

# Office of Inspector General Corporation for National and Community Service

## AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE GRANTS AWARDED TO THE NEW MEXICO COMMISSION FOR COMMUNITY VOLUNTEERISM

OIG REPORT NUMBER 06-26



Corporation for  
**NATIONAL &  
COMMUNITY  
SERVICE** 

Prepared by:

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This report was issued to Corporation management on May 31, 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 November 30, 2006, and complete its corrective actions by May 31, 2007. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Audit of Corporation for National and Community Service  
Grants Awarded to the  
New Mexico Commission for Community Volunteerism  
Audit Report 06-26

**OIG Summary**

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), retained Cotton and Company (Cotton) to perform an incurred-cost audit of grants awarded to the New Mexico Commission for Community Volunteerism (Commission).

Federal costs claimed by the Commission during the audit period totaled \$3,453,178. Of this amount, the auditors questioned \$111,833 of grant costs and related education awards of \$54,398. The auditors also identified four issues of noncompliance with Federal laws and grant provisions, and two internal control matters, one of which is considered a material weakness.

In its response to the draft audit report, the Commission documented its corrective actions and improvements to internal control, but it did not agree with a portion of the questioned costs.

The OIG reviewed Cotton'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 Commission's financial statements, conclusions about the effectiveness of internal control or conclusions on compliance with laws and regulations. Cotton is responsible for the attached auditor's report dated December 2, 2005, and the conclusions expressed in the report. However, our review disclosed no instances where Cotton did not comply, in all material respects, with generally accepted government auditing standards.

The OIG provided officials of the Commission and the Corporation with a draft of this report for review and comment. Their responses are included as Appendices A and B, respectively.

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

**OFFICE OF INSPECTOR GENERAL**  
**AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS TO THE**  
**NEW MEXICO COMMISSION FOR COMMUNITY VOLUNTEERISM**

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## EXECUTIVE SUMMARY

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), contracted with Cotton & Company LLP to perform an audit of costs claimed by the New Mexico Commission for Community Volunteerism (Commission). Our audit covered financial transactions, compliance, and internal control testing of Commission awards.

### I. BACKGROUND

The Corporation supports a range of national and community service programs that provide full-time and part-time opportunities for Americans to engage in service that fosters civic responsibility, strengthens communities, and provides educational opportunities for those who make a commitment to service. State commissions distribute funds to subgrantees that administer programs while providing oversight, training, and technical assistance to subgrantees.

The Commission, located in Albuquerque, has received AmeriCorps grant funds from the Corporation since Program Year (PY) 1994-1995. It currently operates as part of the State of New Mexico's Children Youth and Families Department (CYFD). CYFD provides fiscal management for Corporation grants.

### II. AUDIT SCOPE AND RESULTS

Cotton & Company performed an incurred-cost audit including financial transactions, internal controls, and grant compliance related to the following Corporation awards to the Commission:

<b>Program</b>	<b>Award No.</b>	<b>Award Period</b>	<b>Audit Period</b>
Administrative Grant	04CAHNM001	01/01/04-12/31/06	01/01/04-06/30/05
Professional Development and Training	02PDSNM032	01/01/02-12/31/04	01/01/02-12/31/04
Professional Development and Training	05PTHNM001	01/01/05-12/31/07	01/01/05-06/30/05
AmeriCorps State Competitive	00ASCNM032	10/01/00-09/30/03	10/01/02-09/30/03
AmeriCorps State Competitive	03ACHNM001	09/11/03-09/10/06	09/11/03-03/31/05
AmeriCorps State Formula	00ASFNM032	10/01/00-09/30/03	10/01/02-09/30/03
AmeriCorps State Formula	03AFHNM002	09/01/03-08/31/06	09/01/03-03/31/05

The audit objectives were to determine if:

- the Commission's financial reports to the Corporation presented financial award results fairly, and costs were allowable in accordance with award terms and conditions;

- the Commission's internal controls were adequate to safeguard Federal funds; and
- the Commission had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations, and award conditions.

We conducted our audit tests between September 6, 2005, and December 2, 2005.

### **Cost Findings**

The Commission claimed \$3,453,178 in costs during our audit period, identified in Exhibit A, Consolidated Schedule of Claimed and Questioned Costs. Of this amount, we questioned \$111,833 of costs, and related education awards of \$54,398. The report includes a scope limitation because, at the request of the OIG, we did not expand certain questioned costs identified in the sample to the entire population of claimed costs. Except for identified questioned costs and the effect on questioned costs if we would have expanded testing, costs claimed by the Commission for the awards appear fairly stated and allowable in accordance with award terms and conditions.

Costs questioned primarily relate to member eligibility and compliance issues, such as citizenship or completion of background investigations, or costs claimed by the Commission or subgrantee for which neither could provide supporting documentation. We also identified costs relating to claimed match that were questioned for the same reasons as Federal share costs questioned. These questioned costs are not identified in the schedules because they did not result in unmet matching requirements, which would have affected the allowability of the Federal costs.

### **Compliance and Internal Control Findings**

We have also issued a report, titled Independent Auditors' Report on Compliance and Internal Control, on our consideration of the Commission's internal control and compliance with laws and regulations. In that report, we identified four issues of noncompliance (Findings 1-4) that are required to be reported under generally accepted government auditing standards. We also identified two matters that affect the Commission's internal control over financial reporting and its operation (Findings 4 and 5). We consider Finding 5 to be a material weakness. These issues are summarized below:

1. The Commission did not have adequate procedures to ensure member eligibility.
2. The Commission did not have adequate procedures to ensure that subgrantees documented member activities, and that member living allowances were proper.
3. The Commission did not have adequate subgrantee monitoring procedures.

4. The Commission's procedures to ensure compliance with all grant provisions were weak.
5. The Commission's financial management system was not adequate to account for and support all costs claimed.

### **III. EXIT CONFERENCE AND RESOLUTION**

An exit conference with Commission and Corporation representatives was held on January 11, 2006. Commission and Corporation responses to this draft report are included as Appendices A and B, respectively. In addition, we have included our summary of the Commission's comments on compliance and internal control in that report. The majority of the Commission's responses document its corrective action or improvements to its internal control. The Commission, however, does not believe that the questioned costs related to the criminal background check requirements should be recouped by the Corporation since the issue is related to compliance. The Corporation noted in its response that it will address all findings when the final audit report is issued, but specifically commented on two compliance findings.

In response to the finding of catch-up or lump-sum living allowance payments, the Corporation stated that it clarified its language in September 2005. The Corporation also stated that it anticipates allowing the Commission to use other Federal funds as the source of required match.



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December 2, 2005

Office of Inspector General  
Corporation for National and Community Service

### INDEPENDENT AUDITORS' REPORT

We have audited costs claimed by the New Mexico Commission for Community Volunteerism for Program Years (PYs) 2002-2003, 2003-2004, and 2004-2005 (through March 31, 2005) for the grants listed below. These costs are presented in Exhibit A, Consolidated Schedule of Claimed and Questioned Costs, and are the responsibility of Commission management. Our responsibility is to express an opinion on these costs based on our audit.

Program	Award No.	Award Period	Audit Period
Administrative Grant	04CAHNM001	01/01/04-12/31/06	01/01/04-06/30/05
Professional Development and Training (PDAT)	02PDSNM032	01/01/02-12/31/04	01/01/02-12/31/04
Professional Development and Training	05PTHNM001	01/01/05-12/31/07	01/01/05-06/30/05
AmeriCorps Competitive	00ASCNM032	10/01/00-09/30/03	10/01/02-09/30/03
AmeriCorps Competitive	03ACHNM001	09/11/03-09/10/06	09/11/03-03/31/05
AmeriCorps Formula	00ASFSNM032	10/01/00-09/30/03	10/01/02-09/30/03
AmeriCorps Formula	03AFHNM002	09/01/03-08/31/06	09/01/03-03/31/05

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 financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in Exhibit A. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial presentation. We believe that our audit provides a reasonable basis for our opinion on incurred costs.

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

Exhibit A is intended to present allowable costs incurred under the awards in accordance with applicable Office of Management and Budget (OMB) circulars and award terms and conditions. Exhibit A is not intended to be a complete presentation of the Commission's financial position in conformity with accounting principles generally accepted in the United States of America. This schedule also identifies certain questioned education awards. These awards are not funded by Corporation grants and thus are not included as claimed costs. As part of our audit, however, we determined the effect of all member eligibility issues on these awards.

In our opinion, except for questioned costs noted in Exhibit A, and the effect on questioned costs had we expanded testing as discussed above, the financial schedule presents fairly, in all material respects, costs claimed for the grants in conformity with applicable OMB Circulars and award terms and conditions.

In accordance with generally accepted government auditing standards, we have also issued a report dated December 2, 2005, on our consideration of the Commission's compliance and internal control over laws and regulations. That 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 solely for the information and use of the OIG, the Corporation for National and Community Service, the Commission and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP



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Sam Hadley, CPA  
Partner



**EXHIBIT A**

**NEW MEXICO COMMISSION FOR COMMUNITY VOLUNTEERISM  
CONSOLIDATED SCHEDULE OF CLAIMED AND QUESTIONED COSTS  
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS**

Award No.	Federal Costs			Questioned Education Awards	Reference
	Awarded	Claimed	Questioned		
04CAHNM001	\$321,682	\$262,729			
02PDSNM032	274,075	274,075	\$63,921		Note 1
05PTHNM001	95,000	35,722	(59,278)		Note 2
00ASCNM032					
FYI	471,199	369,453	15,644	\$2,363	Schedule A
Rocky Mountain	<u>617,611</u>	<u>472,765</u>	<u>4,136</u>	<u>2,363</u>	Schedule B
Subtotal	\$1,088,810	\$842,218	\$19,780	\$4,726	
00ASFNM032					
Rio Rancho	\$334,800	\$298,957	\$40,653	\$19,072	Schedule C
San Juan	111,597	105,765	11,459	9,450	Schedule D
VSA	102,662	98,084	11,449	10,450	Schedule E
Others	<u>247,990</u>	<u>214,681</u>	—	—	
Subtotal	\$797,049	\$717,487	\$63,561	\$38,972	
03ACHNM001	\$1,325,782	\$805,366			
03AFHNM002					
FYI	\$389,168	\$228,153	\$5,039	\$1,250	Schedule A
San Juan	100,116	68,082	16,709	9,450	Schedule D
VSA	51,183	50,776	2,101		Schedule E
Others	<u>424,740</u>	<u>168,570</u>	—	—	
Subtotal	\$965,207	\$515,581	\$23,849	\$10,700	
Totals	<u>\$4,867,605</u>	<u>\$3,453,178</u>	<u>\$111,833</u>	<u>\$54,398</u>	

1. The Commission claimed \$63,921 of costs related to the subsequent PDAT grant as discussed below:
  - a. The Commission claimed \$95,000 of contract service expenses invoiced in February and April 2005. It allocated these costs to its older PDAT grant (Award 02PDSNM032), which expired on December 31, 2004. The Commission considered this allocation to be appropriate because the service contract was signed in December 2004 for work to be provided between December 10, 2004, and October 30, 2005. We questioned these claimed costs because the contract was in effect for only 21 days during the grant award period. These costs are allocable and allowable under the Commission's subsequent PDAT grant (Award 05PTHNM001).
  - b. The Commission also claimed labor costs that were incurred between March and June 2005. These costs were incurred outside the grant award period and are not allowable to this grant, but are allocable and allowable to the subsequent PDAT grant. We questioned claimed labor costs of \$4,643 from the older PDAT grant.
  - c. Finally, the Commission processed a journal entry in August 2005 for \$35,722, originally charged to Award 02PDSNM032, and transferred this amount to the subsequent PDAT grant (Award 05PTHNM001). The transfer represented the amount the Commission charged to the older PDAT grant that exceeded that award amount. It did not represent specific transactions or expenditures.

All costs charged to the older grant after December 31, 2004, totaling \$99,643, represented questioned costs discussed above that were attributable to the subsequent grant. Therefore, we also questioned the journal entry that resulted in increased costs of \$35,722, for net questioned costs of \$63,921. OMB Circular A-87, Attachment A, C.1., *Factors affecting the allowability of costs*, states that a cost must be allocable to a Federal award to be allowable.

2. As discussed in Note 1 above, we recommend that \$63,921 from the older PDAT grant be questioned and charged to the Commission's current PDAT award. However, because the PDAT grant award is \$99,000, the recommended increase would exceed the awarded amount. Therefore, we recommended increased costs of \$59,278, which brings total costs to the award ceiling.

NEW MEXICO COMMISSION FOR COMMUNITY VOLUNTEERISM  
 SCHEDULE OF CLAIMED AND QUESTIONED COSTS UNDER  
 CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS

FAMILIES AND YOUTH, INC.

Award No.	Program Years	Federal Costs		Questioned Education Awards
		Claimed	Questioned	
00ASCNM032	2002-2003	\$369,453	\$15,644	\$2,363
03AFHNM002	2003-2005	\$228,153	\$5,039	\$1,250

Reasons for Questioned Costs	Federal Costs	Education Awards	Notes
Lump-sum payments to members outside service period	\$5,416		1
Administrative costs claimed in excess of ceiling	6,173		2
Unallowable unemployment insurance premiums	2,482		3
Member eligibility, no criminal background checks	5,423	\$2,363	4
Unallowable healthcare for part-time members	81		5
Member eligibility, no parental consent	<u>1,108</u>	<u>1,250</u>	6
Total Questioned Costs	<u>\$20,683</u>	<u>\$3,613</u>	

1. Families and Youth, Inc. (FYI) claimed \$3,423 in PY 2002-2003 and \$1,993 in PY 2003-2004 for lump-sum payments to 17 of 25 members we sampled. FYI allowed members to be paid for two additional pay periods after their service was complete and to receive one payment prior to beginning service. All members were paid the same amount in total, but certain members received living allowances for periods during which they were not working.

According to AmeriCorps Provisions (2002 ed.), Section B.11.b, *Living Allowance Distribution*, living allowances are designated to help members meet necessary living expenses incurred only while participating in the AmeriCorps Program. FYI provided lump-sum living allowance payments after service was completed to help

members transition to other jobs or to a second year in the program, and prior to beginning service to assist the members with potential moving expenses.

2. FYI claimed administrative expenses of \$5,184 for PY 2002-2003 and \$989 for PY 2003-2004 that exceeded the allowable administrative percentage. FYI claimed costs based on the budgeted amount rather than the allowable amount for this line item.

According to AmeriCorps Provisions (2002 ed.), Section C.22.b, *Administrative Costs*, administrative costs cannot exceed five percent of total Corporation funds expended. FYI relied on WBRS (Web Based Reporting System) to identify errors, but it did not know if WBRS would identify excess costs. We questioned \$6,173 that exceeded the allowable percentage.

3. FYI claimed \$1,533, \$625 and \$324 in PY 2002-2003, PY 2003-2004 and PY 2004-2005, respectively, for members' unemployment insurance premiums. Unemployment insurance premium costs are unallowable in accordance with AmeriCorps Provisions (2002 ed.), Section B.11.d.iv., *Unemployment Insurance*, which states that grantees cannot charge such costs to grants unless mandated by State law. Programs are responsible for determining State requirements by consulting their respective State commissions, legal counsel, or applicable State agency.

FYI stated that it had verbal instructions from the New Mexico Department of Labor to pay these premiums, but obtained no supporting documentation for this requirement. We questioned \$2,482.

4. FYI did not obtain required criminal background checks for two of our 25 sampled members who had substantial direct contact with children. It claimed \$5,423 for living allowances and related member benefits for these members. AmeriCorps Provisions (2002 ed.), Section B.6.h, *Eligibility, Recruitment and Selection, Criminal Record Checks*, requires that programs with members who have substantial direct contact with children must conduct criminal record checks on these members as part of the screening process and maintain documentation consistent with State law. We questioned the claimed \$5,423 living allowance and related member benefits, as well as \$2,363 of earned education awards for these two members.
5. FYI claimed \$81 for healthcare coverage for one part-time member in PY 2002-2003. According to AmeriCorps Provisions (2002 ed.), Section B.11.e, *Health Care Coverage*, the Corporation does not cover healthcare costs for less than full-time members. FYI erroneously paid these healthcare costs because the member served 40 hours a week for the period served. We questioned \$81.
6. FYI claimed \$1,108 in PY 2003-2004 for living allowances and related member benefits for one member who was under 18 years of age at the start of service. The member had not provided written consent from a parent or legal guardian, as required by AmeriCorps Provisions (2003 ed.), Section B.6.g, *Parental Consent*. We questioned \$1,108 and \$1,250 of earned education award for this member.

NEW MEXICO COMMISSION FOR COMMUNITY VOLUNTEERISM  
 SCHEDULE OF CLAIMED AND QUESTIONED COSTS UNDER  
 CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS

ROCKY MOUNTAIN YOUTH CORPS

Award No.	Program Years	Federal Costs		Questioned Education Awards
		Claimed	Questioned	
00ASCNM032	2002-2003	\$472,765	\$4,136	\$2,363
03ACHNM001	2003-2005	\$709,465		

Rocky Mountain Youth Corps (RMYC) did not obtain the required criminal background check for one member of our 54 sampled members who had substantial direct contact with children. It claimed \$4,136 for living allowance and related member benefits for this member. AmeriCorps Provisions (2002 ed.), Section B.6.h, *Eligibility, Recruitment and Selection, Criminal Record Checks*, requires that programs with members who have substantial direct contact with children must conduct criminal record checks on these members as part of the screening process and maintain documentation consistent with State law. The member started the program after other members, and the criminal background check was either not initiated or misplaced. We questioned the claimed living allowance of \$4,136, as well as \$2,363 of earned education award for this member.

**NEW MEXICO COMMISSION FOR COMMUNITY VOLUNTEERISM  
SCHEDULE OF CLAIMED AND QUESTIONED COSTS UNDER  
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS**

**RIO RANCHO PUBLIC SCHOOLS**

Award No.	Program Year	Federal Costs		Questioned Education Award
		Claimed	Questioned	
00ASFNM032	2002-2003	\$298,957	\$40,653	\$19,072

Rio Rancho’s accounting records could not support claimed Federal or match costs, either separately or in total. Documentation identified total incurred costs of \$353,741, although total Federal and match costs claimed were \$394,765. We reviewed the subgrantee’s records to identify total program costs incurred, determined total allowable program costs, and applied AmeriCorps matching requirements to calculate the allowable Federal share of program costs as follows:

	Category A	Categories B-E	Note
Total Program Costs Incurred	\$262,479	\$91,262	
Less Questioned costs for:			
Member eligibility, no background checks	25,130		1
Member eligibility, no proof of citizenship	6,770		2
Members exceeded budget availability	6,250		3
Unallowable match, paid with Federal funds	<u>-</u>	<u>15,302</u>	4
	<u>\$38,150</u>	<u>\$15,302</u>	
Total Allowable Program Costs	\$224,329	\$75,960	
Federal Share	<u>85%</u>	<u>67%</u>	
Total Allowable Federal Share	190,680	50,893	
Costs Claimed	<u>226,448</u>	<u>55,778</u>	
Questioned Federal Costs	<u>\$35,768</u>	<u>\$4,885</u>	
Education Awards:			
Member eligibility, no background checks	\$10,735		1
Unsupported member service hours	1,250		5
Unallowable member service hours	<u>7,087</u>		6
Total Questioned Education Awards	<u>\$19,072</u>		

1. Rio Rancho did not obtain the required criminal background checks for four of eight sampled members who had substantial direct contact with children. It claimed \$25,130 for living allowances and related member benefits and \$10,735 of earned education awards for these four members.

AmeriCorps Provisions (2002 ed.), Section B.6.h, *Eligibility, Recruitment and Selection, Criminal Record Checks*, requires that programs with members who have substantial direct contact with children must conduct criminal record checks on these members as part of the screening process and maintain documentation consistent with State law. Rio Rancho did not obtain required criminal background checks for these members. We questioned Federal living allowances, match costs, and related member benefits of \$25,130 and \$10,735 of earned education award for these four members.

2. Rio Rancho did not provide supporting documentation to verify U.S. citizenship or national status for two of eight sampled members. According to 45 CFR § 2522.200, *What are the eligibility requirements for an AmeriCorps participant?*, every AmeriCorps participant must be a citizen, national, or lawful permanent resident alien of the United States. Rio Rancho was not aware that a driver's license and a Social Security card were not acceptable as a proof of citizenship. We questioned \$6,770 of living allowances and related member benefits claimed for one member. The living allowance, related member benefits, and earned education award for the other member is questioned in Note 1, above.
3. Rio Rancho claimed living allowances paid to five individuals who were not eligible for such allowances. Rio Rancho did not have enough available slots to register the five individuals as members and was unable to provide documentation to show that it received Corporation approval for additional enrollees. The PY 2002-2003 AmeriCorps Program Director's Handbook, *How do I implement the new policy on over-enrollment*, states that upon request and Corporation approval, grantees other than Education Award Programs may enroll up to 20 percent more than the member ceiling established in the grant award. We questioned \$6,250 of living allowance and related member benefits paid to the five individuals.
4. Rio Rancho used other Federal funds as the source of match for the AmeriCorps program without approval from the other Federal agency. According to 45 CFR §2541.240 (b)(3), *Costs or contributions counted towards other Federal cost-sharing requirements*, the costs or value of third-party in-kind contributions may not be applied toward satisfying a grant cost-sharing or matching requirement if they have been or will be applied to satisfying a cost-sharing or matching requirement of another Federal grant agreement, Federal procurement contract, or any other award of Federal funds. While typically unallowable, AmeriCorps application guidelines note that other Federal programs may be the source of match. The AmeriCorps program site, however, must obtain approval from that awarding agency. As a result, we questioned \$15,302.

5. Rio Rancho uses time-and-attendance information in WBRS to track member status, which is the basis for paying education awards. Of the eight sampled members, hours reported in WBRS could not be supported with hours recorded on member time sheets for two members. The member file for one member was missing and no time sheets were available.

AmeriCorps Provisions (2002 ed.), Section C.21.c.ii, *Financial Management Provisions, Time and Attendance Records*, requires that grantees maintain time-and-attendance records for all AmeriCorps members to document their eligibility for in-service and post-service benefits. As a result of differences between the hours recorded in WBRS and time sheet hours, these members did not meet the minimum number of hours required to earn an education award. We questioned the \$1,250 education award earned by one member. The education awards for the other two members have been questioned in Notes 1 and 2 above.

6. Rio Rancho allowed members to participate in two different school programs at the same time. Members kept separate time sheets for each program. We noted that time recorded on several time sheets overlapped, thereby recording more total hours than actual hours worked. We reduced member hours for any time also recorded on time sheets for the other program. As a result of reducing the AmeriCorps time sheets for hours charged to another program, two members did not meet the minimum number of hours required to earn an education award. We questioned the \$7,087 in education awards earned by these members.



**SCHEDULE D**

**NEW MEXICO COMMISSION FOR COMMUNITY VOLUNTEERISM  
SCHEDULE OF CLAIMED AND QUESTIONED COSTS UNDER  
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS**

**SAN JUAN SERVICE CORPS**

<b>Award No.</b>	<b>Program Years</b>	<b>Federal Costs</b>		<b>Questioned Education Awards</b>
		<b>Claimed</b>	<b>Questioned</b>	
00ASFN032	2002-2003	\$105,765	\$11,459	\$9,450
03AFHNM002	2003-2005	\$68,082	\$16,709	\$9,450

<b>Reasons for Questioned Costs</b>	<b>Federal Costs</b>	<b>Education Awards</b>	<b>Note</b>
Member eligibility, no proof of citizenship	\$17,988	\$18,900	1
Members exceeded budget availability	3,110	-	2
Living allowance in excess of 85 percent	6,035	-	3
Living allowance paid for prior program year	<u>1,034</u>	<u>-</u>	4
<b>Total Questioned Costs</b>	<b><u>\$28,167</u></b>	<b><u>\$18,900</u></b>	

- San Juan Service Corps (San Juan) did not provide supporting documentation to verify U.S. citizenship or national status for six of ten sampled members. It claimed living allowances and benefits of \$5,066 and education awards of \$9,450 for two members in PY 2002-2003, and living allowances and benefits of \$12,922 (\$7,952 in PY 2003-2004 and \$4,970 in PY 2004-2005) and education awards of \$9,450 (\$4,725 in each PY) for an additional two members. According to 45 CFR § 2522.200, *What are the eligibility requirements for an AmeriCorps participant?*, every AmeriCorps participant must be a citizen, national, or lawful permanent resident alien of the United States. Due to an administrative error, San Juan did not follow its procedures to ensure that member files contained documentation to support proof of citizenship. We questioned living allowances and benefits of \$17,988, and \$18,900 in earned education awards.

2. San Juan claimed living allowances paid to five individuals who were not eligible for such allowances. San Juan did not have enough available slots to register the five individuals as members, and was unable to provide documentation to show that it received the Corporation's approval for additional enrollees.

The PY 2002-2003 AmeriCorps Program Director's Handbook, *How do I implement the new policy on over-enrollment*, states that, upon request and Corporation approval, grantees other than Education Award Programs may enroll up to 20 percent more than the member ceiling established in the grant award. San Juan personnel stated that they had obtained approval from the Commission but they were unable to provide the documentation. We questioned \$3,110.

3. San Juan claimed \$6,035 of member living allowances in PY 2002-2003 that exceeded the allowable Federal share. According to AmeriCorps Provisions (2002 ed.), Section B.11, *Living Allowances*, programs that provide a living allowance exceeding the minimum amount stated in application guidelines must provide a grantee match for all funds over 85 percent of that minimum. San Juan calculated the 85 percent minimum living allowance based on the aggregate, instead of by individual member, which resulted in over- and under-claims of living allowances. We questioned costs claimed for those members that exceeded 85 percent of the total living allowance for each member. We also allowed additional claimed costs for those members whose claimed costs were less than 85 percent, which resulted in questioned costs of \$2,930. Of that amount, \$(3,105) was questioned in Note 1 above, resulting in net questioned costs of \$6,035.
4. San Juan claimed \$1,034 in living allowance in PY 2004-2005 for one PY 2003-2004 member. OMB Circular A-21, Attachment C, Paragraph 4.a, *Allocable costs*, states that costs allocable under a sponsored agreement may not be shifted to other sponsored agreements to meet deficiencies caused by overruns or other fund considerations, avoid restrictions imposed by law or grant terms, or for other reasons of convenience. San Juan expended all of its awarded PY 2003-2004 Federal funds and did not claim the costs as match. We questioned \$1,034.

**SCHEDULE E**

**NEW MEXICO COMMISSION FOR COMMUNITY VOLUNTEERISM  
SCHEDULE OF CLAIMED AND QUESTIONED COSTS UNDER  
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS**

**VERY SPECIAL ARTS OF NEW MEXICO**

Award No.	Program Years	Federal Costs		Questioned Education Awards
		Claimed	Questioned	
00ASFNM032	2002-2003	\$98,084	\$11,449	\$10,450
03AFHNM002	2003-2004	\$50,776	\$2,101	
03ACHNM001	2004-2005	\$67,773		

Reason for Questioned Costs	Federal Costs	Education Awards	Note
Member eligibility, no proof of citizenship	\$11,077	\$4,725	1
Unsupported member service hours	-	5,725	2
Lump-sum payments to members outside service period	<u>2,473</u>	<u>-</u>	3
<b>Total Questioned Costs</b>	<b><u>\$13,550</u></b>	<b><u>\$10,450</u></b>	

1. Very Special Arts of New Mexico (VSA) did not provide supporting documentation to verify U.S. citizenship or national status for one of the 19 sampled members. According to 45 CFR § 2522.200, *What are the eligibility requirements for an AmeriCorps participant?*, every AmeriCorps participant must be a citizen, national, or lawful permanent resident alien of the United States. VSA personnel thought that accepting a copy of a driver's license satisfied the citizenship requirement in most instances. We questioned \$11,077 for living allowances and related member benefits paid to this member, and the \$4,725 education award earned by the member.
2. VSA time sheets inadequately supported member service hours reported in WBRS. Time sheets for two of the 19 sampled members from PY 2002-2003 did not support their service hours reported in WBRS. Time sheets also recorded less than the minimum hours required to earn education awards.

AmeriCorps Provisions (2002 ed.), Section C.21.c.ii., *Financial Management Provisions*, Time and Attendance Records, requires that grantees maintain time-and-attendance records on all AmeriCorps members to document their eligibility for in-service and post-service benefits. VSA entered erroneous hours in WBRIS and did not review entries to ensure that data were correct. We questioned \$5,725 in education awards earned by the members.

3. VSA made catch-up living allowance payments to two members who started the program later than other members in PY 2002-2003 and one member in PY 2004-2005. Members who started service late received the same amount of living allowance as those who started service at the beginning of the year, except that living allowances for the late members were spread over fewer payments. VSA also made lump-sum living allowance payments to four members in PY 2003-2004 who finished service early.

According to AmeriCorps Provisions (2002 ed.), Section B.11.b, *Living Allowance Distribution*, living allowances are designated to help members meet necessary living expenses incurred only while participating in the AmeriCorps Program. VSA understood this provision to mean that members were entitled to the full living-allowance amount stated in the member contracts, and that it would violate contracts if it did not pay full living allowances. VSA was also unaware that catch-up living allowance payments were not permitted. We questioned \$2,473.



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December 2, 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 the Commission to the Corporation for National and Community Service for the following awards and have issued our report thereon dated December 2, 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>
Administrative Grant	04CAHNM001	01/01/04-12/31/06	01/01/04-06/30/05
Professional Development and Training	02PDSNM032	01/01/02-12/31/04	01/01/02-12/31/04
Professional Development and Training	05PTHNM001	01/01/05-12/31/07	01/01/05-06/30/05
AmeriCorps Competitive	00ASCNM032	10/01/00-09/30/03	10/01/02-09/30/03
AmeriCorps Competitive	03ACHNM001	09/11/03-09/10/06	09/11/03-03/31/05
AmeriCorps Formula	00ASFNM032	10/01/00-09/30/03	10/01/02-09/30/03
AmeriCorps Formula	03AFHNM002	09/01/03-08/31/06	09/01/03-03/31/05

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we obtained an understanding of the Commission's internal control over financial reporting to determine audit procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on internal control over financial reporting. We noted matters involving internal control over financial reporting and its operation, however, that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the

design or operation of internal control over financial reporting that, in our judgment, could adversely affect the Commission's ability to initiate, record, process, and report financial data consistent with assertions of management in the financial schedules (Findings 4 and 5 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 internal control over financial reporting would not necessarily disclose all matters in the internal control structure that might be reportable conditions and that are also considered material weaknesses. We consider Finding 5 to be a material weakness.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

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 awards, noncompliance with which could have a direct and material effect on 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. Test results disclosed instances of noncompliance that are required to be reported under generally accepted government auditing standards and are discussed below (Findings 1-4).

We sampled five program sites comprised of 116 members. Our findings are discussed below.

## **FINDINGS**

### **1. The Commission did not have adequate procedures to ensure member eligibility.**

The Commission did not ensure that subgrantees:

- Obtained adequate criminal background checks for members who had substantial, direct contact with children;
- Obtained adequate proof of member citizenship;
- Ensured that members were over the age of 18 or obtained parental consent;
- Had sufficient member positions available for funding; or
- Ensured that members met program site-specific high-school diploma and GED requirements.

## **Criminal Background Checks**

Three Commission subgrantees did not have documentation typically used by sites to verify when a criminal background check was completed or received by the program site. Also, subgrantees could not always provide documentation showing when investigations were initiated. The Commission provided documentation of the State requirement to initiate a background investigation on each member before placing the member in contact with children. AmeriCorps Provision B.6.h, *Criminal Record Checks*, requires documentation of a criminal background check to be maintained consistent with State law. Because the Commission is allowed to follow State law, each site should maintain documentation to support when a criminal background check was requested.

## **Member Citizenship**

Three program sites could not support member citizenship for 13 members. 45 CFR § 2522.200, *What are the eligibility requirements for an AmeriCorps participant?*, requires every AmeriCorps participant to be a citizen, national, or lawful permanent resident alien of the United States. Two sites were unaware that a driver's license and/or a Social Security card were not acceptable proof of citizenship. One site could not locate a member's file, and therefore citizenship documentation was not available.

## **Parental Consent**

Documentation of parental consent to participate in the program was not obtained by the subgrantee for one member under the age of 18. AmeriCorps Provisions, B.6.g, *Parental Consent*, requires individuals less than 18 years of age to provide written consent from a parent or legal guardian before enrolling in the program. The subgrantee stated that the application containing the parental consent was included in the member's file; however, it did not provide this documentation to the auditors.

## **Member Positions**

Two program sites enrolled ten members in excess of the available "slots" allowed by the Corporation. The Corporation approves each program site budget, which includes the number of full- or part-time members each site can enroll. If a member leaves the program early, program sites have the ability to replace that member. Program sites were, however, claiming living allowance payments to members that exceeded available slots budgeted. The program sites and the Commission explained to us that the Corporation enacted an enrollment freeze, and the sites were instructed to enroll members but not input them into WBRS, the system that records member activity. WBRS would not have allowed members to be enrolled if the numbers exceeded the program site budget.

## **High-School Diploma and GED Requirements**

One program site required members to be high-school graduates or have GED equivalents. One member met Corporation requirements but did not meet site requirements. Thus, the program site enrolled a member who did not meet its own eligibility requirements.

***Recommendation:*** We recommend that the Corporation ensure that the Commission:

- Obtains criminal background checks for all members and maintains documentation for each member; and revises its policies and procedures to require that supporting criminal background check documentation be maintained to verify that checks were initiated, received, and reviewed before members are allowed to have contact with children;
- Maintains adequate documentation to verify citizenship, parental consent, high-school diploma or self-certification, and eligibility for all members; and
- Revises its procedures to ensure that members enrolled at each site do not exceed available budget limits and meet site-specific eligibility requirements.

***Commission Response:***

- The Commission recognizes the importance of criminal background checks, and will revise its policy and procedures to require that subgrantees maintain documentation of criminal background checks. The Commission believes that the issue is related to compliance and therefore disagrees with the questioned costs resulting from missing background checks.
- The Commission has instituted a process to ensure that citizenship is verified by the local program and documentation is maintained in each member's file. The Commission will stress the importance of this process with grantees through training and professional development with program staff. The Commission has also enhanced its monitoring procedure to ensure member eligibility by completing a Member File Checklist tool during program site visits. This detailed monitoring form addresses compliance issues, including background checks, member citizenship, proof of age, high school/GED requirements and enrollment status.
- The Commission provides annual training that includes significant attention to specific documentation requirements, and conducts random reviews of member files during site visits. The Commission will strengthen the program monitoring tools to ensure programs are in compliance at all times and that programs keep files for the appropriate timeframe under the required records retention guidelines.



**Auditors' Comments:** The Commission did not propose action to resolve the issue related to member enrollment exceeding available budget limits. We believe actions taken by the Commission will help resolve the other issues.

**2. The Commission did not have adequate procedures in place to ensure that subgrantees documented member activities, and that member living allowance payments were proper.**

The Commission did not adequately document certain member activities in accordance with AmeriCorps Provisions:

- Mid-term or final evaluations were not available for all members sampled, and some evaluations either did not have member or supervisory signatures or were not complete;
- Some enrollment or exit forms were submitted late or were not signed;
- Hours reported for some members were not supported by member time sheets, and member time sheets were missing or contained errors; and
- Members were paid catch-up or lump-sum living allowance payments.

We sampled four program sites. Our findings are discussed below.

### **Evaluations**

The four program sites could not provide mid-term or final evaluations for a total of 18 members. Evaluations were either missing from member files, or entire member files could not be found. Additionally, sites did not perform some mid-term evaluations but were unable to explain to us why they did not. Members or supervisors did not sign 15 mid-term and 7 final evaluations for three of the four program sites to indicate that evaluations were conducted in a timely manner. Finally, 48 final evaluations at all four program sites were incomplete. A final evaluation must contain the number of completed service hours and a statement regarding member performance.

Evaluations are necessary to ensure that members are eligible for additional service terms. According to 45 CFR § 2522.220(d), *Participant performance review*, a participant is not eligible for a second or additional term of service and/or for an AmeriCorps education award without mid-term and final evaluations. Grantees also are required to conduct at least mid-term and end-of-term evaluations of each member's performance and document that the member has:

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

## **Enrollment and Exit Forms**

The Commission did not ensure that subgrantees submitted all required enrollment and exit forms in a timely manner. Specifically:

- 36 member enrollment forms were not entered into WBRIS within 30 days;
- 21 exit forms were not entered into WBRIS within 30 days;
- 3 exit forms were unsigned by the members.

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

## **Member Service Hours**

Member service hours recorded in WBRIS were not always properly supported by member time sheets. AmeriCorps, *Financial Management Provisions, Time and Attendance Records*, requires that grantees keep time-and-attendance records for all AmeriCorps members to document their eligibility for in-service and post-service benefits. The Corporation uses time-and-attendance information in WBRIS to track member status, and these data are the basis for calculating education awards.

Member hours that were supported by time sheets varied from hours recorded in WBRIS for 36 members. For 18 of these members, the hours recorded on time sheets exceeded WBRIS hours and 18 members had hours recorded on time sheets that were less than hours reported in WBRIS. For 8 of the 36 members, hours on the member time sheets did not support the required number of hours to earn education awards. Subgrantees noted that hours recorded on member time sheets could vary from hours reported in WBRIS as the result of data-entry errors when recording member hours in WBRIS and member files missing time sheets. This results in \$14,062 of questioned education awards (as shown in Schedules A, C, and E).

Hours recorded on two members' time sheets at one program site included time spent on non-AmeriCorps activities. Additionally, time sheets at three program sites contained corrections that were not initialed by the member or supervisor, contained corrections made with white-out, were prepared in pencil, and were not signed. Also, some time sheets were copies rather than originals. When pencil and white-out are used on time sheets and originals are not maintained, it is difficult to determine if unauthorized alterations have been made. When changes are made without initials, an audit trail does not exist to determine if the changes were authorized.

## **Member Living Allowance Payments**

Two subgrantees made living allowance pay-outs to 28 members when they completed the minimum number of service hours to earn the education award before the end of the program term. Additionally, one subgrantee paid five members a catch-up payment when the members started the program late. AmeriCorps Provisions Section B(11), *Living Allowances, In-Service Benefits, and Taxes*, states that living allowances are designed to help members meet necessary living expenses incurred while participating in the program. Programs are not allowed to pay members on an hourly basis, and wages must not be based on the number of hours a member serves.

***Recommendation:*** We recommend that the Corporation ensure that the Commission strengthens its program monitoring procedures to comply with grant requirements regarding member activities, including:

- Complying with grant requirements for conducting member evaluations and retaining documentation;
- Documenting member enrollment and exit promptly and submitting this information to the Corporation on a timely basis;
- Recording member hours accurately and in accordance with program provisions;
- Ensuring that only eligible service hours are counted toward the member service requirement and education awards; and
- Ensuring that subgrantees calculate and pay living allowances in accordance with program provisions.

***Commission Response:*** The Commission stated:

- The bi-weekly time sheets completed by the members include documentation of member activities;
- Program Officers test the bi-weekly time sheets for accuracy, signatures and documentation of member activities; and
- Uploading process of WBRS takes up a large portion of the 30-day window and results in late submission of enrollment forms.

***Auditors' Comments:*** The Commission noted their current policies and procedures, but did not propose actions to address the recommendations.

### **3. The Commission did not have adequate subgrantee monitoring procedures.**

The Commission performs routine site visits of subgrantees and reviews of subgrantee documentation. The Commission did not always perform adequate reviews of procedures to ensure that subgrantees claimed only allowable costs and ensure that subgrantees had adequate financial management systems. Also, the Commission did not thoroughly document procedures performed during Commission site visits.

#### **Claiming Allowable Costs**

The notes to Exhibit A and Schedules A through E describe questioned Federal costs of \$111,833 and related education awards of \$54,398. These questioned costs consist of costs claimed by subgrantees for which there is documentation that claimed costs were expended in violation of laws, regulations, and specific conditions of awards, or costs that require interpretation of allowability by the Corporation, or unsupported costs claimed that require additional documentation to support allowability. While all costs would only be disclosed by reviewing invoices and available documentation, some issues identified during our review of claimed costs would be identified by conducting detailed reviews of subgrantee invoices. These include the following three examples:

- One subgrantee claimed administrative costs in excess of five percent of total program costs. AmeriCorps Provisions B,13(e), *Administrative Costs*, states that administrative costs cannot exceed five percent of total Corporation funds actually expended;
- One subgrantee claimed costs in excess of 85 percent of member living allowances as Federal expenditures; and
- One subgrantee claimed in-kind match based on a predetermined estimate of in-kind labor and estimated market values for facilitating public relations and providing donated shoes.

#### **Financial Management Systems**

The Commission did not ensure that each subgrantee had an adequate financial management system. In addition to unallowable and unsupported costs being claimed by subgrantees, we noted that:

- Two subgrantees did not have adequate record retention policies;
- Two subgrantees did not have adequate labor distribution systems to support claimed staff labor costs. Labor costs were charged to the grant based on predetermined percentages and were not supported with after-the-fact labor distribution records, as required by applicable OMB cost principles; and

- The Commission’s review of OMB Circular A-133 audit reports for one subgrantee did not include a reconciliation of amounts paid to the subgrantee and amounts reported on the audit report for AmeriCorps programs. CYFD performed an overall review of the OMB Circular A-133 report that analyzed total payments from CYFD to that subgrantee. It did not, however, review the AmeriCorps program specifically.
- We reviewed financial reporting at four sites. Of these four, two did not file eight financial reports and seven progress reports in a timely manner.

### **Documenting Site Visits**

As noted above, the Commission performs periodic site visits to subgrantees. The Commission follows a site plan to ensure that significant areas are covered. The site plan includes a monitoring tool for Commission use; this tool does not, however, require that all monitoring activities performed be documented. Additionally, some procedures on the monitoring tool were inadequate:

- Procedures for reviewing hard copies of member time sheets to verify the adequacy of member service hours in WBRS were not included or documented;
- Procedures for reviewing orientation agendas and sign-in sheets were not included or documented;
- Procedures for ensuring that member service was in accordance with the intent of the grant were not included or documented;
- Procedures for ensuring that members were eligible to perform service were inadequate. The monitoring tool for citizenship contains an ambiguous “citizenship” criterion. The Commission often reviews Immigration and Naturalization I-9 forms to satisfy this criterion. The I-9 form allows review of a driver’s license, which is not adequate documentation of member citizenship eligibility; and
- Procedures did not exist to ensure compliance with AmeriCorps guidelines stating that members are entitled to receive living allowances only while in service.

***Recommendation:*** We recommend that the Corporation ensure that the Commission:

- Strengthens subgrantee monitoring procedures to include more detailed reviews of allowable costs and documentation to ensure that subgrantees have adequate financial management systems.

- Improves its monitoring procedures to better document activities performed during site visits.

**Commission Response:** The Commission noted that it has revised its monitoring procedures to conduct separate fiscal and program monitoring site visits for each subgrantee. The Commission will use the comprehensive Member File Checklist tool to document the monitoring activities completed during the visits.

**Auditors' Comments:** We believe the actions taken by the Commission will help to resolve the issues.

#### **4. The Commission's procedures to ensure compliance with all grant provisions were weak.**

Several subgrantees did not comply with, or did not adequately document compliance with, grant provisions on member contracts, health care requirements, and miscellaneous grant requirements. Specifically:

- One subgrantee member contract did not contain required grievance procedures. Subgrantee personnel who created member contracts for AmeriCorps members were not aware that grievance procedures must be stipulated in the member contract. AmeriCorps Provision, B.7.b, *Member Contracts*, states that grantees must require members to sign contracts that, at a minimum, include grievance procedures.
- Two subgrantees could not locate member contracts for four members. AmeriCorps Provision, B.7.b, *Member Contracts*, states that grantees must require members to sign contracts. One subgrantee stated that the members completed the contracts, but it likely misfiled them. The second subgrantee lost the member file for one member and possibly misfiled the contract for the second member.
- One subgrantee provided (and claimed costs for) health insurance for part-time members. AmeriCorps Provisions, B.11.e, *Health Care Coverage*, states that grantees must provide health insurance to full-time members, and the Corporation will not cover health care costs for family members or part-time members. The subgrantee offered no explanation for providing unallowable health insurance.
- One subgrantee could not document that it provided health insurance to full-time members and could not explain why the documentation was unavailable. AmeriCorps Provisions, B.11 e, *Health Care Coverage*, states that grantees must provide health care to full-time members not otherwise covered by a health care policy at enrollment or who lose coverage during their service terms as a result of participating in the program or through no deliberate act of their own.

- One subgrantee did not have a record-retention policy to require retention of supporting documentation for the minimum amount of time required by grant provisions. Also, the Commission's record-retention policies did not comply with retention requirements. AmeriCorps Provisions, C.27, *Retention of Records*, requires that grantees retain all program and financial records for three years from the date of submission of the final FSR.

Additionally, if an audit is started before expiration of the three-year period, the records must be retained until audit findings are resolved and final action is taken. Therefore, the Commission must either obtain all supporting documentation from each subgrantee and maintain those records for three years after grant closeout, or require subgrantees to do so.

***Recommendation:*** We recommend that the Corporation ensure that the Commission:

- Includes all required elements in its member contracts and ensures that each subgrantee maintains a contract for each member;
- Strengthens controls to obtain approval from the Corporation for health care provided to part-time members, or ensures that costs are not claimed, and maintains documentation as evidence that health insurance was either provided to all full-time members or was not necessary; and
- Requires that subgrantees revise record-retention policies to comply with grant provisions.

***Commission Response:*** The Commission stated it will:

- Require each subgrantee to submit a copy of the member contract for pre-approval to ensure the contracts meet requirements of the AmeriCorps Provisions;
- Strengthen controls to obtain approval from the Corporation for health care provided to members; and
- Require that subgrantees retain program and financial records for three years from the date of submission of the final FSR.

The Commission also stated that its annual training will address the grant provisions and the comprehensive monitoring/site visits will reinforce compliance with grant provisions.

***Auditors' Comments:*** We believe actions taken by the Commission will help the Corporation to resolve the issues.

**5. The Commission's financial management system was not adequate to account for and support all costs claimed.**

The Commission did not have an adequate financial management system to support all claimed costs and ensure that claimed costs met grant requirements. Specifically, the Commission:

- Claimed unallowable and unsupported costs under its PDAT grants;
- Had an inadequate labor distribution system; and
- Did not submit all reports in a timely manner.

**Unallowable and Unsupported Costs**

The Commission incurred contract-service expenses and labor costs outside of the older PDAT grant that are allocable and allowable to the subsequent PDAT grant. Additionally, the Commission processed an adjusting journal entry to allocate costs incurred that exceeded the PDAT grant award to the subsequent grant award. These issues are discussed in Notes 1 and 2 to Exhibit A.

**Inadequate Labor Distribution System**

The Commission stated that claimed labor costs for the administrative grant represented administrative support from CYFD. Costs charged were based on predetermined, estimated effort percentages. OMB Circular A-87, Attachment B, Paragraph 11(h), *Support of salaries and wages*, requires that salary distributions be based on after-the-fact personnel activity reports. These reports are to be signed by each employee and must account for all time worked.

**Untimely Grant Reporting**

Three of the grants we reviewed were required to be closed before our audit period. All three grant closeout packages were submitted between ten days and seven months late. The Commission noted that the closeout packages need to include a final accounting of claimed costs which delays package completion. The Commission is responsible for filing FSRs within 30 days after the reporting period, and submitting final FSRs and closeout packages within 90 days after the end of the grant period.



Additionally, the Commission filed 10 FSRs late, as follows:

<b>Program</b>	<b>Grant Period</b>	<b>FSR</b>	
		<b>Submitted Late</b>	<b>Days Late</b>
Administrative Grant	2004-2005	2	10 and 12
PDAT	2002-2004	2	24 and 518
AmeriCorps Competitive	2002-2003	1	55
AmeriCorps Competitive	2003-2005	2	40 and 90
AmeriCorps Formula	2002-2003	1	55
AmeriCorps Formula	2003-2005	2	40 and 96

**Recommendation:** We recommend that the Corporation ensure that the Commission:

- Develops procedures to adequately document and record in-kind contributions from third parties, properly values all matching costs, and ensures that all adjusting journal entries represent allowable costs in the period charged;
- Revises its labor distribution system to adequately support all claimed labor costs in accordance with applicable OMB circulars;
- Strengthens policies and procedures to ensure that financial, progress, and closeout reports are submitted in a timely manner; and
- Develops procedures to monitor grant match requirements and ensures that requirements are being met throughout the grant award.

We also recommend that the Corporation review costs charged to the Commission’s PDAT grants to ensure that all claimed costs were charged to the correct grant award.

**Commission Response:** The Commission noted it has:

- Developed an improved tracking system to adequately document and record values related to match costs, including in-kind contributions from third parties;
- Revised its labor distribution system to correctly code and support claimed labor costs; and
- Instituted an internal system to ensure that all reports are submitted in a timely manner. The system will also monitor match to ensure that the Commission meets match requirements throughout the grant award period.

The Commission has developed these improved systems in conjunction with CYFD, which maintains the Commission's financial management system. The Commission offices are in Albuquerque and CYFD is located in Santa Fe.

***Auditors' Comments:*** We believe actions taken by the Commission and CYFD will require extensive coordination and cooperation between these two entities to help the Corporation resolve these recommendations.

This report is intended for the information and use of the OIG, the Commission, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP



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Sam Hadley, CPA  
Partner

**APPENDIX A**

**COMMISSION'S RESPONSE TO AUDIT REPORT**

**APPENDIX B**

**CORPORATION'S RESPONSE TO AUDIT REPORT**