Office of Inspector General
Corporation for National and Community Service

AUDIT OF GRANTS AWARDED TO THE TENNESSEE COMMISSION ON NATIONAL AND COMMUNITY SERVICE

OIG REPORT NUMBER 06-30

Prepared by:

CONRAD and ASSOCIATES, LLP
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This report was issued to Corporation management on April 26, 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 26, 2006, and complete its corrective actions by April 26, 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 Grants Awarded to the Tennessee Commission on National and Community Service Audit Report 06-30

OIG Summary

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), contracted with Conrad and Associates, L.L.P. (Conrad) to perform an audit of grants awarded to the Tennessee Commission on National and Community Service (Commission). The audit generally covered the latest two years of performance of nine grants initially awarded during the period September 1, 2000, to January 1, 2005.

Funding authorized for these grants totaled $7.9 million, with costs claimed totaling about $4.5 million. The audit identified questioned costs totaling $22,661, most of which were attributed to the Promise Fellows Grant with costs claimed for living allowances of members who served less than 12 months. The auditor questioned these costs because the Commission received funds from the Corporation in excess of the amount to which it was entitled for such members. The OIG notes that the audit questions these amounts in terms of what is due the Commission, not necessarily whether the members were overpaid. Specifically, with regard to the Promise Fellows Grant, the auditors questioned costs of $18,920. Although the Commission may pay living allowances to members in excess of its entitlement, it should not claim costs in excess of that amount. To do so results in unnecessary payments that increase costs to the Federal Government, even though the excess payments may be recouped later.

The auditors also questioned non-grant costs of $9,310 for members who did not serve sufficient hours to earn education awards. The report also includes five findings and six recommendations to improve compliance with grant requirements and to improve internal controls. The Commission was responsive to the recommendations, and the Corporation intends to address all findings and recommendations in its management decision.

The OIG reviewed Conrad'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 the Consolidated Schedule of Award Costs, related exhibits and schedules, or conclusions on the effectiveness of internal controls and compliance with laws and regulations.

Conrad is responsible for this report, dated November 22, 2005, 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.

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

Audit of Grants Awarded to the
Tennessee Commission on National and Community Service
Nashville, Tennessee

TABLE OF CONTENTS

Page

REPORT SUMMARY AND HIGHLIGHTS

Executive Summary 1

Background 1

Objectives, Scope, and Methodology 2

Grant Programs Audited 4

Costs Questioned 4

Compliance and Internal Control Findings 5

INDEPENDENT AUDITOR'S REPORT 6

FINANCIAL SCHEDULES

Consolidated Schedule of Award Costs 8

Notes to Consolidated Schedule of Award Costs 9

Exhibit A – Schedule of Award Costs: AmeriCorps 10

Schedule A-1 – Schedule of Award Costs:
Clinch Powell Research Council & Development Council 11

Schedule A-2 – Schedule of Award Costs:
Porter Leath Children's Center 12

Schedule A-3 – Schedule of Award Costs:
Vanderbilt University Medical Center 13

Exhibit B – Schedule of Award Costs: Administrative 14

Exhibit C – Schedule of Award Costs: Promise Fellows 16

Exhibit D – Schedule of Award Costs: Disability 17

Audit of Grants Awarded to the
Tennessee Commission on National and Community Service
Nashville, Tennessee

TABLE OF CONTENTS (CONTINUED)

Page

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL 18

Compliance Findings 19

Internal Control Finding 25

INTERNAL CONTROLS OVER FINANCIAL REPORTING 26

APPENDICES

A: Response to the Draft Report by the Tennessee Commission on National and Community Service .....

B: Response to the Draft Report by Corporation for National and Community Service .....

REPORT SUMMARY AND HIGHLIGHTS

CONRAD AND ASSOCIATES, L.L.P.

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Office of Inspector General
Corporation for National and Community Service

This report is issued under an Office of Inspector General (OIG) engagement with Conrad and Associates, L.L.P. to audit the costs claimed by the Tennessee Commission on National and Community Service (Commission) and its subgrantees from September 1, 2002, through June 30, 2005, 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 the Commission and its subgrantees.

Executive Summary

As a result of our audit, we are questioning grant costs totaling $22,661. We are also questioning match costs claimed. Some of the questioned match costs were claimed in excess of the minimum match required. The costs questioned are approximately 0.50 percent of the total $4,514,097 in costs claimed by the Commission. A questioned cost is an alleged violation or provision of law, regulation, contract, grant, or cooperative agreement, or other agreement or document governing the expenditure of funds; a finding that, at the time of the audit, such cost is not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. Costs questioned include living allowances for which key eligibility documentation could not be located and costs not allocable to the AmeriCorps program. Details for questioned costs appear in the Independent Auditor's Report.

AmeriCorps members who successfully complete terms of service under AmeriCorps grants are eligible for education awards from the National Service Trust. These award amounts are not funded by Corporation grants and thus are not included in claimed costs. However, as part of our audit, we determined the effect of audit findings on education award eligibility. Using the same criteria described above, we questioned education awards of $9,310.

This report also includes five findings and six recommendations to improve the Commission's internal controls and compliance with grant provisions.

Background

The Corporation, pursuant to the authority of the National Community Service Trust Act of 1993, as amended, awards grants and cooperative agreements to State commissions, such as

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

the Tennessee Commission on National and Community Service, and other entities to assist in the creation of full-time and part-time national and community service programs.

The Commission is a division within the State of Tennessee's Department of Finance and Administration and is headquartered in Nashville, Tennessee. It has been providing national and community service programs since 1995. It currently employs seven full-time staff and an Executive Director.

As illustrated by the table that follows, the Commission has received almost $8 million in funding for various Corporation programs, has claimed costs of $4.5 million, and has drawn down almost $4 million for the period audited. Of the amount received, the Commission awarded approximately $6.8 million to subgrantees, which are mostly nonprofit entities and Tennessee State Government entities.

Award/Program	Funding Authorized	Claimed	Drawdowns
03ACHTN001 – AmeriCorps – Competitive	$ 2,165,744	$ 1,319,782	$ 957,914
03AFHTN002 – AmeriCorps – Formula	2,865,295	1,447,265	1,373,722
Total AmeriCorps Funds	5,031,039	2,767,047	2,331,636
02SVHTN014 – **Homeland Security**	429,124	232,388	232,661
04CAHTN001 – **Administrative**	551,305	334,375	237,007
02PDSTN042 – PDAT**	304,751	285,403	241,279
05PTHTN001 – PDAT	119,000	27,972	9,259
Total PDAT Funds	423,751	313,375	250,538
00LCSTN042 – **Learn & Serve**	751,361	485,249	535,560
01APSTN044 – **Promise Fellows**	628,200	329,981	324,666
04CDHTN001 – **Disability**	137,000	51,682	38,497
Total – Grants Administered by the Commission	$ 7,951,780	$ 4,514,097*	$ 3,950,565*

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

** Program Development and Training (PDAT) Funds

Objectives, Scope, and Methodology

We performed our audit during the period August 16 through November 22, 2005, and used methodologies we deemed appropriate for the scope of the audit. Our *Independent Auditor's Report* and our *Independent Auditor's Report on Compliance and Internal Control* provide

additional details about the scope and methodology. The objectives of our audit were to determine whether:

- the Commission's financial reports fairly presented the financial results of the awards;
- internal controls were adequate to safeguard Federal funds;
- the Commission had adequate procedures and controls to ensure compliance with Federal laws, regulations, and award conditions, as well as ensure that member services were appropriate;
- award costs reported to the Corporation were documented and allowable in accordance with the award terms and conditions; and
- the Commission had established adequate oversight and informed subgrantees 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 issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed against the awards, as presented in the Consolidated Schedule of Award Costs, are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Schedule of Award Costs. 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 prepared by the independent public accountants for the subgrantees in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*, OMB Circular A-21, *Cost Principles for Educational Institutions*, and OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. We believe our audit provides a reasonable basis for our opinion.

The contents of this report were disclosed to and discussed with the Commission at an exit conference held on December 22, 2005. In addition, we provided a draft of this report to the Commission and to the Corporation for comment on March 9, 2006, and received responses from the Commission (Appendix A) and the Corporation (Appendix B) on April 10, 2006.

Grant Programs Audited

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

Program	Award Number	Award Period	Audit Period[α]
AmeriCorps	03ACHTN001	08/08/03 to 08/07/06	08/28/03 to 03/31/05
AmeriCorps	03AFHTN002	08/28/03 to 08/27/06	08/28/03 to 03/31/05
Homeland Security	02SVHTN014	09/01/02 to 08/31/05	03/01/03 to 02/28/05
Administrative	04CAHTN001	01/01/04 to 12/31/06	01/01/04 to 06/30/05
PDAT	02PDSTN042	01/01/02 to 12/31/04	07/01/03 to 12/31/04
PDAT	05PTHTN001	01/01/05 to 12/31/07	01/01/05 to 06/30/05
Learn & Serve	00LCSTN042	09/01/00 to 08/31/04	09/01/02 to 08/31/04
Promise Fellows	01APSTN044	08/01/01 to 02/28/05	03/01/03 to 02/28/05
Disability	04CDHTN001	01/01/04 to 12/31/06	01/01/04 to 06/30/05

Costs Questioned

The following summarizes the costs questioned on these awards:

AmeriCorps Grants	
Fringe Benefits	$ 276
Subtotal	276
Administrative Grant	
Journal Entry Error	275
Risk Management Premiums	737
Budgeted Personnel Costs	(191)
Personnel Costs for Dual Service Agreement	700
Fringe Benefits for Dual Service Agreement	115
Subtotal	1,636
Disability Grant	
Personnel Costs for Dual Service Agreement	1,240
Budgeted Personnel Costs	382
Fringe Benefits for Dual Service Agreement	207
Subtotal	1,829
Promise Fellows Grant	
Partial Living Allowances	18,920
Total Grant Costs Questioned	$22,661
Education Awards questioned	$ 9,310

α – Audit periods differ because Financial Status Reports (FSR) are filed for different periods based on the grant award. Our audit reflected costs through the last amended FSR filed as of fieldwork end for the audit period applicable to each grant, as referenced in the table above.

We used a judgmental sampling method to test the costs claimed. Based upon this sampling plan, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been tested. In addition, we have made no attempt to project such costs to total expenditures incurred, based on the relationship of costs tested to total costs. For a complete discussion of these questioned costs, refer to the Independent Auditor's Report.

Compliance and Internal Control Findings

Our audit disclosed the following instances of internal control weaknesses and noncompliance with Federal laws, regulations, and award conditions:

1. Promise Fellows living allowances were not paid in accordance with grant provisions.

2. The Commission did not have adequate procedures in place to ensure that the subgrantees documented member eligibility, and to ensure that members completed the service hours required to earn the education award.

3. The Commission did not have adequate financial monitoring procedures or other procedures in place to ensure that it or its subgrantees had claimed costs in accordance with the cost principles.

4. The Commission did not monitor subgrantees for timely enrollment or exit of members, nor did it ensure receipt of timely progress reports.

5. The Postal Division handling fee computation was not supported.

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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 Tennessee Commission on National and Community Service for the award numbers listed below. These costs, as presented in the Consolidated Schedule of Award Costs and the grant-specific Schedules of Award Costs (Exhibits A through D), are the responsibility of the Tennessee Commission on National and Community Service management. Our responsibility is to express an opinion, based on our audit, on the Consolidated Schedule of Award Costs.

Program	Award Number	Award Period	Audit Period[α]
AmeriCorps	03ACHTN001	08/08/03 to 08/07/06	08/28/03 to 03/31/05
AmeriCorps	03AFHTN002	08/28/03 to 08/27/06	08/28/03 to 03/31/05
Homeland Security	02SVHTN014	09/01/02 to 08/31/05	03/01/03 to 02/28/05
Administrative	04CAHTN001	01/01/04 to 12/31/06	01/01/04 to 06/30/05
PDAT	02PDSTN042	01/01/02 to 12/31/04	07/01/03 to 12/31/04
PDAT	05PTHTN001	01/01/05 to 12/31/07	01/01/05 to 06/30/05
Learn & Serve	00LCSTN042	09/01/00 to 08/31/04	09/01/02 to 08/31/04
Promise Fellows	01APSTN044	08/01/01 to 02/28/05	03/01/03 to 02/28/05
Disability	04CDHTN001	01/01/04 to 12/31/06	01/01/04 to 06/30/05

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

α – Audit periods differ because Financial Status Reports (FSR) are filed for different periods based on the grant award. Our audit reflected costs through the last amended FSR filed as of fieldwork end for the audit period applicable to each grant, as referenced in the table above.

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In our opinion, except for the $22,661 in questioned grant costs discussed above, the Consolidated Schedule of Award Costs and the grant-specific Schedules of Award Costs (Exhibits A through D and related Schedules) referred to above present fairly, in all material respects, the costs claimed for the period September 1, 2002, to June 30, 2005, in conformity with generally accepted accounting standards in the United States of America.

In accordance with the *Government Auditing Standards,* we have also issued our report, dated November 22, 2005, on our consideration of the Tennessee Commission on National and Community Service's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Conrad and Associates, L.L.P.

Conrad and Associates, L.L.P.
Irvine, California
November 22, 2005

Corporation for National and Community Service Awards
Tennessee Commission on National and Community Service
Consolidated Schedule of Award Costs

September 1, 2002, to June 30, 2005

Award Number	Program	Approved Budget	Claimed Costs	Questioned Costs	Questioned Education Awards	Reference
03ACHTN001	AmeriCorps	$ 2,165,744	$ 1,319,782	$ 276	$ 4,585	
03AFHTN002	AmeriCorps	2,865,295	1,447,265	-	4,725	
	Total AmeriCorps	5,031,039	2,767,047	276	9,310	Exhibit A
02SCHNTN001	Homeland Security	429,124	232,388	-	-	
04CAHTN001	Administrative	551,305	334,375	1,636	-	Exhibit B
02PDSTN042	PDAT	304,751	285,403	-	-	
05PTHTN001	PDAT	119,000	27,872	-	-	
	Total PDAT Funds	423,751	313,375	-	-	
00LCSTN042	Learn & Serve	751,361	485,249	-	-	
01APSTN044	Promise Fellows	628,200	329,981	18,920	-	Exhibit C
04CDHTN001	Disability	137,000	51,682	1,829	-	Exhibit D
	Totals	**$ 7,951,780**	**$4,514,097**	**$ 22,661**	**$ 9,310**	

Corporation for National and Community Service Awards
Tennessee Commission on National and Community Service

Notes to Consolidated Schedule of Award Costs

September 1, 2002, to June 30, 2005

Reporting Entity

The accompanying consolidated Schedule of Award Costs includes amounts budgeted, claimed, and questioned under AmeriCorps, Administrative, Program Development and Training (PDAT), and other grants awarded to the Tennessee Commission on National and Community Service (Commission) by the Corporation for the period from September 1, 2002, to June 30, 2005.

The Commission awards its AmeriCorps grant funds to numerous subgrantees that administer AmeriCorps programs and report financial and programmatic results to the Commission.

Basis of Accounting

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

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

TENNESSEE COMMISSION ON NATIONAL AND COMMUNITY SERVICE
Schedule of Award Costs
Award Numbers
03ACHTN001 and 03AFHTN002
August 28, 2003, to March 31, 2005

Detailed Audits of AmeriCorps	Claimed Costs	Questioned Claimed Costs	Questioned Education Awards	Reference
Subgrantees				
Clinch Powell RC&D Council*	$ 254,067	$ -	$ -	Schedule A-1
Emerald Youth Foundation*	389,936	-	-	
Exchange Club Center Mid-South*	254,181	-	-	
Knox County Community Action Committee	285,602	-	-	
Nashville Read	138,333	-	-	
Porter Leath Center*	302,992	-	4,725	Schedule A-2
Vanderbilt University Medical Center*	283,019	276	4,585	Schedule A-3
Appalachia Habitat for Humanity	180,658	-	-	
Department of Mental Health	58,859	-	-	
Exchange Club Carl Perkins Center	27,065	-	-	
Family Affair Ministries	68,321	-	-	
Knoxville's Promise	61,240	-	-	
Oasis Center	49,652	-	-	
Tennessee Community Assistance Corporation	170,577	-	-	
United Way of Greater Chattanooga	34,684	-	-	
Upper Cumberland Community Services	207,861	-	-	
Subgrantee Total	$ 2,767,047	$ 276	$ 9,310	

*** Selected for Audit**

TENNESSEE COMMISSION ON NATIONAL AND COMMUNITY SERVICE
Schedule of Award Costs
Award Number 03AFHTN0020004 & 03ACHTN0010006
August 28, 2003, to March 31, 2005

Clinch Powell Research Council & Development Council (Clinch Powell)

			Reference
Approved Budget (Federal Funds)		$375,980	Note 1
Claimed Costs		$254,067	Note 2
Questioned Costs			
Member Living Allowances & Fringe Benefits – Competitive grant	$ 4,610		Note 3
Member Living Allowances & Fringe Benefits – Formula grant	(4,610)		Note 3
Total Questioned Costs		$ -	

Notes

1. The amount shown above as Approved Budget represents the total funding to Clinch Powell according to budget schedules for both grants.

2. Claimed costs represent Clinch Powell's reported expenditures for the period August 28, 2003, through March 31, 2005, for both grants.

3. Costs were misclassified between the competitive and formula grants. The subgrantee paid members from the formula grant in August of 2004 for services provided in July 2004. The competitive grant began in August 2004. Since the subgrantee maintained its records on the cash basis, the transactions for the July 2004 member living allowances were incorrectly recorded to the competitive grant. The subgrantee did not take care of recording costs in the proper grants. Therefore, the competitive grant was overstated, and the formula grant was understated by $4,610 (*see* Compliance Finding No. 3.)

TENNESSEE COMMISSION ON NATIONAL AND COMMUNITY SERVICE
Schedule of Award Costs
Award Number 03AFHTN002003 & 03ACHTN0010004
August 28, 2003, to March 31, 2005

Porter Leath Children's Center (Porter Leath)

			Reference
Approved Budget (Federal Funds)		$602,400	Note 1
Claimed Costs		$302,992	Note 2
Total Questioned Costs		$ -	
Questioned Education Awards			
Service Hours not Achieved	$ 4,725		Note 3
Total Questioned Education Awards		$ 4,725	

Notes

1. The amount shown above as Approved Budget represents the total funding to Porter Leath according to budget schedules for both grants.

2. Claimed costs represent Porter Leath's reported expenditures for the period August 28, 2003, through March 31, 2005, for both grants.

3. Member timesheets disclosed required service hours were not achieved to warrant an education award (*see* Compliance Finding No. 2.).

TENNESSEE COMMISSION ON NATIONAL AND COMMUNITY SERVICE
Schedule of Award Costs
Award Number 03ACHTN0010001
August 28, 2003, to March 31, 2005

Vanderbilt University Medical Center (Vanderbilt)

			Reference
Approved Budget (Federal Funds)		$448,560	Note 1
Claimed Costs		$283,019	Note 2
Questioned Costs			
Member Fringe Benefits – Error	$ 276		Note 3
Total Questioned Costs		$ 276	
Questioned Education Awards Service Hour Miscalculation	$ 4,585		Note 4
Total Questioned Education Awards		$ 4,585	

Notes

1. The amount shown above as Approved Budget amount represents the total funding to Vanderbilt University according to the budget schedules.

2. Claimed costs represent Vanderbilt University's reported expenditures for the period August 28, 2003, through March 31, 2005.

3. The University's payroll system automatically computes fringe benefits based on its fringe benefit rate. However, AmeriCorps members receive only FICA as a fringe benefit. During periods when the University's fringe benefit rate exceeds the FICA rate of 7.65 percent, an adjustment is required to reduce costs claimed to the grant to actual benefits received. During program year 2003/2004, the University's fringe benefit rate was 11.4 percent. An adjusting journal entry was prepared to reflect actual benefits. The adjustment, however, was prepared in error; causing grant costs to be overstated by $276 (*see* Compliance Finding No. 3.)

4. An education award was granted to a member who did not fulfill the minimum number of hours needed to receive the award (*see* Compliance Finding No. 2.).

TENNESSEE COMMISSION ON NATIONAL AND COMMUNITY SERVICE
Schedule of Award Costs
Award Number 04CAHTN001
January 1, 2004, to June 30, 2005

ADMINISTRATIVE GRANT

		Reference
Approved Budget (Federal Funds)	$ 551,305	Note 1
Claimed Costs	$ 334,375	Note 2
Questioned Costs		
Journal Entry Error	$ 275	Note 3
Insurance Premium Error	737	Note 4
Dual Service Agreement	815	Note 5
Budgeted Personnel Costs	(191)	Note 6
Total Questioned Costs	$ 1,636	
Questioned Match Costs	$ 1,636	Note 7

Notes

1. The amount shown above as approved budget represents the total funding to the 2004 and 2005 Administrative Grant for the grant periods per the budget schedules for the Tennessee Commission on National and Community Service grants.

2. Claimed costs represent the amount of reported expenditures of the Administrative Grant from January 2004 through March 31, 2005.

3. A journal entry adjusting estimated indirect costs to actual was prepared in error because it included a correction to the original entry twice. This caused the grant costs to be overstated by $275 to the Corporation and to grant match (*see* Compliance Finding No. 3.).

TENNESSEE COMMISSION ON NATIONAL AND COMMUNITY SERVICE
Schedule of Award Costs
Award Number 04CAHTN001
January 1, 2004, to June 30, 2005

4. Internal billings from the State of Tennessee's Risk Management group are prepared and submitted to divisions within the State Government. These billings cover the costs of the workers' compensation fund and the general liability fund for the Commission. We determined, however, that the 2005 billing included premiums for the auto liability fund. This billing was prepared in error since the Commission had no assigned state vehicles. The error occurred because the spreadsheet used to compute costs to different divisions had erroneously carried the figure to the row in the spreadsheet below where it should have been placed. This went unnoticed by persons within the Risk Management group or persons at the Commission. As a result, the administrative grant was overstated by $1,474; i.e., $737 claimed directly to the grant and $737 claimed to grant match (*see* Compliance Finding No. 3.).

5. The State of Tennessee entered into a dual service agreement whereby one of the Commission employees provided services to Columbia State Community College. The costs of the employee were paid for by the State of Tennessee and then reimbursed by the community college. The reimbursement, however, was never recorded against the grant expense because consideration of how to record these dual service agreement reimbursements had not been previously considered. As a result, costs claimed to the grants were overstated by the amounts shown above (*see* Compliance Finding No. 3.).

6. During 2003, a Commission employee shared her responsibilities between the Administrative grant (04CAHTN001) and the Disability grant (04CDHTN001). The costs that were claimed to the two grants, however, were based on budgeted figures rather than actual levels of effort. This error occurred because this was a new arrangement for the Commission in which they had not considered the cost accounting implications from the onset. Further analysis based on a review of timesheets revealed that the costs originally budgeted and claimed varied from the actual effort, causing the Disability grant costs to be overstated by $382 and the Administrative grant costs to be understated, also by $382. Half of the Administrative grant, however, was recorded to grant match (*see* Compliance Finding No. 3.).

7. Match costs questioned represent the summation of notes number 3 through 6 above. The grantee claimed match costs as 50 percent of costs incurred. The match costs questioned here represent the other half of the costs questioned above (*see* Compliance Finding No. 3.).

TENNESSEE COMMISSION ON NATIONAL AND COMMUNITY SERVICE
Schedule of Award Costs
Award Number 01APSTN044
March 1, 2003, to February 28, 2005

PROMISE FELLOWS GRANT

		Reference
Approved Budget (Federal Funds)	$ 628,200	Note 1
Claimed Costs	$ 329,981	Note 2
Questioned Costs		
Living Allowances	$ 18,920	Note 3
Total Questioned Costs	$ 18,920	

Notes

1. The amount shown above as Approved Budget represents the total funding from August 2001 through February 2005 for the Promise Fellows grant periods per the budget schedules for the Tennessee Commission on National and Community Service grants.

2. Claimed costs represent the amount of reported expenditures applicable to our audit period, March 2003 through February 2005.

3. Partial member living allowances were not computed in accordance to the provisions, causing payments to the members and costs claimed to the grant to be overstated (*see* Compliance Finding No. 1.) The calculation of questioned cost by member follows:

Enrollment Type	Enroll Start Date	End of Term Date	Total Service Hours Incurred per WBRS	Amount Claimed	# of Months Enrolled	Average Monthly Paid Based on 11 Months FT Enrollment	# of Months less than 142 hours	Total Questioned Living Allowance
Full-Time	01/26/04	12/22/04	1,552.50	$ 10,800	11	$ 981.82	4.00	$ 3,927
Full-Time	01/26/04	12/19/04	1,199.25	10,800	11	981.82	9.00	8,836
Full-Time	01/26/04	04/16/04	277.75	2,582	3	860.76	2.00	1,722
Full-Time	01/26/04	03/19/04	176.50	1,700	2	849.96	1.00	850
Full-Time	01/26/04	07/30/04	925.00	5,888	6	981.36	2.00	1,963
Full-Time	03/01/04	06/01/04	231.00	1,960	3	653.28	2.00	1,307
Full-Time	01/26/05	02/05/04	56.00	315	1	316.36	1.00	315
								$ 18,920

TENNESSEE COMMISSION ON NATIONAL AND COMMUNITY SERVICE
Schedule of Award Costs
Award Number 04CDHTN001
January 1, 2004, to June 30, 2005

DISABILITY GRANT

		Reference
Approved Budget (Federal Funds)	$ 137,000	Note 1
Claimed Costs	$ 51,682	Note 2
Questioned Costs		
Personnel and Fringe Benefit Costs	$ 1,447	Note 3
Budgeted Personnel Costs	382	Note 4
Total Questioned Costs	$ 1,829	

Notes

1. The amount shown above as Approved Budget represents the total funding from January 2004 through December 2006 for the Disability grant periods per the budget schedules for the Tennessee Commission on National and Community Service grants.

2. Claimed costs represent the amount of reported expenditures applicable to our audit period, January 2004 through June 2005.

3. The State of Tennessee entered into a dual service agreement whereby one of the Commission employees provided services to Columbia State Community College. The costs of the employee were paid for by the State of Tennessee and then reimbursed by the community college. The reimbursement, however, was never recorded against the grant expense because consideration of how to record these dual service agreement reimbursements had not been previously considered. As a result, costs claimed to the grants were overstated by the amounts shown above (*see* Compliance Finding No. 3.).

4. During 2003, a Commission employee shared her responsibilities between the Administrative grant (04CAHTN001) and the Disability grant (04CDHTN001). The costs that were claimed to the two grants, however, were based on budgeted figures rather than actual levels of effort. This error occurred because this was a new arrangement for the Commission in which they had not considered the cost accounting implications from the onset. Further analysis, based on a review of timesheets, revealed that the costs originally budgeted and claimed varied from the actual effort causing the Disability grant to be overstated by $382 and the Administrative grant to be understated by $382. Half of the Administrative grant, however, was recorded to grant match (*see* Compliance Finding No. 3.).

CONRAD AND ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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Office of Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL

We have audited the Schedules of Award Costs, as presented in Exhibits A through D, that summarize the claimed costs of the Tennessee Commission on Community on National and Community Service under the Corporation grants listed below, and have issued our report thereon, dated November 22, 2005.

Program	Award Number	Award Period	Audit Period[α]
AmeriCorps	03ACHTN001	08/08/03 to 08/07/06	08/28/03 to 03/31/05
AmeriCorps	03AFHTN002	08/28/03 to 08/27/06	08/28/03 to 03/31/05
Homeland Security	02SVHTN014	09/01/02 to 08/31/05	03/01/03 to 02/28/05
Administrative	04CAHTN001	01/01/04 to 12/31/06	01/01/04 to 06/30/05
PDAT	02PDSTN042	01/01/02 to 12/31/04	07/01/03 to 12/31/04
PDAT	05PTHTN001	01/01/05 to 12/31/07	01/01/05 to 06/30/05
Learn & Serve	00LCSTN042	09/01/00 to 08/31/04	09/01/02 to 08/31/04
Promise Fellows	01APSTN044	08/01/01 to 02/28/05	03/01/03 to 02/28/05
Disability	04CDHTN001	01/01/04 to 12/31/06	01/01/04 to 06/30/05

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and generally accepted government auditing standards issued by the Comptroller General of the United States.

Compliance and Other Matters

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, noncompliance with which could have a direct and material effect on the determination of the amounts on the financial schedules. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the Compliance Findings section of this report.

α – Audit periods differ because Financial Status Reports (FSR) are filed for different periods based on the grant award. Our audit reflected costs through the last amended FSR filed as of fieldwork end for the audit period applicable to each grant, as referenced in the table above.

MEMBERS OF AICPA AND CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES PRACTICE SECTION

Compliance Findings

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

1: – Promise Fellows Living Allowances Were Not Paid in Accordance with Grant Provisions

During our fieldwork at the Northeast Community Service Agency we found seven instances where Promise Fellows member living allowances were paid incorrectly. The living allowances were paid based on the number of days enrolled in the program rather than the number of hours served. This methodology of computing partial living allowances does not meet the requirements prescribed in the provisions. Neither the Commission nor the subgrantee was familiar with the requirements of calculating partial living allowances for the Promise Fellows program (*see* Exhibit C, Note 3.). Unallowable and non-allocable costs of $18,920 may have been charged to the grant.

Criteria

AmeriCorps Promise Fellows Provisions (updated October 2003), Section B – Special Provisions, Number 11.a., *Living Allowances*, states in part:

> If the term of service is less than 12 months, the living allowance must be pro-rated.

AmeriCorps Promise Fellows Provisions (updated October 2003), Section C – General Provisions, Number 38.c.ii., *Final Payment Amounts for a Fractional Term of* Service, states:

> For Members who complete a fractional term of service, the Grantee shall be paid on a prorated basis in accordance with the duration of full-time service completed by each member. For the purposes of calculating this amount, full-time service is based on an average of at least 142 hours of service per month.

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

Recommendation

Recommendation 1: We recommend that the Corporation determine the allowability of the questioned costs, recoup unallowable costs that were charged to the grant, and ensure the Commission trains and monitors its subgrantees so that living allowances are paid in accordance with AmeriCorps Provisions.

Commission's Response

The Commission disagrees with the finding on the grounds that the provisions are confusing and contradictory. The Commission also believes that the computation for two of the seven

members in question is inaccurate because the members were actively involved in the program for 12 months although they did not complete a full year of service.

Auditor's Comment

We believe the term of service for all seven members was less than 12 months, and therefore, the finding and recommendation remains unchanged.

2: – The Commission did not have adequate procedures in place to ensure that the subgrantees documented member eligibility, and to ensure that members completed the service hours required to earn the education award.

We found two instances at Vanderbilt where living allowances and fringe benefits were paid to AmeriCorps members whose member files did not include appropriate eligibility documentation. After completion of fieldwork, Vanderbilt gave the Commission verification of birth records for the two members in question. In response to our audit exceptions, Vanderbilt requested these records from the states from which the members had been born. This documentation resolved the finding as it pertains to potential questioned costs, but did not resolve the fact that the member file did not originally contain this information. We also found two instances (one at Vanderbilt and one at Porter Leath) where members had received education awards without meeting minimum service hour requirements. Questioned education awards by subgrantee were as follows:

Subgrantee	Grant	Education Award
Vanderbilt University Medical Center	03ACHTN001	$ 4,585
Porter Leath	03AFHTN002	4,725
Total		**$ 9,310**

Additionally, we found two instances (one at the Exchange Club and one at Porter Leath) where member timesheets indicated fewer hours than had been reported to the National Service Trust database via entries to the Web-Based Reporting System (WBRS). These variances, however, did not affect the members' ability to meet their minimum service-hour requirements, and as such, did not affect the education awards.

Officials at the Exchange Club indicated that one timesheet had been entered into WBRS twice. Officials at Porter Leath believed that timesheets were missing and once they were found, the variance would be resolved.

The problems with eligibility were due to a combination of inadequate filing and documentation. The problems with the education awards were the result of computational errors in claiming members' service hours.

Ineligible members may have received living allowances and education awards and members who did not fulfill the service requirement were certified to receive an education award.

Criteria

AmeriCorps Provisions, Section A - Definitions, –defines, in part, an AmeriCorps member as an individual:

a. Who enrolled in an approved national service position;

b. Who is a U.S. citizen, U.S. national or lawful permanent resident alien of the United States;

AmeriCorps Provisions, Section B - Special Provisions, Number 14.b. *Verification.*, states:

> To verify U.S. citizenship, U.S. national status or, U.S. lawful permanent resident alien status, the Grantee must obtain and maintain documentation as required by 45 C.F.R. 2522.2000 (b) and (c). The Corporation does not require programs to make and retain copies of the actual documents used to confirm age or citizenship eligibility requirements, such as driver license, or birth certificate as long as the Grantee has a consistent practice of identifying the documents that were reviewed and maintaining a record of the review.

AmeriCorps Provisions, Section B - Special Provisions, Number 12., *Post-Service Education Awards,* states:

> In order to receive a full education award, a member must perform the minimum hours of service as required by the Corporation and successfully complete the program requirements as defined by the Program.... If a member is released from a program for compelling personal circumstances, the member is eligible for a pro-rated education award based on the number of hours served....

The AmeriCorps General Provision, C.22.c.ii., *AmeriCorps Members.*, requires that grantees maintain time and attendance records on all AmeriCorps members in order to document their eligibility for in-service and post-service benefits.

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

Recommendation

Recommendation 2: We recommend that the Corporation instruct the Commission to work with its subgrantees and more closely monitor them to ensure that (1) member files contain all required documentation; (2) written policies and procedures are established requiring member hours be verified on an ongoing basis and prior to members exiting the program; and (3) education awards that were not earned in accordance with grant provisions are recouped.

Commission's Response

The Commission concurs with parts 1 and 2 of the above recommendation but partially agrees with part 3. The Commission believes there is a precedent, included in 2003 Corporation guidance, that allows partial education awards to be granted to members such as those cited in the finding.

Auditor's Comment

Corporation Regulation 45 C.F.R., § 2522.230(a), allows members who complete at least 15 percent of the required term of service to be eligible for a partial education award provided that the participant demonstrates and the program documents a compelling circumstance. Examples of compelling circumstances are found in 45 C.F.R. § 2522.230(a)(5). Without documented compelling circumstances, our finding and recommendation remain unchanged.

3: – The Commission did not have adequate financial monitoring procedures or other procedures in place to ensure that it or its subgrantees had claimed costs in accordance with the cost principles.

We noted several instances where costs claimed by the Commission were questioned because they did not comply with the cost principles discussed below. We have questioned $3,741 of costs claimed to the Corporation and $1,636 claimed to grant match as follows:

Description	Entity	Grant	Corporation Amount	Grant Match
Dual Service Agreement	Commission	04CAHTN001	$ 815	$ 815
Personnel Costs Understated	Commission	04CAHTN001	(191)	(191)
Journal Entry Error	Commission	04CAHTN001	275	275
Risk Management Premiums	Commission	04CAHTN001	737	737
Subtotal Administrative Grant	Commission		1,636	1,636
Dual Service Agreement	Commission	04CDHTN001	1,447	-
Personnel Costs Overstated	Commission	04CDHTN001	382	-
Subtotal Disability Grant			1,829	-
Journal Entry Error	Vanderbilt	03ACHTN001	276	-
Misclassification	Clinch Powell	03ACHTN001	4,610	-
Subtotal Competitive Grant			4,886	-
Misclassification	Clinch Powell	03AFHTN002	(4,610)	-
Subtotal Formula Grant			(4,610)	-
Total			**$ 3,741**	**$1,636**

The grants received no benefits from the costs described above and, as such, should not have been claimed.

Criteria

OMB Circular A-87, Attachment A, Part C Basic Guidelines, paragraph 3.a., states:

> 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.

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

Recommendations

Recommendation 3: We recommend that the Corporation instruct the Commission to: (1) devise a method to properly match revenue received from dual service agreements with grant expenses; (2) scrutinize costs claimed to the grants to ensure that journal entries and state-wide internal billings are prepared without error; and (3) monitor grant accounting implications when new staffing assignments arise within the Commission.

Recommendation 4: We also recommend the Corporation determine the allowability of the costs questioned.

Commission's Response

The Commission concurs.

Auditor's Comment

The Commission's concurrence with recommendations 3 and 4 is noted.

4: – The Commission did not monitor subgrantees for timely enrollment or exit of members, nor did it ensure receipt of timely progress reports.

We found the following instances where the subgrantees were not submitting member enrollment and exit information timely and two instances of late progress reports. We note that the Commission regularly performed monitoring and follow up of its subgrantees. However, the monitor tool does not include checking for timely enrollment and exit forms and for timely submission of progress reports.

Subgrantee	Total Members Enrolled	Member Files Reviewed	Late Enrollment Forms	Late Exit Forms	Late Progress Reports
Clinch Powell RC&D	51	26	19	1	-
Emerald Youth Foundation	45	23	10	1	-
Exchange Club	38	19	19	2	1
Porter Leath	49	25	-	-	-
Vanderbilt University	58	30	12	7	-
Northeast Community Service Agency[1]	17	10	5	-	1

Enrollment forms were submitted late, ranging from 1 day to 224 days. Exit forms were also submitted late, ranging from 4 days to 358 days. Progress reports were submitted 13 and 56 days late. Our testing revealed that Financial Status Reports and member change-of-status forms were submitted in a timely manner.

By not submitting the required documents within established time frames, the Corporation and Commission cannot properly review, track, and monitor the subgrantees' activities and objectives of the AmeriCorps program. In addition, without current member and financial information, the Corporation may be unable to make timely and effective management decisions.

Criteria

AmeriCorps. AmeriCorps Special Provision B.16.a., *Financial Status and Progress Reports,* establishes due dates for semi-annual reporting and states that grantees must submit progress reports by these dates. It further establishes that Grantees establish their own submission deadlines for their respective subgrantees. Subsection B.16.b., *AmeriCorps Member Related Forms*, specifies the forms that grantees must submit to the Corporation to track AmeriCorps member status and hours.

The Commission provided a letter from its Deputy Director to the AmeriCorps Program Directors, dated November 21, 2003, stipulating the required report submission dates for financial status reports as well as progress reports.

Promise Fellows. AmeriCorps Promise Fellows Provisions (updated October 2003), Section B - Special Provisions, Number 16.b.iii., *Reporting Requirements*, specifies that subgrantees submit progress reports and FSR's as directed by the grantee.

AmeriCorps Promise Fellows Provisions, Section B – Special Provisions, Number 16.c., *AmeriCorps Member-Related Forms*, states:

> The Grantee is required to submit the following documents to the National Service Trust at the Corporation on forms provided by the Corporation. Grantees and Sub-Grantees may use WBRS to submit these forms electronically. Programs using

[1] A Promise Fellows subgrantee included within the scope of our engagement.

WBRS must also maintain hard copies of the forms:

i. Grantees must submit Member Enrollment Forms to the Corporation no later than 30 days after a member is enrolled.

Recommendation

Recommendation 5: We recommend that the Corporation instruct the Commission to monitor for timely member enrollment, exit, and progress reporting and reiterate the importance of the requirements to its subgrantees.

Commission's Response

The Commission concurs.

Auditor's Comment

The Commission's concurrence is noted.

Internal Control Finding

Finding No. 5: – The Postal Division handling fee computation was not supported.

Handling fees for the state's Postal Division have been claimed to the Learn & Serve, Administrative, and Disability grants. The fees are added to the cost of postage based on the number and types of pieces handled by the division and are devised to assist the division in recovering overhead costs. Rates for handling fees vary based on the type of piece, ranging from 2 to 10 cents per piece. The rates were originally developed in 1994 and last updated approximately five years ago. The basis of the rates, however, was not documented because the Postal Division was unaware that documentation supporting the computation of the rates should be retained. Our sample of four postage transactions revealed that approximately 20 percent of the costs claimed to postage represents handling fees. However, we could not determine the allowability of these costs since the computation of the rates had not been retained. As an alternative procedure, we determined that the Postal Division was not operating at a surplus and profiting from the handling fees by reviewing the division's income statement. We also reviewed the methodology in devising the rates. We therefore determined that, since the division was not profiting from this arrangement and the methodology in computing the rates appeared reasonable, questioning costs claimed to the grant would not be appropriate.

Criteria

OMB Circular A-87, Attachment A, Section C., paragraph 1, states: "To be allowable under Federal awards, costs must meet the following general criteria…(j) Be adequately documented."

Recommendation

Recommendation 6: We recommend that the Corporation require the Commission to exclude the Postal Division's handling fees from subsequent costs claimed until the Commission submits appropriate supporting computational documentation to the Corporation for approval and ensure the Commission documents, and retains for review, the computations for future rate changes.

Commission's Response

The Commission partially disagrees with the recommendation. The Commission is working with the postal division to obtain supporting documentation for current rates but does not agree that postal division fees should be excluded from future claims until supporting documentation can be obtained.

Auditor's Comment

We believe the Commission places itself at risk in claiming costs that are unallowable to the Corporation until all costs included in the build up of the postal division rates have been disclosed and analyzed. Therefore, the finding and recommendation remain unchanged.

Internal Controls Over Financial Reporting

In planning and performing our audit of awards costs as presented in Exhibits A through D for the period September 1, 2002, to June 30, 2005, we considered the subgrantees' internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide an opinion on the internal controls over financial reporting. However, we noted certain matters involving the internal control over financial reporting 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 the internal control over financial reporting that, in our judgment, could adversely affect the subgrantees' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Compliance findings numbered 1 through 4, as set forth in the Compliance and Internal Control Findings Sections of this report, are also considered as internal control reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements 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 over financial reporting would not necessarily disclose all matters in the internal controls that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe all of the reportable conditions identified above represent material weaknesses.

Conrad and Associates, L.L.P.

Conrad and Associates, L.L.P.
Irvine, California
November 22, 2005

Appendix A

Response to the Draft Report
by the
Tennessee Commission on National and Community Service

TENNESSEE COMMISSION ON
NATIONAL AND COMMUNITY SERVICE

April 10, 2006

Ms. Carol Bates
Acting Inspector General
Corporation for National & Community Service
1201 New York Avenue, NW, Suite 803
Washington, D.C. 20525

Dear Ms. Bates:

Thank you for the opportunity to review and comment on the draft report on the *Audit of Corporation for National and Community Service Grants Awarded to the Tennessee Commission on National and Community Service.*

Our comments are attached. Overall, the audit was a very helpful review of our internal controls and systems. We appreciated the professionalism of Conrad and Associates.

We look forward to completing the audit process with the final publication of the report and resolution with the Corporation. If additional information is needed, please let me know.

Sincerely,

Carol C White

Carol White
Executive Director

CW:c

Xc: Toby Compton, Commission Chair
John Harris, Commission Treasurer
Buddy Lea, Department of Finance and Administration
Maureen Abbey, Office of Business and Finance
Doug Gerry, Corporation for National & Community Service
Jolene Harrell, Corporation for National & Community Service
Rene Jorgeson, Principal, Conrad and Associates
Arthur A. Hayes, Jr., Director, Division of State Audit, State of Tennessee

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Tennessee Commission on National and Community Service
Audit Response
4/6/06

Response:

1. Promise Fellows Questioned Costs Claimed to CNCS - $ 18,920

The Commission disagrees with this finding. The Promise Fellows provisions are confusing and contradictory. In an email to the Commission dated January 12, 2006, the auditors say, "In talking to Doug [Gerry], it is obvious that the provisions are not clear and everyone may have a different interpretation." It is not appropriate to penalize a non-profit for fundamental lack of program provisions clarity. Promise Fellow provision 11.b. specifically says "Programs must not pay a living allowance on an hourly basis." Provision 38 contradicts this by suggesting that payments to the grantee be made based on the number of hours served. In addition, the Provision 38.c. "Final Payment for a Fractional Term of Service" is subject to a variety of interpretations, including the one followed by NECSA. The Corporation's own example in 38.c.iii. "Example 1" divides the living allowance evenly by the number of months, not by the number of hours.

Additionally, Provision 38 appears to be misapplied for the first two members listed in Exhibit C who had 1,552.5 hours and 1,199.25 hours of service. Provision 11.a. states "Fellows must receive a living allowance between $13,000 and $19,800 based on a 12-month term of service. If the term of service is less than 12 months, the living allowance must be pro-rated." Although these members did not complete enough hours to earn the education award, they did complete a full, twelve-month term of service from 1/26/04 to 12/22/04 and from 1/26/04 to 12/19/04 respectively. Both of these terms are only a few days short of one calendar year. The point of the fractional payments appears to be intended for members who leave the program early, not for members who finish the program without earning the education award.

Furthermore, Provision 39. "Order Of Precedence" states that "Should there be any inconsistency among the Grant Award, the AmeriCorps Promise Fellows Special Provisions, the General Provisions, and the approved Grant Application, the order of precedence that will prevail is (1) Grant Award, (2) the AmeriCorps Special Provisions, (3) the General Provisions, and (4) the approved Grant Application." Provision 11 falls within the Special Provisions and, therefore, takes precedence over Provision 38, which falls under the General Provisions.

2. Questioned Education Awards - $ 9,310

The Commission concurs with parts 1 and 2 of Recommendation 2. Although the Commission currently trains program directors on proof of citizenship and member hour tracking and checks for citizenship and member hours during regular monitoring, we will reexamine our processes to see if we can further strengthen them

to ensure compliance. In consultation with the national technical assistance provider, Walker & Co, they suggested that subgrantee training should emphasize clear assignment of one person whose responsibility in the process is specifically to verify member hours before entering into WBRS throughout the term of service and certifying eligibility for an education award at the end. At our most recent statewide AmeriCorps program directors meeting on March 30, Commission staff reviewed all draft audit findings, including this one, reiterated program requirements and discussed additional strategies for improved compliance.

The Commission partially disagrees with part 3 of Recommendation 2. In both questioned education awards, the programs made errors in calculating the members' time. These errors were discovered after the members had already been exited from the program when it was too late for the members to make up the additional hours. In 2003, another program had a similar situation, and the Corporation gave guidance to the Commission that the program should revise the hours in WBRS and release the member with a partial award for compelling personal circumstances. Their reasoning, with which the Commission agreed, was that the situation met the two criteria for a release for compelling personal circumstances: the error was beyond the member's control and it prevented the member from completing the required hours. In directing Vanderbilt University on how to address the questioned education award, the Commission based its guidance on the 2003 Corporation guidance. Based on the 2003 guidance, the Commission requested that Vanderbilt reimburse the National Service Trust $139, which was the difference between the full award and what the member actually earned. The Commission believes that Porter-Leath Children's Center should be allowed to follow the 2003 guidance and return only the portion of the education award above the amount based on the actual number of hours.

Beyond returning the amounts of the education awards above the actual hours earned by the two members, the Commission does not believe that the programs should be penalized for following guidance given by a Corporation program officer. Further, the Commission requests that the Corporation clarify its policy on this issue.

3. Costs Claimed in Accordance with Cost Principals - $5,377

We concur.

(1) Employees with Dual Service Agreements will be paid using the employee's State Employee Information System (SEIS) cost center. If the SEIS cost center is funded by a federal grant, then a reallocation journal voucher will be prepared by the Financial Management unit. Salaries and fringe benefits will be reallocated from the SEIS cost center to cost center Dual Service Agreements (DSA). Funds received from a college or university will be credited to cost center DSA.

(2) Monthly expenditures claimed to grants will be reviewed for accuracy. Actual billings for Risk Management Premiums from the Department of Treasury will be

compared to the preliminary billing that is sent to the department in advance. Discrepancies will be documented and resolved with the Department of Treasury.

(3) The State of Tennessee uses the Labor Distribution System to record employee's actual time for each day, including allocations among cost centers. The primary system for monitoring grant accounting implications when new staffing assignments arise within the commission is the labor distribution profile information in the Request for Personnel Action form. If an employee shows time projected to be allocated to more than one grant, that employee should be filing an attachment to the regular timesheet that shows actual allocation of time between the different programs. The approved actual time is then recorded into the Labor Distribution System by the timekeeper. With a reorganization after the departure of Sherica Clark and the conclusion of the homeland security grant, no commission staff currently split their time.

4. Compliance – WBRS Reporting

The Commission concurs with Recommendation 4 and will examine ways to strengthen systems for compliance with these requirements. However, the Commission would also like to note that the 2003-04 Grantee Information Profiles were not uploaded into WBRS by the Corporation until 9/29/03. This would have delayed August start date programs in submitting their member enrollment forms within the thirty days required. At the time, the Commission expressed concern to the Corporation about the 30-day enrollment limit.

Again, the Commission has already talked with its subgrantees at a training on March 30, 2006, to reiterate these requirements and the importance of compliance.

5. Internal Control – The Postal Division Handling Fee was not supported.

The Commission partially disagrees with Recommendation 6.

The Commission is in continued discussion with the State of Tennessee Department of General Services postal division related to the request for supporting documentation for current rates beyond the information which was already provided to auditors upon which the determination was made not to question costs.

Given that the auditors determined that past postal handling fees were allowable costs (not questioned) because the internal service fund was properly adjusted to avoid surpluses, it seems inconsistent to "exclude the Postal Division's handling fees from subsequent costs claimed" going forward, even as a bureaucratic leveraging tactic.

Because the Commission receives no other funds besides federal and state match that could be used to pay postage handling fees, implementing this recommendation

essentially implies that the Commission should not use state postal services until this additional information is provided. That is an untenable operational position for the effective delivery of the commission's program services, especially given that the amounts in question range from $6.80 in December 2005 to $9 in January 2006 and $6.10 in February.

Further, it is standard practice in government for internal service funds and services to exist. Each fund calculates and reports its rates differently, based on the accepted practices of its business. The methodology used by each fund is submitted and approved annually by Tennessee's cognizant federal agency, the U.S. Department of Health and Human Services, in the Statewide Cost Allocation Plan (SWCAP). The documentation for rate calculations resides with the management of each of the State of Tennessee internal service funds. It is not reasonable to ask the Commission to keep the computations for future rates.

Appendix B

Response to the Draft Report
by 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: Elizabeth D. Seale, Acting Director of AmeriCorps
Tory Willson, Audit Resolution Coordinator, Office of the CFO

Date: April 10, 2006

Sub: Response to OIG Draft Audit Report, Audit of Corporation for National and Community Service Grants Awarded to the Tennessee Commission on National and Community Service.

Thank you for the opportunity to review the draft audit report of Corporation for National and Community Service Grants awarded to the Tennessee Commission on National and Community Service. The Corporation has also reviewed the response from the Tennessee Commission. We are addressing only one issue at this time. We will respond to all findings and recommendations in our management decision when the final audit is issued; we have reviewed the findings in detail; and worked with the Tennessee Commission to resolve the audit.

As noted in the draft audit report, the auditors questioned $18,920 because they determined Promise Fellows living allowances were paid incorrectly. The program paid the living allowance based on the number of days enrolled in the program rather than the number of hours served. However, the Corporation does provide some flexibility to programs to ensure the living allowance is paid in regular increments and is not paid on an hourly basis.

The Provisions state that Promise "Fellows must receive a living allowance between $13,000 and $18,600 based on a 12-month term of service. If the term of service is less than 12 months, the living allowance must be pro-rated." The Provisions also state that the living allowance is not a wage and should not fluctuate based on the number of hours members serve in a given time period. Programs should pay the living allowance in increments, such as weekly or bi-weekly." Therefore, the pro-rated amount members could receive would be based on the regular increments established by the program. The program could prorate the living allowance based on the number of days of service.

The auditors may have confused guidelines on how to pay the living allowance to members with grant provisions describing how the grantee is reimbursed for member service by the Corporation. The Promise Fellows program is a fixed price grant. The grantee can only access grant funds based on the number of members who successfully complete the term of service and pro-rated amounts for those who do not. If the member does not complete a full term of service, the Provisions provide guidelines on how to determine how much the grantee can be reimbursed

for that member. This is not necessarily related to the amount the member received for the living allowance from the grantee. The auditors applied the guideline of an average of 142 hours per month when they calculated the amount of living allowance the member could receive. However, that average is the Corporation's guideline determining the amount the grantee can be reimbursed from the Corporation for members who don't complete service. During audit resolution, we will apply this formula to determine the amounts of allowed and disallowed costs. We anticipate allowing the costs to the extent that the program met the provisions under the fixed price grant.

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