

# Office of Inspector General Corporation for National and Community Service

## AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE GRANTS AWARDED TO THE NORTHWEST REGIONAL EDUCATIONAL LABORATORY

OIG REPORT NUMBER 06-08



Corporation for  
**NATIONAL &  
COMMUNITY  
SERVICE** 

Prepared by:

Regis & Associates, PC  
1400 Eye Street, Suite 425  
Washington, DC 20005

This report was issued to Corporation management on February 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 August 7, 2006, and complete its corrective actions by February 7, 2007. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



## OFFICE OF INSPECTOR GENERAL

### Office of Inspector General Summary Audit of Corporation for National and Community Service Cooperative Agreements Awarded to Northwest Regional Educational Laboratory Audit Report 06-08

#### OIG Summary

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), contracted with Regis & Associates, PC (Regis) to perform an audit of costs claimed by Northwest Regional Educational Laboratory (NWREL). The audit covered financial transactions, compliance, and internal control testing of two Training and Technical Assistance Cooperative Agreements: 01CAOR0017 and 01CAOR0034.

The audit did not result in questioned costs. However, it disclosed the following compliance and internal control issues: lack of segregation of duties, check requests and subcontractor invoices lacking supporting documentation, and paid invoices that were not voided or cancelled to prevent duplicate payments. The audit also disclosed that a significant amount of program income is being used to expand program objectives. The use of program income in this manner does not comply with OMB Circular A-110, which requires that it be deducted from the total project's allowable costs in determining the net allowable costs.

NWREL indicated in its response to the draft audit report that it does not agree with the program income issue. However, it concurred with the remaining recommendations. NWREL's response is included as Appendix A of this report. The Corporation's response is included as Appendix B.

In accordance with our statutory responsibilities, we reviewed Regis' report and related audit documentation, interviewed their representatives, and performed other procedures as we deemed appropriate in the circumstances to provide reasonable assurance that the audit was performed in accordance with generally accepted government auditing standards. Our review was not intended to enable us to express, and we do not express, opinions on the grantee's Consolidated Schedule of Award Costs, or conclusions on internal controls and on compliance with laws and regulations. Regis is responsible for the attached reports dated October 7, 2005, and the conclusions expressed therein. However, our review disclosed no instances where Regis 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.



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**OFFICE OF INSPECTOR GENERAL  
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE  
INCURRED-COST AUDIT OF SELECTED GRANTS AWARDED TO  
NORTHWEST REGIONAL EDUCATIONAL LABORATORY**

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## AUDIT SCOPE

Regis & Associates, PC was contracted by the Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), to perform a full-scope, incurred-cost audit of costs claimed by Northwest Regional Educational Laboratory (NWREL) from July 1, 2001, through May 31, 2005, on grants 01CAOR0017 and 01CAOR0034. Our audit covered financial transactions, compliance, and internal control testing of the following awards funded by the Corporation:

<b>Program</b>	<b>Award No.</b>	<b>Award Period</b>	<b>Audit Period</b>
Integrated Training Program	01CAOR0017	7/01/01-5/18/05	7/01/01- 5/18/05
Literacy & Education	01CAOR0034	8/01/01-12/31/05	8/01/01-5/31/05

Our objectives were to determine if:

- Financial reports were fairly reported.
- Internal controls were adequate to safeguard the Corporation funds.
- Adequate procedures and controls were present to ensure compliance with Federal laws, applicable regulations, and award conditions.
- Documented award costs were allowable in accordance with award terms and conditions.

We performed our audit at the NWREL offices in Portland, Oregon from September 12, 2005 through October 7, 2005.

## **BACKGROUND**

The National and Community Service Trust Act of 1993, established the Corporation for National and Community Services (Corporation) as a government corporation subject to the Government Corporation Control Act, 31 U.S.C. § 9101 et seq. The Corporation began its operations in fiscal year 1994. Its programs include AmeriCorps, Senior Corps, and Learn and Serve America.

The Corporation awards grants and cooperative agreements to State, nonprofit entities and tribes and territories to assist in the creation of full and part-time national and community services programs. Grantees are required to expend funds only for allowable costs and to provide periodic reports to the Corporation to demonstrate programmatic and financial compliance with the terms of their grant agreements. The Corporation is responsible for ensuring that grantees comply with applicable laws and regulations related to the administration of grant awards in the areas of Federal cash management, human resources and information technology.

During 2001, the Corporation awarded two training grants, Nos. 01CAOR0017 and 01CAOR0034, totaling \$11,507,954 to Northwest Regional Educational Laboratory (NWREL).

NWREL received the funding to assist in the creation of national community service programs under a Training and Technical Assistance Cooperative Agreement. For the grant periods covered by this audit, July 1, 2001, through May 31, 2005, NWREL received funding authorization from the Corporation in the amounts of \$8,690,095 and \$2,817,859 under grants 01CAOR0017 and 01CAOR0034, respectively. Incurred costs as of May 31, 2005, totaled \$8,032,786 and \$2,191,993 for grants 01CAOR0017 and 01CAOR0034, respectively.

NWREL is a private, nonprofit corporation, which provides research and development assistance to education, government, community agencies, business, and labor. NWREL is part of a national network of 10 educational laboratories funded by the U.S. Department of Education, Institute of Education Sciences (IES) (formerly the Office of Educational Research and Improvement) to serve the Northwest region of Alaska, Idaho, Montana, Oregon, and Washington. The mission of NWREL is to improve educational results for children, youth and adults by providing research and development assistance in delivering equitable, high-quality educational programs.

## SUMMARY OF RESULTS

Our audit report expresses an unqualified opinion on NWREL's Schedule of Claimed Costs. Compliance and internal control findings and cost findings are also summarized below.

### Compliance and Internal Control Findings

We have issued a report titled Independent Auditors' Report on Compliance and Internal Control, which is applicable to the audit of the Schedule of Claimed Costs. In that report, we identified findings required to be reported under generally accepted government auditing standards. These findings are as follows:

1. There exists lack of adequate segregation of duties over payroll and human resources (HR).
2. Check requests to the accounts payable department do not include supporting documentation.
3. Subcontractor invoices are not supported with timesheets, receipts, etc.
4. Invoices processed and paid are not voided or cancelled to prevent duplicate payments.

### Cost Findings

There are no questioned costs. The questioned cost of \$647 related to labor charges to grant No. 01CAOR0017 in our draft report has been rescinded due to supporting documentation provided by NWREL's management in their response to the findings in the draft report.

In the Other Matters For Management Attention, we reported that NWREL has incorrectly added program income to grant funds. OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires that such income be deducted from total allowable project costs.

### Exit Conference

An exit conference was held with NWREL's representatives on October 27, 2005. The grantee's representatives generally agreed with the findings and recommendations.

October 7, 2005

Office of Inspector General  
Corporation for National and Community Service

### INDEPENDENT AUDITORS' REPORT

We have audited costs claimed by Northwest Regional Educational Laboratory (NWREL) from July 1, 2001, through May 31, 2005, for the awards listed below. These costs, as presented in the Consolidated Schedule of Award Costs (Exhibit A), are the responsibility of NWREL's management. Our responsibility is to express an opinion on the grant-specific schedules based on our audit.

<b>Program</b>	<b>Award No.</b>	<b>Award Period</b>	<b>Audit Period</b>
Integrated Training Program	01CAOR0017	7/01/01-5/18/05	7/01/01- 5/18/05
Literacy & Education	01CAOR0034	8/01/01-12/31/05	8/01/01-5/31/05

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 schedules presentation. We believe that our audit provides a reasonable basis for our opinion on costs claimed.

The Consolidated Schedules of Award Costs are intended to present allowable costs incurred under the awards in accordance with Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Not-For-Profit Entities*, other applicable OMB circulars, and award terms and conditions. Therefore, these are not intended to be complete presentations of the NWREL's revenues and expenses.

In our opinion, the financial schedules referred to above present fairly, in all material respects, costs claimed by NWREL for Program Years 2001-2002, 2002-2003, 2003-2004, and 2004-2005 (September 1, 2004, through May 31, 2005) in conformity with OMB Circular A-122, other applicable OMB circulars, and award terms and conditions.

In accordance with generally accepted government auditing standards, we have also issued a report, dated October 7, 2005 on our consideration of NWREL's internal controls and compliance with Federal laws and regulations. This report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering audit results.

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

Regis & Associates, PC

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Peter Regis, CPA  
Partner



EXHIBIT A

NORTHWEST REGIONAL EDUCATIONAL LABORATORY  
CONSOLIDATED SCHEDULE OF AWARD COSTS  
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS

<b>Award No.</b>	<b>Program</b>	<b>Approved Budget</b>	<b>Claimed Costs</b>	<b>Questioned Federal Costs</b>
01CAOR0017	Integrated Training Program	\$8,690,095	\$8,032,786	\$0
01CAOR0034	Learns	2,817,859	2,191,994	
	Total	<u>\$11,507,954</u>	<u>\$10,224,780</u>	<u>\$0</u>

October 7, 2005

Office of Inspector General  
Corporation for National and Community Service

### **Independent Auditors' Report on Compliance and Internal Control**

We have audited costs claimed by NWREL to the Corporation for the following training grants and have issued our draft report thereon dated October 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and generally accepted government auditing standards.

<b>Program</b>	<b>Award No.</b>	<b>Award Period</b>	<b>Audit Period</b>
Integrated Training Program	01CAOR0017	7/01/01-5/18/05	7/01/01- 5/18/05
Literacy & Education	01CAOR0034	8/01/01-12/31/05	8/01/01-5/31/05

#### ***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 (all findings discussed below).

#### ***INTERNAL CONTROLS OVER FINANCIAL REPORTING***

In planning and performing our audit, we obtained an understanding of NWREL's internal controls 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 controls over financial reporting. We noted, however, certain matters involving internal controls 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 controls over financial reporting that, in our judgment, could adversely affect NWREL's ability to record, process, summarize, and report financial data

consistent with assertions of management in the financial schedules (Finding Nos. 1, 2, 3, and 4 below).

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 structure of internal controls would not necessarily disclose all matters in the structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable condition in Finding No. 1 to be material weakness.

## **FINDINGS**

### **1. Lack of adequate segregation of duties over payroll and human resources (HR).**

#### ***Condition***

During our review of internal controls over payroll processing, we noted that the payroll supervisor has unrestricted access to the HR system with the capability to change information.

OMB Circular A-110, Subpart C, Section 21, states that: "Recipients' financial management systems shall provide for the following... (3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes."

NWREL management did not consider the situation a breach of control due to its regard for the payroll supervisor's personal integrity. However, a lack of adequate controls could lead to fraud, abuse, and waste of Federal funds.

#### ***Recommendation***

We recommend that the Corporation follow up with NWREL to ensure adequate segregation of Payroll and HR.

#### ***NWREL's Response***

NWREL agrees with our recommendation.

#### ***Auditor's Comments***

NWREL's corrective action, as described in its' response, is responsive to our recommendation. No additional comments are necessary.

**2. Check requests to accounts payable department do not include supporting documentation.**

***Condition***

During our testing of service contracts with and payments to trainers and training facilitators, we found that the program office sends check requests to the accounts payable department without such supporting documentation as contracts, invoices, and receipts for expenses.

OMB Circular A-110, Subpart C, Section 21, states: “Recipients' financial management systems shall provide for the following.... (3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.”

The accounts payable department relies primarily on the program office in determining the propriety of the payments on service contracts to trainers and training facilitators. However, the lack of independent review of service contracts, invoices, receipts by the accounts payable department could lead to overpayments, fraud, waste, and abuse.

***Recommendation***

We recommend that the Corporation follow up with NWREL to ensure that all check requests from the program office include invoices, receipts for expenses claimed, and copies of service contracts.

***NWREL's Response***

NWREL agrees with our recommendation.

***Auditor's Comments***

NWREL's corrective action, as described in its' response, is responsive to our recommendation. No additional comments are necessary.

**3. Subcontractor's invoices are not supported with timesheets, receipts, etc.**

***Condition***

During our testing of payments to a major contractor of NWREL, Bank Street College of New York (Bank Street), we noted that the invoices from the subcontractor were not supported by timesheets and receipts for expenses claimed. Bank Street is NWREL's partner on the Corporation grants to provide integrated training program and literacy education. Bank Street is an independent coeducational institution that provides training, curriculum development and instructional manuals for NWREL. The contract with NWREL is a reimbursable type, with costs not to exceed stipulated limits.

OMB Circular A-110, Subpart C, Section 51, states: “(a) Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have

met the audit requirements as delineated in Section \_\_\_\_26” Also, OMB Circular A-110, Subpart C, Section 47, states: “ ...A system for contract administration shall be maintained to ensure contractor conformance with the terms, conditions and specifications of the contract and to ensure adequate and timely follow up of all purchases. Recipients shall evaluate contractor performance and document, as appropriate, whether contractors have met the terms, conditions and specifications of the contract.”

NWREL management believes that the review of Bank Street College audited financial statements meets OMB requirements. The effect of this finding is that subcontractors could charge for reimbursement of unallowable activities or allowable activities at prices that may be unreasonable or unsupported.

***Recommendation***

We recommend that the Corporation follow up with NWREL to ensure that invoices from Bank Street College include all necessary supporting documentation.

***NWREL's Response***

NWREL agrees with our recommendation.

***Auditor's Comments***

NWREL's corrective action, as described in its' response, is responsive to our recommendation. No additional comments are necessary.

**4. Invoices processed and paid are not voided or cancelled to prevent duplicate payments.**

***Condition***

During our testing of disbursements, we noted that all 27 subcontractors' and the majority of the 162 service contracts' invoices that had been processed and paid had not been voided or cancelled to prevent duplicate payments.

OMB Circular A-110, Subpart C, Section 21, states: “...Recipients' financial management systems shall provide for the following.... (3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.”

NWREL management stated that it was under the impression that accounts payable personnel voided processed and paid invoices in line with established policies and procedures. The use of paid invoices not voided could result in duplicate payments.

***Recommendation***

We recommend that the Corporation follow up with NWREL to ensure that invoices processed and paid are voided and cancelled.

***NWREL's Response***

NWREL agrees with our recommendation.

***Auditor's Comments***

NWREL's corrective action, as described in its' response, is responsive to our recommendation. No additional comments are necessary.

This report is intended for the information and use of the Office of Inspector General, the Corporation for National and Community Service, the Northwest Regional Educational Laboratory, and the U.S. Congress.

Regis & Associates, PC

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Peter Regis, CPA  
Partner

## OTHER MATTERS FOR MANAGEMENT ATTENTION

During the process of documenting NWREL's procedures for generating and reporting and applying program income, we were informed that program income is added to grant funds to expand program expenditures and objectives. However, the cooperative agreements between NWREL and the Corporation did not support this action.

Our audit of the grant financial statements indicated that program income of approximately \$127,545 was used to offset program claimed costs. As of May 31, 2005, the period covered by our audit, approved program budgets for both grants exceeded claimed costs, as shown in the table below. Therefore there are no questioned costs at this time.

<b>Award No.</b>	<b>Program</b>	<b>Approved Budget</b>	<b>Claimed Costs</b>
01CAOR0017	Integrated Training Program	\$8,690,095	\$8,032,786
01CAOR0034	Learns	2,817,859	2,191,994
	<b>Total</b>	<b><u>\$11,507,954</u></b>	<b><u>\$10,224,780</u></b>

We are concerned that, if NWREL continues to operate under the assumption that program income should be applied to expand program expenditures, there will be questioned costs at the point that the claimed costs exceed the approved budget. NWREL would be in violation of OMB A-110, Subpart C, Section 24, *Program Income* that states:

(b) Except as provided in paragraph (h) below, program income earned during the project period shall be retained by the recipient and, in accordance with Federal awarding agency regulations or the terms and conditions of the award, shall be used in one or more of the ways listed in the following... (3) Deducted from the total project or program allowable cost in determining the net allowable costs on which the Federal share of costs is based. .... (d) In the event that the Federal awarding agency does not specify in its regulations or the terms and conditions of the award how program income is to be used, paragraph (b)(3) shall apply automatically to all projects or programs except research.

***Recommendation***

We recommend that the Corporation:

- Instruct NWREL that program income, on the two current grants, should be deducted from, not added to, total project costs in determining the net allowable costs; and
- Address the application of program income in the terms and conditions of all future awards.

***NWREL's Response***

NWREL did not agree with our recommendations. It indicated that proper authorization was received from the Corporation for the application of program income to expand program expenditures.

***Corporation's Response***

The Corporation responded that, through the cooperative agreement, it instructed NWREL that registration fees may be collected from participants at NWREL events.

***Auditor's Comments***

Unlike the AmeriCorps provisions, the provisions in this cooperative agreement do not specify whether how program income is to be used. OMB Circular A-110 does not permit the use of program income to expand program objectives. Therefore, the recommendation remains as stated.



## **Appendix A**

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### **Response of the Northwest Regional Educational Laboratory**



## Northwest Regional Educational Laboratory

101 S.W. Main Street, Suite 500, Portland, Oregon 97204-3213  
(503) 275-9500 • 1-800-547-6339 • www.nwrel.org

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January 30, 2006

Carol Bates  
CNCS-OIG  
1201 New York Avenue, NW  
Suite 830  
Washington, DC 20525

Dear Carol:

The Northwest Regional Educational Laboratory has the following responses to the findings identified by Regis & Associates, PC (REGIS), the auditing firm contracted by CNCS for cooperative agreements 01CAOR0017 and 01CAOR0034.

### **Program Income**

During the field work, Lateef Abassi of REGIS inquired as to whether NWREL had received permission to use program income to increase funding to grant 01CAOR0017. On September 16, 2005 Susan Schechter the Associate Director for Leadership Development and Training for CNCS sent NWREL an e:mail that stated the following (in italics):

*This is to verify that registration fees may be collected from participants at events being delivered by NWREL through a T/TA cooperative agreement. Such funds may be used to cover costs of the event and other activities authorized under the agreement.*

On October 6, 2005, Susan Woo, the Grants Management Specialist for the Corporation for National & Community Service sent the following e:mail (in italics):

*Hello, Nancy. I've reviewed the terms and conditions as well as the provisions and the Corporation's T/TA grants are all eligible to generate program income (e.g. conference and registration fees). Furthermore, these grants are operated under the "additive method" of handling program income, thereby allowing them to enlarge their total program size/accomplishments by using the program income they generate for necessary, reasonable, and allowable costs. Susan*

\*\*\*\*\*

*Susan H. Woo  
Grants Management Specialist  
Office of Grants Management  
Corporation for National & Community Service  
2201 Broadway, Suite 510  
Oakland, CA 94612  
(510) 273-0164  
email: swoo@cns.gov*

Copies of both e:mails were provided to the REGIS auditors during their audit. Therefore, this finding should be rescinded. With regard to the other findings, NWREL concurs with all of the recommendations and has implemented them.

JANUARY 30, 2006

Sincerely,

Richard Alford  
Director of Finance

Cc:

Carol Thomas, NWREL CEO

Stuart Axenfeld, CNCS-OIG Audit Manager

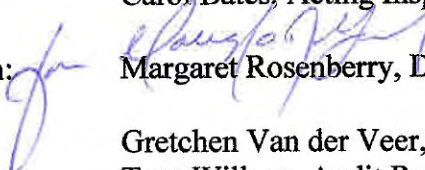
## **Appendix B**

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### **Response of the Corporation for National and Community Service**

Corporation for  
**NATIONAL &  
COMMUNITY  
SERVICE** 

**To:** Carol Bates, Acting Inspector General

**From:**  Margaret Rosenberry, Director of Grants Management

**Cc:** Gretchen Van der Veer, Office of Leadership Development and Training  
Tory Willson, Audit Resolution Coordinator

**Date:** January 6, 2006

**Sub:** Response to OIG Draft Audit Report of Corporation for National and Community Service Cooperative Grants Awarded to Northwest Regional Education Laboratory

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Thank you for the opportunity to review the draft audit report of the Corporation's cooperative agreements awarded to NWREL. We note that in NWREL's response to the draft audit they concur with all of the compliance and internal control recommendations and state that they have implemented corrective action. We will verify that NWREL has implemented all findings and recommendation during the audit resolution process after the final report is issued.

The report noted that NWREL has incorrectly added program income to grant funds. The Corporation issued instructions to NWREL related to program income that registration fees may be collected from participants at events delivered by NWREL though a T/TA cooperative agreement. Fees collected must be used to cover costs of the event and other activities authorized under the agreement. During the audit resolution process, we will determine the disposition of program income based on the Corporation's instructions to use it to cover costs and other activities authorized under the agreement.

In addition, NWREL's response indicates they have timesheets that document and support questioned labor costs. We will follow up with NWREL and examine the supporting documentation during the audit resolution after the final report is issued.



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