Condition

The ESD is unable to provide documentary evidence that it has properly and effectively managed the day-to-day operations of grant and subgrant-supported activities. The ESD has consistently performed programmatic site visits of its Learn & Serve subrecipients. These visits are summarized in a narrative document, but the narrative does not assess whether specific performance goals are being achieved by function or activity. The ESD indicated that it recently began performing fiscal visits and has visited five of nine subrecipients.

Documentation provided by ESD for The "I Have a Dream" Foundation site visit during Program Year 2001-02 disclosed a review of eight member files. However, there was no summary or feedback of the results of the visit, nor was there evidence that any monitoring other than a review of member files occurred. Although the Program Year 2002-03 programmatic monitoring was well documented, there was no evidence to support that any fiscal monitoring had taken place.

Both the Learn & Serve and the AmeriCorps Provisions state that:

> The Grantee has full fiscal and programmatic responsibility for managing all aspects of grant and grant-supported activities. . . . The Grantee must ensure that the Provisions are binding on the sub-grantee programs and other awards as applicable."

OMB Circular A-133, Subpart D, §__ .400, *Responsibilities* requires that the pass-through entity monitor the activities of subrecipients to ensure that the funds are used "in compliance with laws, regulations, and the provisions of contracts or grant agreements." In addition, OMB Circular A-110, Subpart C, §__.51(a) *Monitoring and reporting program performance,* requires that "recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have met the audit requirements as delineated in Section__.26."

Recommendation

We recommend that ESD:

1. Summarize and document its Learn & Serve programmatic site visits through the use of monitoring tools and/or checklists. These tools should encompass the functions and activities of the subrecipient.

2. Perform fiscal reviews of all subrecipients on an annual basis and retain the documentation to prove the reviews have taken place.

ESD's Response

The ESD concurs with the auditor's recommendations and will provide more thorough documentation of program and financial site visits. It stated that many site visits had been conducted, but that it should have done a better job assessing programmatic goals.

Auditor's Comment

We agree with ESD's response.

Internal Controls Over Financial Reporting

In planning and performing our audit of awards costs as presented in Exhibits A through C for the period August 1, 2000, to June 30, 2004, we considered ESD'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 ESD 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 of 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, process, 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

Finding Nos. 1 through 5, as set forth in the compliance section of the report, are also considered findings on internal control. We also noted an internal control weakness as set forth in finding No. 10 below.

Finding No. 10

Condition

We noted instances where final payments to members who exit the program early are inconsistently calculated. These inconsistencies allow members to receive payments disproportionate to the services provided. This condition is caused, in part, by the lack of clear guidance in the AmeriCorps Provisions.

Recommendation

We recommend that:

1. The ESD modify its method of calculating prorated living allowances paid to members who exit the program early so that payments to members are proportionate to hours served; and,

2. The Corporation provide a clear and precise manner to calculate prorated living allowances for future claims.

ESD's Response

The ESD believes it was calculating the payments correctly and according to current Corporation instructions. It would welcome future guidance from the Corporation as to how to handle these situations.

Auditor's Comment

We agree with ESD's response.

Conrad And Associates, L.L.P.

Conrad And Associates, L.L.P.
Irvine, California
October 22, 2004

This report is intended for the information and use of the Office of Inspector General, as well as the Corporation, ESD 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 Educational Service District 112

EDUCATIONAL
SERVICE
DISTRICT

TDD

Counties

Board of Directors

Superintendent

January 3, 2005

Mr. Stuart Axenfeld
CNCS Audit Manager
National and Community Service
Office of Inspector General
1201 New York Avenue, NW Suite 830
Washington D.C. 20525

Dear Mr. Axenfeld:

The purpose of this letter is to respond to the audit findings of the Office of the Inspector General dated December 2005 as they relate to AmeriCorps grants 00ADNOR005 and 01ADNOR005, and Learn and Serve grant 00LSGWA006 during the period September 1, 2000 through June 30, 2004. I would like to begin by letting you know the ESD is pleased with the audit. ESD Chief Financial Officer, Tim Merlino, has reported to me the auditors assigned to the ESD were both professional and thorough. Though the process was time-consuming, we have gained knowledge that will assist us in future grants management. We would like to thank Rene Jorgeson for his willingness to learn how the ESD manages grants, and for listening to concerns we expressed during the audit process.

The ESD has enjoyed a decade-long partnership with the Corporation in providing outstanding community service programs to the Pacific Northwest. During this period, the Corporation provided more than $20 million for these programs. We are proud to have been chosen to provide these programs and likewise are proud of our staff and members for the services provided in our communities.

The ESD has a long history of receiving "finding-free" audits at federal, state, and local levels. The state of Washington audits all government entities and recently commended the ESD fiscal staff for its continuing exemplary performance over an eight year period. Our practice is to provide analysis and justification for questioned costs and that is what is contained in the balance of this letter.

Compliance Finding Resulting in Questioned Costs

Finding No. 1

Unallowable costs totaling $1,614 were charged to the grants.

A. The ESD claimed costs of $910 to prepare proposals without obtaining prior approval from the corporation.

ESD's Response

The ESD agrees that prior approval should have been obtained before incurring these costs, and will do so in the future.

B. The ESD paid consultants in excess of $443.00/day totaling unallowable costs of $208.

ESD's Response

There is a cap on the amount that a contractor can receive per day but that is not inclusive of indirect expenses, travel, and supplies that may be charged as stated in the CNS guidelines. **(Exhibit A)** The ESD would argue that these unallowable costs represent other charges beyond the daily rate charged by the contractor and should be allowed.

C. The ESD claimed donations totaling $200 to an environmental law conference 8 AmeriCorps members and staff attended. Donations were paid to help cover the cost of childcare for the attendees.

ESD's Response

The payment of $200 was not a donation to cover the cost of childcare. The members did not bring any children to this conference. The fee was for the registration at the conference. ($25 per person) This is clearly listed as a registration fee on the Registration Form. The word donation also appears on the form; however, the ESD interprets the charge as a fee for attending the conference and should be an allowable charge to the grant.

D. The ESD claimed costs in excess of the allowable lodging rates on two occasions. In one instance lodging for a speaker at Trout Lake, Washington, was provided at $178 per night, the allowable rate was $55 per night. In anther instance an ESD employee incurred costs exceeding the allowable rate while performing a Learn and Serve visit.

The auditors questioned these costs because the ESD was not following its own policies.

ESD's Response

ESD policy has several exceptions to the maximum lodging rules that were not noted by the auditors. ESD travel guidelines are the same as the State Office for Financial Management (OFM). These guidelines allow for exceptions that allow for payment of greater than 150% of the maximum **per diem** amount. The auditors only used the maximum lodging rates in calculations, not the maximum per diem, which includes meals and lodging. amounts. ESD and state policy reads as follows: **(see exhibit B)**

In the following situations the agency head or authorized designee may approve the payment of lodging expenses in excess of 150% of the applicable maximum per diem amount for the location:

- The traveler is required to attend a meeting, conference, convention, or training session where the traveler is expected to have business interactions in addition to scheduled events; AND
- It is anticipated that maximum benefit will be achieved by authorizing the traveler to stay at the lodging facilities where the meeting, conference, convention, or training session is held; AND
- The lowest available advertised lodging rate at the lodging facility exceeds 150% pf the applicable maximum per diem amount for the location. Documentation supporting the lodging rates is to be attached to the travel voucher or its file location referenced. The form of documentation is defined by each agency.

In these particular cases both instances fall within the "exception" to the rule category. The finding directed to the Learn and Serve grant is further explained by the fact that there are no hotels in Langley, Washington, only bed and breakfast establishments. Langley is a small resort town on Whidbey Island, north of Seattle.

The ESD believes it does have policies in place and these policies were followed in the cases mentioned by the auditor. These travel claims should be allowed.

E. The ESD claimed costs to AmeriCorps grant number 00ADNOR005 for a scholarship provided to a high school student for $100 for computer supplies. OMB Circular A-87, Attachment B, section (1)(f)(3) stipulates that the costs of promotional items are unallowable.

ESD's Response

The ESD concurs this is an unallowable cost and no longer provides this scholarship. This occurred in 2000-01 and this type of expenditure was discontinued the following year.

Finding No. 2

Costs not supported by proper documentation were charged to the grant. These costs included subgrantee expenditures that did not have the required support to determine eligibility.

ESD's Response

The ESD agrees the $73 of undocumented expenditures by the I Have a Dream Foundation (an ESD subgrantee) should not have been paid. The ESD also agrees the payment of $2,472 to Langley Middle School should not have been allowed.

In the future the ESD will work with our subgrantees to assure they have the proper documentation to substantiate their expenditures. Backup documentation will be reviewed during site visits.

ESD's Response

The auditor also disallowed the $165 the ESD fingerprinting department charged to fingerprint 11 members ($15 per fingerprint). The ESD operates a fingerprinting service for ESD programs and local school district staff. In order to cover the staff charges for this service a nominal fee must be collected. Fifteen dollars is charged to each person fingerprinted. Each ESD program is self sufficient and not subsidized by the ESD. If the $15 were not collected, the ESD could not offer this service. This is not an arbitrary fee imposed by the ESD to generate additional revenues. The ESD believes this should be an allowable cost as it is charged to everyone who uses this service.

Finding No. 3

Condition

A. Non-allocable direct costs were charged to two of the three grants under review. A review of these cost revealed instances of costs that were not allocable to the AmeriCorps program. The costs covered costs for registration and meals for 47 people of which 10 were not related to the AmeriCorps program. The total amounted to $1,143.

ESD's Response

These costs were applied incorrectly by ESD. The ESD will split costs out according to the assignment of staff.

There were also costs charged to Learn & Serve grant 00LCGWA006 that were not allocable to the grant. These costs concerned an ESD employee whose level of effort was mostly related to another Learn and Serve grant the Corporation awarded to ESD. Total non-allocable costs charged to the grant amounted to $1,125.

ESD's Response

The ESD concurs with the finding of the auditors. The ESD will more closely monitor expenditures in like programs to determine the correct allocation of costs.

B. Non-allocable payroll costs were charged to AmeriCorps grants 00ADNOR005 and 01ADNOR005 in the amounts of $1,453 and $617, respectively. There was one instance where an AmeriCorps member's living allowance was charged entirely to grant number 00ADNOR005, rather than the required allocation between costs charged to the Corporation (85 percent) and costs charged to the grant match (15 percent). The costs questioned of $1,453 represent the amount

that should have been charged to the match. There was also one instance where an ESD employee's time was allocated to the 01ADNOR005 grant, but whose level of effort did not benefits the AmeriCorps program. The costs questioned of $617 represent the total unallocable charges to the grant.

ESD's Response

In both cases the ESD agrees with the auditor's finding. The ESD will monitor payroll distribution reports to assure that costs are allocated correctly between the grant and the match account.

Compliance Finding Resulting in Questioned Education Awards

Finding No. 4

Condition

The ESD did not require its part-time AmeriCorps members to have criminal record checks for the first year of its 00ADNOR005 grant representing the period August 1, 2000, through July 31, 2001. AmeriCorps Provision number B(6)(h) states that criminal record checks should be performed by members in accordance with State law. The Washington State law requires persons, including minors who participate in unsupervised contact with children, to receive criminal background checks.

Twenty eight part-time members were identified as meeting the following criteria:

1. The member received an education award;
2. The member service involved interaction with children;
3. The member was enrolled in the program without ESD running a criminal record check; and,
4. There was no evidence of supervision during the member's time spent with children.

Education awards totaling $31,884 were awarded to these 28 members. As such, the auditors questioned these awards on the basis that the members should have received background checks prior to being accepted into the AmeriCorps program. Alternatively, these costs are being questioned because the ESD did not provide evidence that supervision occurred while the members interacted with children. The current practice at ESD is to require all members, full-time and part-time, to receive a background check prior to enrollment.

ESD's Response

As previously stated by the auditor, Washington State law requires persons, including minors who participate in unsupervised contact with children, to receive criminal background checks. The ESD is aware of this law and during the 2000-01 grant year recognized its members would **not** have unsupervised contact with children.

The auditor seems to be taking the approach that the ESD members had unsupervised contact with students unless ESD can prove otherwise. With that in mind the ESD has contacted the supervisors of the 28 part-time members, receiving responses covering seventeen members, that acknowledge the members were supervised at all times during any contact with students. The ESD did not have time to include this information in the original report; if there had been time, the total members in question would have been eleven out of 75. The ESD is awaiting the other eleven responses. Of the 17, three members did have background checks in their second term with the Northwest Service Academy. Documentation from the program supervisors will be included as **exhibit C.** The remaining members which ESD is awaiting a response for are listed as follows: (also shown on **exhibit C**)

Jajetta Bowman	$ 1,181.00
Roza Brodovsky	$ 2,362.50
Lola Bynum	$ 787.00
Maureen Herman	$ 787.00
Rebecca Peatow	$ 2,362.50
Karen Ropar	$ 787.00
Jeffrey Snedon	$ 1,181.00
Dale Casey, Jr.	$ 1,181.00
Jason Jones	$ 787.00
Debra Nixdorf	$ 787.00
Jeffrey Wright	$ 1,181.00
Total	$13,384.00

The ESD believes these members will also indicate that they, too, were supervised during contact with students or received background checks from the agency they were working for. The ESD shares the Corporation's concern regarding background checks and does not believe in putting children at risk. The ESD feels strongly that it did follow applicable laws in 2000-01 and that these costs are allowable.

Beginning in 2001 and still in effect the ESD has been fingerprints all full and part-time members.

Compliance Findings

Finding No. 5

Condition

The ESD enrolled a member into the AmeriCorps program under Grant Number 01ADNOR005 in May 2004 without having received completed eligibility documentation. Specifically, the I-9 form used by ESD for purposes of eligibility verification, was incomplete because the member never completed the section confirming he was a United States citizen or national, an alien authorized to work, or a lawful permanent resident.

ESD's Response

The member in question did return the completed I-9 in early October. The ESD disagrees with this finding as the auditor looked at 148 files and found only one form missing. On a statistical basis, this should not be a reportable finding. The ESD will, however, include this as an item to check when it audits files.

Finding No. 6

A review of 148 member eligibility files disclosed the following exceptions:

7 files did not include mid-year evaluations
2 files did not include a W-4 form
12 files did not include member orientation documentation – Grant 00ADNOR005
20 files did not include member orientation documentation – Grant01ADNOR005

ESD's Response

The ESD will make sure that all proper documentation is included in member files. Future audits of files will include these items.

Finding No. 7

Condition

Member information submitted to the National Service Trust database via the Web-Based Reporting System (WBRS) by ESD has not been entered in a timely manner. AmeriCorps Provision B(8)(c) requires that grantees input member enrollment and exit information within 30 days. The information on 51 enrollment and 25 exit forms was entered into WBRS after the allotted 30 days. The information entered into WBRS ranged from four days to 178 days late.

ESD's Response

The ESD agrees with the Auditor's recommendation and will report information on a timely basis.

Finding No. 8

Condition

The ESD's Mount Adams facility in Trout Lake, Washington, generates income from the fees it charges the AmeriCorps members to live on-site. The expenditures incurred to maintain the facility are reduced by these fees. During the period of August 2000 through December 2001 for grant number 00ADNOR005, the facility earned income of $114,104, which exceeded the $112,315 of expenditures by $1,789. The income in excess of expenses represents project income.

ESD's Response

The ESD does not dispute the calculation for the 00ADNOR005 grant year. The residential facilities account is running with a deficit balance for the 01ADNOR005 grant (2001-04) of roughly $8,000. This program has been ongoing for the last ten years and the ESD requests that the Corporation look at the program issue from an ongoing program standpoint and not from a single grant year. The deficit in this account is due to the startup costs incurred due to the shut down that occurred when the Corporation experienced a funding shortage from September 03 to January 04. In closing and reopening the center, many unnecessary costs were incurred which now have forced this account into a deficit situation. A return of these funds will only increase the deficit.

Finding No. 9

Condition

The ESD has consistently performed programmatic site visits of its Learn and Serve subrecipients. These visits are summarized in a narrative document, but the narrative does not assess whether specific performance goals are being achieved by function or activity. The ESD has indicated it recently began performing fiscal visits and has visited five of nine subrecipients.

ESD's Response

ESD concurs with the auditor's recommendations and will provide more thorough documentation of program and financial site visits. It should be noted many site visits have occurred, but we should have done a better job accessing programmatic goals.

Finding No. 10

Condition

The auditor noted instances where final payments to members who exited the program early were inconsistently calculated. These inconsistencies allowed members to receive payments disproportionate to the services provided. This condition was caused, in part, by the lack of clear guidance in the AmeriCorps provisions.

ESD's Response

The ESD has felt that it was calculating the payments correctly, according to current Corporation instructions. The ESD would welcome future guidance from the Corporation as to how it would like these situations handled.

ESD Summary Statement

The ESD will summarize its position by responding first to compliance issues resulting in questioned costs, followed by the compliance issues resulting in questioned educational awards.

Compliance Issues Resulting in Questioned Costs

The independent auditor's report indicated questioned costs of $8,662 applicable to the three grant awards from 2000-2004. The ESD has stated its position on these costs. The ESD maintains of the $8,662 in questioned costs, $806 should be allowed. The ESD concurs with the auditor's assessment that $7,856 of these costs was either unallocable or unallowable.

However, the ESD also maintains that while these costs are likely not allowable, the total amount of $7,856 is immaterial and recovery should not be undertaken. The $7,856 is .07 of one percent of the total $10,090,080 expenditures audited.

Circular A133 Section E.510 **(Exhibit D)** demonstrates the threshold for auditors reporting a finding. A133 Section E states an auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(1) Reportable conditions in internal control over major programs.
(2) Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program.
(3) Known questioned costs which are greater than $10,000 for a type of compliance requirement for a major program.
(4) Known questioned costs which are greater than $10,000 for a Federal program which is not audited as a major program.
(5) The circumstances concerning why the auditor's report on compliance for major programs is other than an unqualified opinion.
(6) Known fraud affecting a Federal award.

ESD 112 maintains the amount of questioned costs ($7,856 or $8,662) does not meet the criteria in Circular A133 requiring the auditors to make a finding or for the federal government to recover funds. It also appears highly questionable that any of the six criteria for reporting findings exist in this case and that section of A133 provides the auditor some discretion over reporting these items at all. In our opinion, and with due respect, the immaterial amount in question is not worth pursuing once the ESD fully acknowledges all errors must be eliminated in the future.

Compliance Issues Resulting in Questioned Educational Awards

The ESD provided member eligibility information which the Corporation used to pay for member educational awards. Stated above, the ESD did follow the intent of the law in 2000, and no members were unsupervised while dealing with children, thus not requiring a background check. Of the 28 members originally questioned, the ESD has received

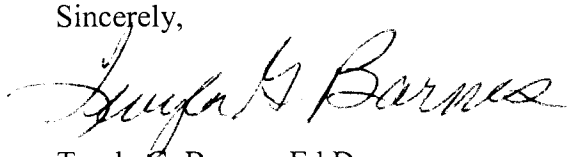
responses addressing 17 of the members from the supervising agency stating that at no time were these members unsupervised when working with children. As the responses are factored in, the result is a reduction in the amount of questioned educational award from $31,884 to $13,384. The ESD is continuing to seek confirmations from individual members as to whether or not they were supervised, but this will take additional time.

Member service credit in order to obtain an educational award is not in question. These members did serve their time and were entitled to the educational award. The ESD maintains there are no damages and return of any funds should not be required.

The ESD has made background checks a mandatory requirement for all members, effective 2001.

In closing, the audit has given us a chance to both reaffirm and reexamine our procedures to assure the Corporation and the federal government that its monies are being spent wisely. Once again the ESD would like to praise the work of the audit staff and thank them for helping us to improve where possible. The ESD appreciates the ability to respond to all issues and looks forward to a swift resolution of these matters.

Sincerely,



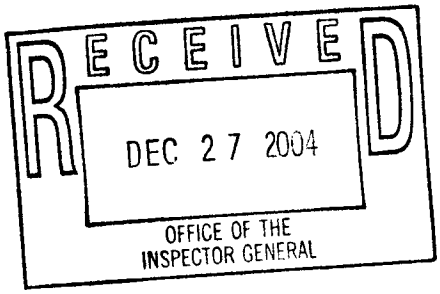
Twyla G. Barnes, Ed.D.
Superintendent

srm
cc: Tim Merlino, Chief Financial Officer, ESD 112
Jada Rupley, Associate Superintendent, ESD 112

Appendix B

Response of the Corporation for National and Community Service

Corporation for
NATIONAL & COMMUNITY SERVICE



To: Carol Bates, Acting Inspector General

From: Margaret Rosenberry, Director of Grants Management

Cc: Andrew Kleine, Acting Chief Financial Officer
Rosie Mauk, Director of AmeriCorps
Tory Willson, Audit Resolution Coordinator

Date: December 27, 2004

Subject: Response to OIG Draft Audit Report 05-12, *Audit of Corporation for National and Community Service Grants Awarded to the Educational Service District 112*

We have reviewed the draft *Audit of Corporation for National and Community Service Grants Awarded to the Educational Service District 112.* Due to the limited timeframe for response, we have not thoroughly reviewed the report nor have we discussed it with the grantee. We will respond to all findings and recommendations when the audit is issued and we have reviewed the findings in detail.