Office of Inspector General
Corporation for National and Community Service

AUDIT OF A SUBGRANT TO CITY YEAR, INC. THROUGH THE TEXAS COMMISSION ON VOLUNTEERISM & COMMUNITY SERVICE

OIG REPORT NUMBER 06-22

Corporation for NATIONAL & COMMUNITY SERVICE

Prepared by:

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This report was issued to Corporation management on April 7, 2006. Under the laws and regulations governing audit follow-up, the Corporation is to make final management decisions on the report's findings and recommendations no later than October 9, 2006, and complete its corrective actions by April 7, 2007. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Corporation for NATIONAL & COMMUNITY SERVICE

OFFICE OF INSPECTOR GENERAL

Audit of a Subgrant to City Year, Inc. Through the Texas Commission on Volunteerism & Community Service (TCVCS) Audit Report 06-22

OIG Summary

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), contracted with Cotton & Company LLP to perform an audit of grants awarded to City Year, Inc., (City Year), for Program Years 2002-2003, 2003-2004, and 2004-2005, through March 31, 2005. The audit resulted in seven reports that covered Nation Direct grants and Corporation-funded state commission subgrants to City Year. This report focuses on state commission Subgrant No. 00ASCTX0451601, which TCVCS awarded to City Year.

The audit identified questioned costs, totaling $1,326. The audit questioned these costs because the transactions were unrelated to the purpose of the subgrant. The audit report also includes four findings and ten recommendations to improve compliance with grant requirements and to improve internal controls. City Year's response indicated a willingness to work with the Corporation to resolve the findings and recommendations and has changed some policies and procedures, but disagreed with some findings. The Corporation agreed to respond to the recommendations when it issues its management decision. However, the Corporation already decided to allow those costs questioned by the auditors, which related to the lack of background checks on members who had contact with children. Although the Corporation recognized the importance of background checks in such instances, it decided to allow the costs because the issue of background checks is an issue of compliance, not eligibility. The OIG disagrees with Corporation's rationale for allowing these costs because issues of compliance are not a bar to disallowing costs.

The OIG reviewed Cotton & Company's report and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Claimed and Questioned Costs in Schedule A of the report or conclusions on the effectiveness of internal controls and compliance with laws and regulations. Cotton & Company is responsible for the attached auditor's report dated September 2, 2005, and the conclusions expressed in the report. However, our review disclosed no instances where Cotton & Company did not comply, in all material respects, with generally accepted government auditing standards.

This report is a matter of public record, and its distribution is not limited.

OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AUDIT OF A SUBGRANT TO CITY YEAR, INC.
THROUGH THE TEXAS COMMISSION ON VOLUNTEERISM & COMMUNITY SERVICE

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EXECUTIVE SUMMARY

Cotton & Company LLP, under an engagement with the Office of the Inspector General (OIG), performed incurred-cost audits of City Year, Inc. (City Year) grants under the AmeriCorps Program. City Year received several grants directly from the Corporation and also received many subgrants from state commissions. We prepared an audit report for City Year grants that it received directly from the Corporation and six separate reports for the subgrants made by six state commissions that we were engaged to audit. This report covers City Year's subgrant from the Texas Commission on Volunteerism & Community Service (TCVCS) for Program Year (PY) 2002-2003, including financial transaction testing and compliance testing of the subgrant through TCVCS. Our audit report expresses a qualified opinion on the Schedule of Claimed and Questioned Costs.

Additionally, we have also issued an Independent Auditors' Report on Compliance and Internal Control, which included results of cost testing and compliance and internal control testing under all of City Year's grants from those state commissions as well as grants directly to City Year. Cost findings and compliance and internal control findings are summarized under Audit Scope, Objectives, and Results.

City Year claimed $661,760 in costs in PYs 2002-2003. We questioned costs of $1,326 that were unallowable as identified in our sampled cost transactions or member compliance testing. In addition, our report includes four internal control and compliance findings.

BACKGROUND

The Corporation supports a range of national and community service programs that provide an opportunity for individuals (members) to serve full- or part-time. National Direct non-profit organizations (e.g., City Year) receive funding under specific grants for such programs as AmeriCorps, Education Award Only, and Promise Fellows. The grants are used to fund members who earn living allowances and education awards. Education awards are administered by the Corporation's National Service Trust (Trust) through a database of all members that is updated by City Year and reported to the Trust. Members submit requests to the Trust to redeem their earned awards, which are paid directly to higher education institutions or holders of members' education loans.

City Year's national office, located in Boston, Massachusetts, has 95 full-time administrative staff. City Year employees are paid by the AmeriCorps National Direct grant, Challenge grant, and private funding sources. In PY 2004-2005, City Year had 15 operating sites, located throughout the United States, with approximately 993 members. Site directors are full-time City Year employees. These operating sites provide for day-to-day supervision of AmeriCorps members.

The majority of funding received from the Corporation flows through City Year's national office to its operating sites. Although the operating sites incur costs, the grant funds are managed at the national office through a centralized financial system. The AmeriCorps

grants to the national office and its operating sites contain a matching requirement. City Year currently meets its matching requirement through private sector funds. All matching costs are recorded in separate accounts.

City Year receives an annual Single Audit in compliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We reviewed the Single Audits for years ended June 30, 2002, 2003 and 2004. The Corporation funds were selected as a major program in all years. City Year received unqualified opinions for those years, and there were no reportable conditions or material weakness related to Corporation funding. Additionally, City Year subgrants have been included in several OIG state commission audits.

AUDIT SCOPE AND RESULTS

Our audit of City Year, as a subgrantee of TCVCS for PY 2002-2003, covered financial transaction testing and compliance and internal control testing of the following subgrant funded by the Corporation through TCVCS:

Program	Subgrant No.	Grant Period	Audit Period
Competitive	00ASCTX0451601	07/01/00-06/30/03	07/01/02-06/30/03

Audit objectives were to determine whether:

- City Year's financial reports for the TCVCS subgrant presented financial results fairly and these costs were allowable in accordance with grant terms and conditions.
- Internal controls were adequate to safeguard Federal funds, and ensure adequate financial and program management oversight of its operating sites.
- City Year had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations, and grant conditions.

Cost Findings

City Year claimed costs of $661,760 in PY 2002-2003. We questioned $1,326. The term "questioned costs" is applied to those costs questioned because of (1) an alleged violation or provision of law, regulation, contract, grant, or cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Our audit report expresses a qualified opinion on the Schedule of Claimed and Questioned Costs. Our report is qualified because, at the request of the OIG, we did not expand questioned costs identified in the sample to the entire population of claimed costs. Except for

identified questioned costs and the effect on questioned costs if we would have expanded testing, costs claimed by City Year for the subgrant appear fairly stated and allowable in accordance with grant terms and conditions.

Compliance and Internal Control Findings

We have issued a report, titled Independent Auditors' Report on Compliance and Internal Control on our consideration of city year's internal control and compliance with laws and regulations. In that report, we identified findings required to be reported under generally accepted government auditing standards. The findings are as follows:

1. City Year did not have adequate procedures to ensure compliance with member requirements.

2. City Year claimed unallowable and unsupported costs.

3. City Year could improve procedures to ensure compliance with all grant provisions.

4. City Year could improve its documentation of member activities.

EXIT CONFERENCE

Cotton & Company held an exit conference with City Year and Corporation representatives on October 13, 2005, and TCVCS representatives the week of October 24, 2005. We provided a copy of this report to City Year and the Corporation for comment. The OIG issued a separate report on March 24, 2006, on National Direct grants and is issuing six additional reports with regard to Corporation-funded subgrants through state commissions to City Year, including this report. In January 2006, the OIG provided a draft of these reports to City Year and the Corporation, and their responses that relate to this report are included in the appendices. However, we did not distribute the report to TCVCS for comment because it no longer oversees the subgrant and because the cost and compliance issues described in the report seem to be errors within the control of City Year through its centralized accounting system. The majority of City Year's responses document its corrective action or improvements to its internal controls. City Year, however, disagreed with the compliance finding related to criminal background checks. The Corporation noted that it will address each issue during audit resolution, but specifically commented on the compliance finding related to background checks, stating that the Corporation does not intend to request reimbursement for those questioned costs.

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September 2, 2005

Office of Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT

We have audited costs incurred by City Year, Inc. through a Corporation-funded TCVCS subgrant for PY 2002-2003. These costs, as presented in the Schedule of Claimed and Questioned Costs (Schedule A), are the responsibility of City Year management. Our responsibility is to express an opinion on the schedule based on our audit.

Program	Subgrant No.	Grant Period	Audit Period
Competitive	00ASCTX0451601	07/01/00-06/30/03	07/01/02-06/30/03

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

As noted above, our audit included examining transactions and member records on a test basis. During our testing, we identified a number of questioned costs due to member compliance issues. Codification of Statements on Auditing Standards, AU §326, requires auditors to gain sufficient competent evidential matter to identify and properly value all questioned costs. At the OIG's request, we did not expand testing to the remaining members, which would identify all questioned costs and related education awards.

The Schedule of Claimed and Questioned Costs is intended to present allowable costs incurred under the subgrant in accordance with Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, other applicable OMB circulars, and grant terms and conditions. Therefore, these are not intended to be complete presentations of City Year's revenues and expenses in conformity with generally accepted accounting principles.

In our opinion, except for questioned costs in the Schedule of Claimed and Questioned Costs, and the effect on questioned costs if we would have expanded testing as discussed above, the financial schedules referred to above present fairly, in all material respects, costs incurred by City Year for PY 2002-2003 specified in the table above, in conformity with OMB Circular A-122, other applicable OMB circulars, and grant terms and conditions.

In accordance with generally accepted government auditing standards, we have also issued a report dated September 2, 2005, on our consideration of City Year's internal control over financial reporting and compliance with laws and regulations. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering audit results.

This report is intended solely for the information and use of the Office of Inspector General, the Corporation for National and Community Service, City Year, TCVCS and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

SHadley

Sam Hadley, CPA
Partner

SCHEDULE A

CITY YEAR, INC.
SCHEDULE OF CLAIMED AND QUESTIONED COSTS UNDER
TEXAS COMMISSION ON VOLUNTEERISM & COMMUNITY SERVICE
SUBGRANT NO. 00ASCTX0451601
AMERICORPS-COMPETITIVE
JULY 1, 2002 TO JUNE 30, 2003

	Amount	Note
Approved Budget (Federal Funds)	$779,232	
Claimed Federal Costs	$661,760	
Questioned Federal Costs:		
Unallowable Costs	$1,326	1

1. City Year erroneously charged $926 for nametags shipped to and used by the Detroit, Michigan program site. City Year also erroneously charged $400 for rent applicable to the Rhode Island program site. These costs are unallowable in accordance with OMB Circular A-122, Attachment A, Paragraph A.4, *Basic Consideration, Allocable Cost*. City Year advised that these transactions were data-entry errors at the time the vouchers were keyed into the accounting system. We questioned $1,326 misallocated to this subgrant.

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September 2, 2005

Office of Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL

We have audited costs incurred by City Year, Inc. for the following grants and have issued our reports[1] thereon, dated September 2, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and generally accepted government auditing standards.

Direct Grants

Program	Grant No.	Grant Period	Audit Period
AmeriCorps National Direct	00ADNMA006	07/01/00-06/30/03	07/01/02-06/30/03
AmeriCorps National Direct	03NDHMA002	07/08/04-09/04/06	07/08/04-03/31/05
AmeriCorps Challenge Grant	03IPHMA001	08/27/03-08/26/04	08/27/03-08/26/04

Subgrants with State Commissions

Program	Subgrant No.	Grant Period	Audit Period
AmeriCorps State Competitive	00ASCIL0141901	07/01/00-06/30/03	07/01/02-06/30/03
AmeriCorps State Competitive	00ASCMA0220101	07/01/00-06/30/03	07/01/02-06/30/03
AmeriCorps State Competitive	03ACHMA0010001	08/11/03-06/30/06	08/11/03-03/31/05
AmeriCorps State Competitive	00ASCMI0232801	07/01/00-06/30/03	07/01/02-06/30/03
AmeriCorps State Formula[2]	03AFHMI0020003	09/01/03-08/31/06	09/01/03-09/30/04
AmeriCorps State Competitive	00ASCPA0391701	07/01/00-06/30/03	07/01/02-06/30/03
AmeriCorps State Competitive	03ACHPA0010001	08/11/03-08/10/06	08/11/03-03/31/05
AmeriCorps State Competitive	03ACHDC0010002	07/06/04-07/05/07	07/06/04-03/31/05
AmeriCorps State Competitive	00ASCTX0451601	07/01/00-06/30/03	07/01/02-06/30/03

[1] There are separate Independent Auditors' Reports on the claimed costs for each state commissions' subgrants and another report on the Corporation's direct grants to City Year. This combined report discusses the compliance and internal control issues over all grants.

[2] City Year was awarded a three-year grant with the State of Michigan Department of Career Development; however, it only ran a formula program with the Commission for PY 2003-2004.

COMPLIANCE

As part of obtaining reasonable assurance about whether financial schedules are free of material misstatements, we performed tests of compliance with certain provisions of laws, regulations, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. Providing an overall opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion. Results of our tests disclosed instances of noncompliance that are required to be reported under generally accepted government auditing standards (Finding Nos. 1, 2, 3, and 4).

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we obtained an understanding of City Year's internal control over financial reporting to determine audit procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on internal control over financial reporting. We noted, however, matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect City Year's ability to record, process, summarize, and report financial data consistent with assertions of management in the financial schedules (Finding No. 1 and 2).

A material weakness is a condition in which the design or operation of one or more of the internal control elements does not reduce, to a relatively low level, the risk that misstatements in amounts that 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. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not consider any of the reportable conditions to be material weaknesses.

FINDINGS

1. City Year did not have adequate procedures to ensure compliance with member requirements.

City Year did not always obtain and review criminal background checks for members prior to placing those members in a school system, whereby the members had substantial, direct contact with children. We sampled 160 members, at 13 sites, and noted:

- Three of City Year's sites under the National Direct program and two additional sites under a state commission subgrant did not have documentation that background checks were obtained or reviewed for one member per location in our sample. Under one additional state commission subgrant, City

Year did not have adequate documentation that a background check was performed for one member. The site noted that the review was online with no printed report.

- One site (including programs under each of the National Direct programs and a state commission subgrant) did not maintain adequate documentation that background checks were performed. Available documentation was an internal memorandum from the site director that no problems were noted with the members. This was done after the site director went to the local court system. However, there is no third-party documentation that a background check was performed for all 21 members sampled from this location and would affect every member at this site.

- One site under the National Direct program had background checks performed by the school board where the members are placed. During PY 2004-2005, the program site requested background checks in a timely manner, and the results were provided to the school system in a timely manner. However, no one at the school system reviewed the reports for several months. After the school system representatives reviewed the reports, they concluded, based on school system criteria, that two members would not be appropriate in the program. However, those members had already served in the school system. This issue affects all members at this program site for PY 2004-2005.

- Many program sites request background checks as soon as the member completes the application process. However, the organization providing the background check often takes a substantial amount of time to complete the review, and the members have already started their service term prior to receiving the results of the review. There were 39 members that started working in the school system prior to the date that details of the background check were provided to the program. We could not estimate the number of members outside our sample that were affected by this issue.

At many sites, City Year follows the requirements of individual school systems, some of which allow a member to start work as long as the background check has been initiated. But in any case, City Year does not believe that there is discreet guidance from the Corporation that requires that member background checks be received and reviewed prior to the member starting the program. It further noted that they have no control over the organization providing the background check (State Police, FBI, etc.) and, if they waited for the information, many programs would be delayed several months.

The AmeriCorps Provisions, B.6.h, *Criminal Record Checks*, requires programs with members who have substantial direct contact with children to conduct criminal record checks on these members. We believe that not performing background checks or not performing them in a timely manner could result in children or other vulnerable persons being placed in harm's way.

Recommendation: We recommend that the Corporation:

- Ensure that City Year obtains background checks and maintains supporting documentation for all members;

- Revise policies and procedures to require grantees to obtain and review background checks before members have contact with children if required by state law or when state law is silent on this requirement; and

- Ensure that City Year documents instances in which state law allows members to work with children while background checks are being performed. This documentation, once provided, may eliminate certain questioned costs in this report.

City Year Response: City Year noted:

- Completed background checks are not a criteria for enrollment and disagrees that living allowances should be questioned in instances that background checks were not maintained in the member file.

- They operated within the state and local laws, and disagrees that background checks were not obtained or reviewed in a timely manner.

- AmeriCorps provisions do not require that background checks be maintained, nor do the provisions provide guidance on the type of check that is to be performed. Additionally, in the 2002 Provisions the language that required the records to be maintained was eliminated.

City Year however has instituted a new Comprehensive Member Background Check Policy in September 2005. This policy was submitted to the Corporation's Office of Grants Management and the Office of General Counsel.

Auditors' Additional Comments: We agree that the lack of members' background checks or supporting documentation is not an eligibility issue; however, we believe that not obtaining a background check or reviewing it timely is a grant compliance issue. Ensuring that members have an adequate background check prior to contact with children (to the extent allowed by state and local laws) is crucial to ensuring that children are not in harm's way. While background checks are not required to be in the member file, the grantee must maintain documentation sufficient for us to conclude that it complied with this provision. City Year's submission to the Corporation of its new member Background Check Policy should help in the resolution of the recommendations.

2. City Year claimed unallowable and unsupported costs.

The note to Schedule A describes questioned subgrant costs of $1,326. Additionally, we have identified questioned costs and education awards in other audit reports of City Year's

subgrants from other state commissions and its grants directly from the Corporation. These questioned costs consist of costs claimed by City Year for which there is documentation that claimed costs were expended in violation of laws, regulations, specific conditions of grants, or costs that require interpretation of allowability by the Corporation or unsupported costs claimed by City Year that require additional documentation to support allowability.

City Year does not adequately charge staff labor costs to its Federal grants. Specifically:

- Staff members at site locations do not identify which Federal grant they are working under. Therefore, if there is more than one open project at that site or grants have overlapping performance periods, the employee is not determining where the labor should be charged. This labor issue also would apply to those site locations that run both subgrants for state commissions and National Direct grants. The City Year accounting office has rules that are applied to the labor costs based on the employees' departmental code, which provides for allocating the direct labor costs to a particular grant. This procedure allows for the possibility that the accounting staff can arbitrarily allocate labor costs to any grant, move labor costs to grants with more available funding, or move labor costs away from a grant that has expired. Employees at site locations do not review Financial Status Reports (FSRs) or Periodic Expenditure Reports (PERs) to ensure that labor (or other) costs are charged appropriately.

- Employee vacation expenses were charged to programs as vacation is taken, not as vacation is earned. Therefore, vacation charges are allocated to the employees' currently assigned department code, as noted above. It is possible for a federal grant to be charged for employee's vacation time, although the vacation time was earned while the employee was working on a different Federal grant. As Federal grants expire or employees move to another program, leave costs are easily misallocated.

OMB Circular A-122, Attachment B. Section 8.m., *Compensation for Personal Services, Support of Salaries and Wages,* requires that labor charges be allocated based on personnel activity reports unless a substitute system has been approved in writing by the cognizant agency. The Circular requires that personnel activity reports must be a signed, after-the-fact representation of each employee's activity in order to ensure that employees incurring the labor charges are aware and responsible for the charges to the respective federal grants. City Year management has the ability to assign labor to any federal grant without the knowledge of the employee.

City Year noted that it has a very sophisticated accounting and timekeeping system that creates a relationship between the departmental code (or Federal program) that the labor costs are charged to and the employee. If the system was modified to incorporate the effect of labor hours on the timesheet for each pay period, this would cause delays in payroll and financial reporting. Additionally, City Year noted that employees rarely move from one program to another, so the changes to the labor allocations would be minimal.

Recommendation: We recommend that the Corporation:

- Determine if unsupported labor costs and applicable administrative costs should be disallowed and recovered; and

- Require City Year to revise its labor distribution system to allow for the employee to determine (and be aware) of the Federal grant that their labor costs are being charged to.

City Year Response: City Year noted:

- Timesheet reporting: City Year believes that its timekeeping system accurately allocates staff labor to the programs because City Year dedicates 100 percent of its time to AmeriCorps programs; there is little overlap in program performance periods; and there are only a few City Year locations that operate more that one grant at a time. City Year, however, will work with the Corporation to set up additional controls to independently verify that staff labor is accurately allocated.

- Vacation Allocation: Vacation expense is not directly allocated to a grant, but is charged to the General Fund, and when vacation is taken, the expense is allocated the grant they are currently working on, and there is very little staff movement among programs.

- Unsupported and unallowable costs. City Year's accounting systems are adequate, and because City Year incurs more match than is required under all of their grants, they will not contest the unsupported costs identified, but rather will substitute other allowable costs not previously claimed. Additionally, City Year provided additional training to financial analysts in December 2005.

Auditors' Additional Comments: City Year did not propose actions to resolve this issue beyond working with the Corporation. Changes are necessary to ensure it charges labor correctly, including charging vacation expense when earned. Otherwise, City Year may charge its costs to Federal appropriations not available for obligation and expense when the cost was incurred or charge the costs to future Federal funding that was provided for other purposes. We agree that City Year may have incurred other allowable program costs that it has not claimed. The Corporation will need to review City Year's documentation to ensure that submitted substitute costs are allowable and not previously claimed under other programs.

3. City Year should improve procedures to ensure compliance with all grant provisions.

City Year could improve its grant compliance performance in four areas. Specifically member contracts did not identify all prohibited activities, certain FSRs and progress reports were not submitted in a timely manner, record retention policy did not comply with grant requirements, and City Year provided health insurance to part-time members without approval from the Corporation.

Member Contracts—Prohibited Activities

City Year member contracts did not contain all prohibited activities. The AmeriCorps Provisions, B.4, *Prohibited Program Activities*, does not allow the grantee to use grant funds to support several listed activities including any activity that provides a direct benefit to a nonprofit entity that fails to comply with the restrictions contained in section 501(c) (3) of U.S. Code Title 26. City Year was not sure why that specific activity was not identified in its member contract, however it has already added that activity to the member contract.

Untimely FSRs and Progress Reports

City Year did not submit all required FSRs in a timely manner. The following reports were submitted late:

Challenge Grant 03IPHMA001

Report	Period Ended	Due Date	Submittal Date	Days Late
03-04 FSR	09/30/03	10/31/03	11/14/03	14
03-04 FSR	12/31/03	01/31/04	04/14/04	74

National Direct 03NDHMA002

Grant #	Period Covered	Due Date	Submittal Date	Days Late
03NDHMA002	07/08/04-09/30/04	10/30/04	03/25/05	146
03NDHMA0020001	04/01/04-06/30/04	09/28/04	03/23/05	176
03NDHMA0020005	04/01/04-06/30/04	09/28/04	03/23/05	176
03NDHMA0020006	07/08/04-09/30/04	10/30/04	11/19/04	20
03NDHMA0020007	07/08/04-09/30/04	10/30/04	03/31/05	152
03NDHMA0020008	07/08/04-09/30/04	10/30/04	11/23/04	24
03NDHMA0020009	07/08/04-09/30/04	10/30/04	11/18/04	19

For the National Direct programs, the AmeriCorps Provisions, B.16.a.ii, *Financial Status and Progress Reports*, establishes due dates for biannual reporting. Historically, reports were due 30 days after the 6-month reporting period ends. FSRs for City Year's Challenge Grant were

due quarterly, one month after the quarter ended, in accordance with Challenge Grants Fiscal Matters, II, and the AmeriCorps Provisions. In addition, state commissions require FSRs and progress reports to be submitted either in accordance to the specific subgrant agreement, or at a minimum in accordance with the same AmeriCorps Provisions as the National Direct grants. Certain state commissions may also have reporting requirements for Periodic Expense Reports (PER). Under three different state commission subgrants, City Year submitted a total of seven FSRs after the state commission due dates. Likewise, for five different state commission subgrants, City Year submitted six progress reports after the due dates. Additionally, two state commissions established contractual due dates for PERs. For both subgrants, City Year submitted 18 of the required PERs late.

Record Retention Policy

City Year has a detailed record retention policy that specifies the number of years items must be retained based on the type of accounting document. For example, time sheets are retained for three years, and workers' compensation records are maintained for six years. City Year does not have a specified retention policy for member files, contracts, proposals, and other grant documents. The AmeriCorps Provisions, *Retention of Records*, requires that grantees retain all program and financial records for three years from the date of submission of the final FSR. Additionally, if an audit is started prior to the expiration of the three-year period, the records must be retained until the audit findings are resolved and final action is taken.

Health Insurance for Part-time members

In our sample of 160 members, City Year provided health insurance to one part-time member and claimed the expenses under that grant. The 2004 AmeriCorps Provisions, B.11.e, *Health Care Coverage*, states that grantees must provide health insurance to full-time members, however the Corporation will not cover health care costs for family members or part-time members. City Year believed that approval of a slot conversion from full-time to part-time authorized them to provide and claim health insurance. This issue affects 5 sites under different state commission subgrants, and 5 sites under City Year's National Direct programs for a total of 35 members.

Recommendation: We recommend that the Corporation ensure that City Year:

- Identifies all prohibited activities in its member contracts;
- Strengthens procedures regarding timely submission of financial and progress reports;
- Revises its record retention policy to comply with grant provisions; and
- Strengthens controls to obtain approval from the Corporation for health care provided to part-time members, or ensure that costs are not claimed. We further recommend that the Corporation require City Year to quantify any

excess costs and applicable administrative costs claimed for these health care costs.

City Year Response: City Year noted:

- Member Contracts: City Year has incorporated a clause into each member contract for the 2005-2006 program year.

- Untimely reporting: City Year has created a position (Service Operations Manager) in PY 2005-2006, who is responsible for timely reporting.

- Record Retention Policy: City Year has revised its policy and will submit this change to the Corporation's Office of Grants Management.

- Health Insurance for part-time members: City Year was not aware that approval of slot conversions from FT to PT positions did not constitute approval to provide health insurance, and City Year was not instructed by its Program Officers to request permission. City Year will seek Corporation retroactive approval for all part-time members.

Auditors' Additional Comments: We believe actions taken by City Year will help the Corporation resolve these recommendations.

4. City Year should improve its documentation of member activities.

City Year did not adequately document certain member activities in accordance with the AmeriCorps Provisions. Specifically, some member files did not contain a mid-term evaluation or did not have member signatures on the mid-term or final evaluations. Additionally, final evaluations were prepared prior to member completing their service term, and therefore did not contain all required information. Certain enrollment and exit forms were submitted late. Finally, hours reported to the Corporation's Web-Based Reporting System (WBRS) for some members were not supported by member timesheets. We sampled 160 members and noted the following:

Evaluations

Two mid-term and two final evaluations were not signed by members, which would document that the review was performed and seen by the member, and one member file did not contain a mid-term evaluation. Additionally, many program sites complete the final evaluations prior to a member completing their service term. Therefore, the number of completed service hours on the evaluation either was left blank, or noted the number of hours completed to date. However, the total hours the member worked was not documented, and may not be enough hours to earn the stated education award.

Evaluations are necessary to ensure that members are eligible for another term of service. According to 45 C.F.R. § 2522.220 (d), *Participant performance review*, a participant is not eligible for a second or additional term of service and/or for an AmeriCorps educational award without mid-term and final evaluations. Additionally it requires that grantees conduct at least mid-term and end-of-term evaluations of each member's performance, documenting that the member has:

- Completed the required number of hours.
- Satisfactorily completed assignments.
- Met other performance criteria that were clearly communicated at the beginning of the service term.

Enrollment and Exit forms

City Year did not submit all required enrollment and exit forms in a timely manner. Additionally, we found numerous documentation issues with member time sheets. Specifically:

- 19 member enrollment forms were not entered into WBRS within 30 days.
- 15 exit forms were not entered into WBRS within 30 days.
- One change of status form was not entered into WBRS within 30 days.

The AmeriCorps Provisions, B.16.b, *AmeriCorps Member to Related Forms*, requires that member enrollment forms be submitted to the Corporation no later than 30 days after a member is enrolled and that member exit/end-of-term-of-service forms be submitted no later than 30 days after a member exits the program.

City Year's existing procedures provide for controls that would ensure that forms are completed and submitted in a timely manner; however, these procedures were not followed in all instances. When City Year submits information late, the Corporation's enrollment records will be inaccurate.

Member service hours reported in WBRS

Hours recorded in WBRS were not always properly supported by member time sheets. AmeriCorps, Education Award Program, and Promise Fellow Provisions, *Financial Management Provisions, Time and Attendance Records*, require that grantees keep time-and-attendance records on all AmeriCorps members to document their eligibility for in-service and post-service benefits. The Corporation uses time-and-attendance information in WBRS to track member status, and this data is the basis for appropriate education awards. City Year program personnel made data-entry errors when recording member hours in WBRS. Member hours supported by time sheets varied from hours recorded in WBRS for

64 members; 44 members had hours recorded on time sheets that exceeded WBRS hours and 20 members had hours recorded on time sheets that were less than hours reported in WBRS. For 3 of those 20 members, the hours supported by member time sheets did not support the required number of hours to earn the education award. As a result, we questioned education awards for those members totaling $14,175.

Recommendation: We recommend that the Corporation ensure that City Year strengthen its program monitoring procedures to comply with grant requirements for conducting and retaining member evaluations; completing enrollment and exit forms in a timely manner, and ensuring that all hours reported in the WBRS system are adequately supported by member time sheets.

City Year Response: City Year noted:

- Member Evaluations: City Year has a sophisticated Performance Management System for all members, and further noted that signatures on member evaluations are not required by the provisions. Two of the four missing signatures, and the missing evaluation were attributable to PY 2002-2003, which was prior to the implementation of that System.

  The requirement to include the final number of completed service hours on the final member evaluation is impractical if not impossible. It would require that all final evaluations be given on the same day, causing the evaluation to be much shorter which would de-value the benefit of the evaluation. Final hours are also tracked on the timesheets, the exit form, and in WBRS.

- Enrollment and Exit forms: 15 of the 19 late enrollment forms were in PY 2002-2003, noting that significant improvements have been made to ensure that all forms are completed timely. City Year has a system in place, which educates the program sites on due dates, and then periodically reviews WBRS for timely reporting, among other things.

- Member Service Hours in WBRS: City Year realizes that data entry errors can occur when timesheet hours have to be manually entered into WBRS. City Year has dramatically reduced the likelihood of these errors through implementation of a payroll generation report that compares aggregate hours to hours in WBRS. City Year believes that the best way to eliminate the possibility of these errors is to eliminate the intermediate step of entering time into WBRS, and expand the capability of WBRS so that members can enter their time directly into WBRS, with supervisory approval.

Auditors' Additional Comments: We believe actions taken by City Year will assist the Corporation in resolving this finding and the recommendations. We note that City Year indicated that the provisions do not require signed evaluations. The general practice of signing evaluations provides for accountability and authenticity.

This report is intended solely for the information and use of the Office of Inspector General, the Corporation for National and Community Service, City Year, and the U.S. Congress, is not intended to be, and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

SHadley

Sam Hadley, CPA
Partner

Appendix A

City Year Response to Audit Report

HEADQUARTERS
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February 22, 2006

Carol Bates
Acting Inspector General
Corporation for National and Community Service
Office of the Inspector General
1201 New York Avenue, NW, Suite 830
Washington, District of Columbia 20525

Dear Ms. Bates:

Below please find the City Year, Inc. response to the OIG Audit Reports 06-16 to 06-22 for our National Direct Grants and Challenge Grant (06-16) and our sub-grants though the state commissions for the District of Columbia (06-20), Illinois (06-19), Massachusetts (06-17), Michigan (06-18), Pennsylvania (06-21) and Texas (06-22). The Draft Report 06-16 was issued to City Year for comment on January 25, 2006.

As you are aware, City Year has worked cooperatively with the CNCS auditors over the approximate six months of fieldwork and has continuously demonstrated responsiveness to requests for information and feedback. We would like to express our appreciation to Cotton & Co. for the highly professional manner in which the auditors managed the audit. Although we do not agree with all of their findings, we would like to note that they were organized and clear in their requests and respectful of our time and commitments.

City Year will continue to work in cooperation with the CNCS Audit Resolution Specialist over the coming months to resolve any disagreements we have with the audit findings.

Included below are City Year's responses to each of the audit findings. The findings are grouped under the Compliance Finding header identified in the Auditor's Opinion. Our responses to specific questioned costs are included in the attached Amendments A1 to A5 for the corresponding audit report.

Compliance Finding #1: City Year did not have adequate procedures to ensure member eligibility:

A) Completed background checks are not a criteria for Eligibility to Enroll in AmeriCorps, as per the Provisions Section B.6.a "Eligibility to Enroll" and Definitions 9 "Member" (AmeriCorps Provisions 2002-2003) and Section B.6.a and Definition 14 (AmeriCorps Provisions 2003-2004 and 2004-2005).Therefore, City Year disagrees with this finding and the inclusion of questioned costs relating to the finding that some member files did not contain background checks.

PUTTING IDEALISM TO WORK

B) City Year operated within the extent of state and local laws for the grant years audited in relation to background checks and we request that these findings relating to eligibility be removed from the Final Report because these findings are not accurate. State laws regulating background checks, where applicable, were provided to the auditor during the fieldwork phase. City Year disagrees with all findings regarding the timeliness, documentation of and review period of background checks based on: per the stated Provisions B.6.h, A) there is no requirement to retain documentation of background checks; B) there is no requirement as to the type of documentation maintained; and, C) there is no requirement as to when the background check is conducted or reviewed. In the 2002-2003 AmeriCorps Provisions, under Key Changes to the 2002 Provisions, it is noted that Section 6.h Criminal Background Checks "was revised to eliminate the language that criminal records should be maintained in the member or employee files" (emphasis added). Guidance surrounding background checks is unclear in the AmeriCorps Program Director's Handbook and CNCS provided no instruction on the conduct or maintenance of criminal background checks during the audit period. Retention, documentation, and timeliness of background checks is not specified in the Provisions.

City Year understands the importance of completing background checks before placing members in contact with vulnerable populations and embraces our duty to ensure the safety of those we serve We have instituted a comprehensive Corps Member Background Check Policy, which was introduced to all sites at our annual staff training retreat, Summer Academy, on August 10, 2005. We submitted a copy of the Policy to the Corporation's Office of Grants Management on August 17, 2005 and to the Office of General Counsel on October 21, 2005. Additionally, CNCS initiated a rulemaking process on October 17, 2005, Federal Register Vol. 70, No. 199, to address the lack of clarity in the Provisions regarding background checks. City Year participated in the CNCS conference calls to solicit input on the proposed rule change and has provided other assistance relevant to CNCS' policy development.

Compliance Finding #2: City Year claimed unallowable and unsupported costs.

A) Timesheet Reporting: City Year believes that the timesheet system currently in place accurately allocates staff labor to the correct grant. As a stand alone AmeriCorps program, 100% of our program staff time goes towards the implementation of the AmeriCorps program. There is almost no overlap in program performance periods and there are only a few instances where a City Year site operates more than one grant at a time. Because site staff work full time on the AmeriCorps program and staff do not work at multiple sites, there is little deviation in how program staff report their time week to week. In response to the auditor's concerns, City Year will work with CNCS during the audit resolution to set up an additional control, such as a quarterly review where staff can independently verify that their time was accurately allocated.

B) Vacation Allocation: Accrued vacation expense is not allocated to any grant. All accrued and unpaid vacation expense is allocated to the General Fund (unrestricted) and not to

the AmeriCorps grant. When staff use vacation time, this time is then allocated to the grant under which they are current working. Additionally, staff rarely move from one program site to another. When staff movement does occur, it is typically movement from the site to a Headquarters position that is not funded through AmeriCorps.

C) Unsupported Costs: City Year's accounting systems are fully consistent with GAAP principles and federal and state grant provisions. Because City Year consistently provided more matching funds than are required, we will not contest the unsupported costs identified by the auditors and will work with CNCS to substitute these costs with other allowable costs that were not previously claimed. [See Amendments A1 and A5 for specific unsupported costs.]

D) Unallowable Costs: City Year's accounting systems are consistent with GAAP principles and federal and state grant provisions. Although City Year does not agree with all of the costs identified as unallowable, we will work with CNCS to substitute these costs with other allowable costs that were not previously claimed. All Financial Analysts are trained in allowable costs as part of their orientation. Analysts participate in state commission and CNCS trainings when appropriate. Additionally, the Analysts received a re-fresher training on what expenses can be claimed to the grant in December 2005. All PERs and FSRs are reviewed by the Controller, Director of Finance and/or the Chief Financial Officer in order to ensure accuracy prior to submission to CNCS. [See Amendments A1, A2 and A3 for specific unallowable costs.]

Compliance Finding #3: City Year could improve procedures to ensure compliance with all grant provisions.

A) Member Contracts: The auditors identified a clause that we did not have in our member contract. Upon identification, we added this clause into the contract used for the 2005-2006 program year and beyond.

B) Untimely FSRs and Progress Reports: City Year recognizes that we have not always met the deadlines for FSRs and Progress Reports. During program year 2004-2005, City Year reviewed systems to determine ways to mitigate late filings. One recommendation, which was instituted in program year 2005-2006, was a Service Operations Manager (SOM) position based out of Headquarters. One of the job functions of the SOM is to ensure that sites are meeting deadlines for Progress Reports. For the FSRs we developed a due date chart at the beginning of the program year and reviewed it with all of the Financial Analysts to ensure that these deadlines are met. We continue to realize process improvements that will allow for more timely performance.

C) Record Retention Policy: City Year has included the required specifications in our Record Retention Policy. We will review the new policy with the CNCS Office of Grants Management to ensure that it is in complete compliance before it is instituted.

D) Health Insurance for Part-Time Members: According to the Provisions, programs are permitted to provide health insurance to Part-Time members serving in a full-time

capacity with authorization from the Corporation. It is important to note that City Year does not include Part-Time positions in our budget, only Full-Time Equivalents (now MSY). If all slots are not filled by the end of September, we request that Full-Time slots be converted to Part-Time so that we can bring in members to serve January to June. City Year was not aware that approval of slot conversions from a Full-Time position to a Part-Time position did not constitute approval to provide health insurance nor were we instructed by any of our Program Officers to request permission. City Year will seek approval from the Corporation to provide health insurance to all Part-Time members.

Compliance Finding #4: City Year could improve their documentation of member activities.

A) Member Evaluations: City Year has a very sophisticated Performance Management System for our corps members. At the beginning of the year the members complete a Corps Member Performance Plan outlining their goals and expectations for the year. The member then completes a mid-term review and an end-of-term review, which tests performance against what was outlined in the start of year Plan. Thorough instructions and extensive training is provided to the supervisory staff and the members. Although the Provisions do not require that the evaluations be signed, City Year stresses the importance of receiving all appropriate signatures.

a. Missing Signatures: Two of the four occurrences were in program year 2002-2003 before the current policy went into effect. The remaining two occurrences can be attributed to the termination of program staff at the site during program year 2003-2004.

b. Missing Evaluation: This occurrence was in program 2002-2003, prior to the time the current policy went into effect.

c. Completion of the required number of hours: City Year values the performance evaluation as a tool for both the corps member and the organization to assess development of the member and the success of our program. However, it is impractical and often impossible to complete the evaluation in accordance with the Provisions. In order to meet the auditor's recommendations and include the final hours on the Evaluation, programs would have to complete the final evaluation on the last day of service and sometimes in the last hour of service if the member serves 1700 hours exactly. This would mean that across the network our site staff would have to conduct approximately 900 evaluations on the last day of the program. To accomplish this, the evaluation would have to be so scaled back that it would have limited, if any, value to the member and City Year. Final hours are also tracked on the timesheets, on the signed copy of the Exit Form and in WBRS. In our FY06 final performance evaluations the section for reporting hours has been moved from the end to the first page and a section has been added for sites to identify how members will reach the minimum hours by Graduation Day if the member has not already served 1700 hours or 900 for Part-Time members.

B) Enrollment and Exit Forms: City Year has adequate systems in place to ensure that WBRS is updated in a timely manner, as indicated by the fact that 15 of the 19 late enrollments occurred in program year 2002-2003. At the beginning of the year, Headquarters department of Government Relations circulates the due dates for all WBRS enrollments to the sites AmeriCorps liaison who is responsible for ensuring that WBRS data is up to date and sends out reminders. WBRS data is reviewed throughout the year by the National Corps Support Coordinator in Government Relations.

Periodic WBRS reviews consist of:

a. Pre-enrollment due date review and reminder;
b. Post-enrollment due date review and follow up if any are not approved;
c. Monthly WBRS time log, early exit and change of status reviews and notification to site with carry-over of any outstanding issues;
d. Pre-exit due date review (for members who serve through graduation) and reminder; and
e. Post-exit due date review and follow up if any are not approved.

C) Member Service Hours reported in WBRS: The discrepancy between hours reported on timesheets compared to the information found in WBRS is a result of data entry error caused when staff manually enter hours from timesheets into WBRS. The error rate was significantly reduced in program year 2003-2004 through introduction of a payroll report generation system that City Year developed. The member hours are entered into the payroll system which generates simplified reports with the aggregate weekly service and training hours which the site staff then use to enter data.. City Year believes that the best way to reduce these types of human error is to eliminate the intermediary step between entering into the timesheets and into WBRS. Expanding the capabilities of WBRS so that the member can enter their hours directly into the system and the supervisor can approve or return to the member for correction would eliminate the intermediary step where data entry error occurs. [See Amendment A4]

Again, we would like to express our appreciation to Cotton & Co. and we look forward to working with the Audit Resolution specialist and the Corporation over the coming months to make our program stronger.

Sincerely,

Evelyn Barnes
Chief Financial Officer

Amendment A5: OIG Audit Report 06-22: The Texas Commission on Volunteerism & Community Service

Finding # 2.D: City Year San Antonio (FY03) unallowable costs of $1,326 for costs related to our Detroit and Rhode Island sites. City Year does not contest this finding and will substitute these claimed costs with allowable costs that were not claimed to the grant.

Appendix B

Corporation Response to Audit Report

Corporation for
NATIONAL & COMMUNITY SERVICE

To: Carol Bates, Acting Inspector General

From: Margaret Rosenberry, Director of Grants Management

Cc: Elizabeth D. Seale, Acting Director of AmeriCorps
Tory Willson, Audit Resolution Coordinator, Office of the CFO

Date: February 23, 2006

Sub: Response to OIG Draft Audit Reports 06-16 through 21: Audit of Grants and Subgrants Awarded to City Year, Inc.

Thank you for the opportunity to review the draft Audit Reports of Grants and Subgrants Awarded to City Year, Inc. The Corporation has also reviewed the response from City Year, Inc. We are addressing only one issue at this time. We will respond to all findings and recommendations in our management decision when the final audits are issued; we have reviewed the findings in detail; and worked with the City Year to resolve the audits.

As noted in the draft summaries, the auditors questioned $365,643, about 96% of the questioned claimed grant costs, because members were either serving in the school system prior to the site's receipt of the results of background checks or there was no evidence of criminal background checks on members who were providing service to children. In City Year's response to the draft audit, they indicated that they understand the importance of completing background checks and have instituted a comprehensive Corps Member Background Check Policy.

Because the Corporation considers the lack of a criminal background check to be a grants compliance issue, not a failure to meet statutory eligibility requirements, we will allow questioned costs that result from this finding. However, while the finding may not result in disallowed costs, background checks are an important compliance issue and are required for members who have substantial contact with children and other vulnerable populations during their term of service. The Corporation is also reviewing its current guidance on background checks and expects to issue regulations in the near future.

The Corporation will address the remaining questioned costs and other findings during audit resolution after the audits are issued as final.