

**Office of Inspector General
Corporation for National and
Community Service**

**AUDIT OF CORPORATION FOR NATIONAL
AND COMMUNITY SERVICE GRANT AWARDED
TO HOME INSTRUCTION FOR PARENTS OF
PRESCHOOL YOUNGSTERS, USA**

OIG REPORT 07-10



Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

Prepared by:

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This report was issued to Corporation management on November 22, 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 May 22, 2007 and complete its corrective actions by November 22, 2007. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



OFFICE OF INSPECTOR GENERAL

November 22, 2006

TO: Kristin McSwain
Director AmeriCorps State*National

Margaret Rosenberry
Director, Office of Grants Management

FROM: Carol Bates /s/
Assistant Inspector General for Audit

SUBJECT: Audit Report 07-10, *Audit of the Corporation for National and Community Service Grant Awarded to Home Instruction for Parents of Preschool Youngsters, USA (HIPPY)*

We contracted with the independent certified public accounting firm of Mayer Hoffman McCann P.C. (MHM) to audit AmeriCorps Grant 04NDHNY001 awarded to HIPPY. The contract required that MHM conduct the audit in accordance with generally accepted government auditing standards.

In its audit of HIPPY, MHM found:

- Questioned costs of \$19,960 due mostly to lack of documentation to support the claimed costs, but also includes \$1,565 of costs for entertainment.
- Question costs of \$29,275 for non-grant costs related to education awards to AmeriCorps members because citizenship/eligibility documentation was not located.
- Six findings on internal controls and compliance with grant terms.

MHM is responsible for the attached auditor's report, dated September 6, 2006, and the conclusions expressed therein. We do not express opinions on HIPPY's Consolidated Schedule of Award Costs, conclusions on the effectiveness of internal controls, or compliance with laws, regulations, and grant provisions.

Under the Corporation's audit resolution policy, a final management decision on the findings in this report is due by May 22, 2007. Notice of final action is due by November 22, 2007.



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Senior Corps ★ AmeriCorps ★ Learn and Serve America



If you have questions pertaining to this report, please call me at 202-606-9356.

Attachment

cc: Elizabeth Seale, Chief Operating Officer
Jerry Bridges, Chief Financial Officer
Sherry Wright, Audit Resolution Coordinator
Ronald L. Conrad, CPA, Mayer Hoffman McCann P.C.
Sande Bennett, Interim Executive Director, Home Instruction
for Parents of Preschool Youngsters, USA

**Audit of Corporation for National and Community Service
Grant Awarded to Home Instruction for Parents of Preschool Youngsters, USA**

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REPORT SUMMARY AND HIGHLIGHTS



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Office of Inspector General
Corporation for National and Community Service

This report is issued under an Office of Inspector General (OIG) engagement with Mayer Hoffman McCann P.C. to audit the costs claimed by Home Instruction for Parents of Preschool Youngsters, USA (HIPPY) and its subgrantees from August 16, 2004, through March 31, 2006, under a grant awarded by the Corporation for National and Community Service (Corporation). This report focuses on the audit of claimed costs, instances of noncompliance with Federal laws, applicable regulations or award conditions, and internal control weaknesses disclosed during the audit.

Executive Summary

HIPPY claimed total costs of \$465,897 for the period audited. Of this total, we questioned \$19,960. We also questioned \$29,275 for related member education awards, which are not included as costs claimed by HIPPY but are earned when a member satisfies specific requirements under grants to HIPPY. A questioned cost is an alleged violation of provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; a finding that, at the time of the audit, such cost is not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Our audit included fieldwork at the parent organization as well as testing of two subgrantees: Homey's Youth Foundation and Advocates for Children. Our testing at Advocates for Children was limited to testing costs claimed and documents included in the member files that would affect costs. The OIG requested that we not test controls because this subgrantee ceased operation prior to the end of the grant period.

Deficiencies found at the parent organization include:

- late submissions of Financial Status Reports (FSRs);
- accounting duties ineffectively segregated;
- understated costs claimed on the FSR;
- overstated costs drawn down on the Standard Form 272 reports; and
- inadequate fiscal monitoring of subgrantees.

Deficiencies found at the subgrantee locations:

- lack of an audit trail from subgrantee accounting system to costs claimed;
- late member data reporting;
- member files lacking citizenship documentation;
- member evaluations not performed;
- unsupported costs claimed;
- unallowable entertainment costs claimed;
- personnel costs claimed based on budget rather than actual data; and
- internal control weakness due to improper segregation of duties.

The report includes six findings and eight recommendations to improve the grantee's internal controls and its compliance with grant provisions.

Background

The Corporation, pursuant to the authority of the National Community Service Trust Act of 1993, as amended, awards grants to grantees referred to as National Directs, such as HIPPY, and other entities to assist in the creation of full-time and part-time national and community service programs.

HIPPY is an international organization headquartered in New York City. Its administrative office is currently staffed with seven full-time employees, one part-time employee, and an Executive Director. Its mission is to assist parents in educating their children. In performing their service with HIPPY, AmeriCorps members visit homes to instruct parents on the use of specialized educational materials.

The Corporation funded HIPPY with a \$753,416 AmeriCorps National Direct Program grant, No. 04NDHNY001, and it has claimed costs of approximately \$465,897. HIPPY processed drawdowns of \$532,707 during the period under review and awarded in excess of \$425,800 to its subgrantees.

Objectives, Scope, and Methodology

We performed our audit during the period July 24, 2006, through September 6, 2006, and used methodologies we deemed appropriate for the scope of the audit. Our *Independent Auditor's Report* and our *Independent Auditor's Report on Compliance and Internal Control* provides additional details about the scope and methodology. The objectives of our audit were to determine whether:

- HIPPY's financial reports fairly presented the financial results of the award;
- internal controls were adequate to safeguard Federal funds;

- HIPPY had adequate procedures and controls to ensure compliance with Federal laws, regulations, and award conditions, as well as ensure that member services were appropriate; and
- award costs reported to HIPPY were documented and allowable in accordance with the award terms and conditions.

We performed the audit in accordance with auditing standards generally accepted in the United States of America and generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed against the awards, as presented in the Consolidated Schedule of Award Costs, are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Schedule of Award Costs. An audit also includes assessing the accounting principles used and significant estimates made by the auditee, as well as evaluating the overall financial schedule presentation. Our audit included reviews of audit reports prepared by the independent public accountants for the subgrantees in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. We believe our audit provides a reasonable basis for our opinion.

The contents of this report were disclosed to and discussed with HIPPY at an exit conference held on August 31, 2006. In addition, the OIG provided a draft of this report to HIPPY and to the Corporation for comment on October 6, 2006. Their responses are included as Appendices A and B, respectively.

Grant Programs Audited

Our audit of HIPPY covered financial transaction and compliance and internal controls testing of grant award 04NDHNY001 for the AmeriCorps National Direct Program, as follows:

Award Period: 08/16/04 to 08/15/07 **Audit Period:** 08/16/04 to 03/31/06

Costs Questioned

The following table summarizes the costs questioned:

Reason for Questioned Cost	Amount Questioned
Personnel costs claimed based on budget	\$ 4,820
Credit card transactions not supported	9,006
Entertainment costs (Unallowable)	1,565
Costs not reconciled to accounting system	<u>4,569</u>
Total Grant Costs Questioned	<u>\$ 19,960</u>
Total Education Awards Questioned	<u>\$ 29,275</u>

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

Compliance and Internal Control Findings

Compliance Findings:

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

1. HIPPY did not have adequate financial monitoring or other procedures in place to ensure that its subgrantees claimed costs in accordance with OMB's principles or grant provisions.
2. HIPPY did not have adequate procedures in place to ensure that its subgrantees documented member eligibility.
3. HIPPY did not fully monitor subgrantee compliance with grant provisions.
4. Late Submission of Financial Status Reports (FSR).
5. Inaccurate reporting of FSRs.

Internal Control Finding:

6. Roles were not properly segregated within the parent organization and one of its subgrantees.



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INDEPENDENT AUDITOR'S REPORT

We have audited the costs incurred by HIPY for the award number listed below. These costs, as presented in the Consolidated Schedule of Award Costs and the grant-specific Schedules of Award Costs (Exhibit A), are the responsibility of HIPY management. Our responsibility is to express an opinion, based on our audit, on the Consolidated Schedule of Award Costs.

<u>AmeriCorps Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
04NDHNY001	08/16/04 to 08/15/07	08/16/04 to 03/31/06

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

In our opinion, except for the \$19,960 in questioned grant costs discussed above, the Consolidated Schedule of Award Costs and the grant-specific Schedules of Award Costs (Exhibit A and related Schedules) referred to above present fairly, in all material respects, the costs claimed for the period August 16, 2004, to March 31, 2006, in conformity with generally accepted accounting standards in the United States of America.

In accordance with the *Government Auditing Standards*, we have also issued our report, dated September 6, 2006, on our consideration of HIPY's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial

reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Mayer Hoffman McCann P.C.
Irvine, California
September 6, 2006

**Corporation for National and Community Service Awards
HIPPY**

Consolidated Schedule of Award Costs

August 16, 2004, to March 31, 2006

<u>AmeriCorps Award Number</u>	<u>Approved Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Questioned Education Awards</u>	<u>Reference</u>
04NDHNY001	<u>\$ 753,416</u>	<u>\$ 465,897</u>	<u>\$ 19,960</u>	<u>\$ 29,275</u>	Exhibit A

Notes to Consolidated Schedule of Award Costs

Reporting Entity

The accompanying consolidated Schedule of Award Costs includes amounts budgeted, claimed, and questioned under the AmeriCorps National Direct grant from the Corporation for the period from August 16, 2004, to March 31, 2006.

HIPPY awards its AmeriCorps grant funds to subgrantees that administer AmeriCorps programs and report financial and programmatic results to the grantee.

Basis of Accounting

The accompanying Schedule has been prepared to comply with the provisions of the grant agreements between the Corporation and HIPPY. The information presented in the Schedule has been prepared from the reports submitted by HIPPY to the Corporation. The basis of accounting used in preparation of these reports differs slightly from accounting principles generally accepted in the United States of America as follows:

Inventory

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

Exhibit A

HIPPY
Schedule of Award and Claimed Costs
Award Number 04NDHNY001
August 16, 2004, to March 31, 2006

<u>Audit Details</u>	<u>Claimed Costs</u>	<u>Costs Tested</u>	<u>Questioned Costs</u>	<u>Questioned Education Awards</u>	<u>Schedule Reference</u>
HIPPY Parent	<u>\$ 181,229</u>	<u>\$ 119,261</u>	<u>\$ -</u>		
<u>Subgrantees</u>					
Advocates for Children**	\$ 37,613	37,613	\$ 4,820	-	A-1
Homey's Youth Foundation*	97,466	97,466	15,140	29,275	A-2
Family Support Services of West Hawaii	53,149		-	-	
Sunrise Children Foundation	32,202		-	-	
Oregon Child Development Coalition	<u>64,238</u>	-	-	-	
Subgrantee Total	<u>\$ 284,668</u>	<u>\$ 135,079</u>	<u>\$19,960</u>	<u>\$ 29,275</u>	
Total	<u>\$ 465,897</u>	<u>\$ 254,340</u>	<u>\$ 19,960</u>	<u>\$ 29,275</u>	

* Selected for Full-scope Testing

** Selected for Testing Costs Claimed Only

HIPPY
Schedule of Award Costs
Award Number 04NDHNY001
August 16, 2004, to March 31, 2006
New Jersey - Advocates for Children

		<u>Reference</u>
Approved Budget (Federal Funds)	<u>\$84,948</u>	Note 1
Claimed Costs	<u>\$37,613</u>	Note 2
Questioned Costs		
Personnel costs overstated	<u>\$4,820</u>	Note 3
Total Questioned Costs	<u>\$4,820</u>	

Notes

1. The amount shown above as Approved Budget represents the total funding to Advocates for Children, for the first year according to budget schedules.
2. Claimed costs represent Advocates for Children reported expenditures for the period August 16, 2004, through March 31, 2006.
3. The computation for claiming personnel costs was based on budgeted, rather than actual, salary figures, resulting in costs claimed in excess of actual costs incurred (*see* Questioned Compliance Finding No. 1).

HIPPY
Schedule of Award Costs
Award Number 04NDHNY001
August 16, 2004, to March 31, 2006
California – Homey’s Youth Foundation

		<u>Reference</u>
Approved Budget (Federal Funds)	<u>\$174,250</u>	Note 1
Claimed Costs	<u>\$ 97,466</u>	Note 2
Questioned Costs		
Costs not reconciled to general ledger	\$ 4,569	Note 3
Unsupported credit card charges	9,006	Note 4
Unallowable entertainment costs claimed	<u>1,565</u>	Note 5
Total Questioned Costs	<u>\$ 15,140</u>	
Questioned Education Awards:		
Lacking citizenship documentation	<u>\$ 29,275</u>	Note 6
Total Questioned Education Awards	<u>\$ 29,275</u>	

Notes

1. The amount shown above as Approved Budget represents the total funding to Homey’s Youth Foundation according to budget schedules.
2. Claimed costs represent Homey’s Youth Foundation’s reported expenditures for the period August 16, 2004, through March 31, 2006.
3. Subsidiary records were not reconcilable to costs claimed on the monthly invoices submitted to HIPPY USA for program years 2004 through 2006 (*see* Compliance Finding No. 1).
4. Credit card charges claimed to the grant lacked either monthly statements, receipts supporting the statements or both (*see* Compliance Finding No. 1).
5. The cost of entertainment totaling \$1,565 was claimed to the grant for a “fun night out” for the AmeriCorps members at Disneyland during the 2004/2005 State Conference (*see* Compliance Finding No. 1.)
6. Member eligibility was not verifiable because citizenship documentation was not located for fifteen members. As a result, the education awards were questioned (*see* Compliance Finding No. 3).



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL

We have audited the Schedules of Award Costs, as presented in Exhibit A, which summarize the claimed costs of HIPPY under the Corporation grant listed below, and have issued our report thereon, dated September 6, 2006.

<u>Program</u>	<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
AmeriCorps National Direct	04NDHNY001	08/16/04 to 08/15/07	08/16/04 to 03/31/06

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

Compliance and Other Matters

Compliance with laws, regulations, and the provisions of the awards is the responsibility of HIPPY's management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and the terms and conditions of the awards, noncompliance with which could have a direct and material effect on the determination of the amounts on the financial schedules. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the Compliance Findings section of this report. Instances of noncompliance include non-adherence to requirements, or violations of prohibitions contained in statutes, regulations, and the award provisions.

Compliance Findings

The results of our tests disclosed the following instances of noncompliance with grant terms:

Finding 1: HIPPY did not have adequate financial monitoring or other procedures in place to ensure that its subgrantees claimed costs in accordance with grant provisions or OMB's principles.

HIPPY claimed costs that did not comply with AmeriCorps Provisions or the Office of Management and Budget's (OMB) cost principles. As a result, we questioned \$19,960 of costs claimed to the Corporation, as follows:

<u>Description</u>	<u>Entity</u>	<u>Schedule</u>	<u>Federal Share</u>	<u>Criteria</u>
Unsupported Personnel Costs	Advocates for Children	A-1	\$ 4,820	(1)
Unsupported Credit Card Charges	Homey's Youth Foundation	A-2	9,006	(1)
Unreconcilable Costs	Homey's Youth Foundation	A-2	4,569	(1)
Entertainment Costs	Homey's Youth Foundation	A-2	<u>1,565</u>	(2)
Total Questioned Costs			\$ <u>19,960</u>	

We determined that a lack of thorough fiscal monitoring of HIPPY's subgrantees caused these costs to be claimed. HIPPY utilized a monitoring tool which encompassed aspects of fiscal monitoring, but the tool was not detailed to the point that transaction testing was performed. We also noted that HIPPY did not perform its 2004 monitoring visit at Advocates for Children. This finding is also considered to be an internal control weakness.

Criteria

- (1) AmeriCorps Provisions are binding on the grantee. AmeriCorps General Provisions (2004-2005), sub section 22.b, states:

Source Documentation. The Grantee must maintain adequate supporting documents for its expenditures (federal and non-federal) and in-kind contributions made under this grant. Costs must be shown in books or records [e.g., a disbursement ledger or journal], and must be supported by a source document, such as a receipt, travel voucher, invoice, bill, in-kind voucher, or similar document.

- (2) OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, (hereafter OMB A-122) Attachment B, Paragraph 14, states:

Entertainment costs. Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

Recommendations

Recommendation 1: The Corporation determine the allowability of the questioned costs, recover unallowable costs that were charged to the grant, including administrative costs, and ensure that HIPPY improves its fiscal monitoring so that costs are incurred and claimed in compliance with the cost principles and grant terms.

Recommendation 2: The Corporation ensure, in view of the prior lack of supporting documentation, that HIPPY pay only that portion of future HOMEY invoices that are supported by documentation sufficient to determine the allowability of submitted costs.

HIPPY's Response

HIPPY concurs with the finding but has obtained further supporting documentation available for the Corporation's Office of Grants Management to review. HIPPY stated that it would pay for expenses that could not be clearly linked back to the AmeriCorps budget.

HIPPY took positive action and required its AmeriCorps Directors and Assistant Directors to attend training in August 2006 in which fiscal monitoring was discussed. The Corporation also assisted with a presentation about documentation of match funding. HIPPY has also implemented a policy requiring a financial desk audit twice a year and is considering alternative solutions for fiscal monitoring.

Auditor's Comment

We believe that the actions taken by HIPPY are appropriate. The Office of Grants Management may be able to allow some of the questioned costs if supporting documentation is adequate.

Finding 2: HIPPY did not have adequate procedures in place to ensure that its subgrantees documented member eligibility.

Our tests showed that AmeriCorps member proof of citizenship documentation was not available for review for 15 of Homey's Youth Foundation's 66 members. Living allowances were not paid from Corporation funds, so these exceptions affected only education awards. With regard to the 15 exceptions, 7 members had completed service and 8 members were still serving. As a result, we questioned the education awards for all 15 members, a total of \$29,275, because their eligibility had not been established.

Officials at Homey's Youth Foundation offices in San Diego relied on program site managers to determine citizenship or legal residency of members. When grantees/subgrantees approve a member who has committed to serving in AmeriCorps without ensuring the member is eligible, they may not only be doing a disservice to the member but are inappropriately encumbering an AmeriCorps slot. HIPPY needs to ensure that its grantee complies with grant terms, which include AmeriCorps provisions and the Code of Federal Regulations (C.F.R.), as cited below.

Criteria

(1) AmeriCorps Provisions (2004-2005), Section A, Definitions, paragraph 14., states in part:

Member means an individual:

- a. Who enrolled in an approved national service position;
- b. Who is a U.S. citizen, U.S. national or lawful permanent resident alien of the United States;

(2) AmeriCorps Special Provisions (2004-2005), subsection B.14., states in part:

b. Verification. To verify U.S. citizenship, U.S. national status or, U.S. lawful permanent resident alien status, the Grantee must obtain and maintain documentation as required by **45 C.F.R. §2522.200 (b) and (c)**. The Corporation does not require programs to make and retain copies of the actual documents used to confirm age or citizenship eligibility requirements, such as driver license, or birth certificate as long as the Grantee has a consistent practice of identifying the documents that were reviewed and maintaining a record of the review.

(3) 45 C.F.R. §2522.200 (b) and (c), referenced above in the AmeriCorps Provisions, state:

(b) Written declaration regarding high school diploma sufficient for enrollment. For purposes of enrollment, if an individual provides a written declaration under penalty of law that he or she meets the requirements in

paragraph (a) of this section relating to high school education, a program need not obtain additional documentation of that fact.

(c) Primary documentation of status as a U.S. citizen or national. The following are acceptable forms of certifying status as a U.S. citizen or national:

- (1) A birth certificate showing that the individual was born in one of the 50 states, the District of Columbia, Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa, or the Northern Mariana Islands;
- (2) A United States passport;
- (3) A report of birth abroad of a U.S. Citizen (FS-240) issued by the State Department;
- (4) A certificate of birth-foreign service (FS 545) issued by the State Department;
- (5) A certification of report of birth (DS-1350) issued by the State Department;
- (6) A certificate of naturalization (Form N-550 or N-570) issued by the Immigration and Naturalization Service; or
- (7) A certificate of citizenship (Form N-560 or N-561) issued by the Immigration and Naturalization Service.

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

Recommendations

Recommendation 3: The Corporation ensure that HIPPY subgrantees document member eligibility before the subgrantee approve the members' enrollment in Corporation systems.

Recommendation 4: The Corporation require that HIPPY ensure that the Homey Youth Foundation retains copies of eligibility documents.

HIPPY's Response

Homey Youth Foundation has ceased operation since the completion of the audit. HIPPY's new policy will require subgrantees to maintain eligibility documentation records at the subgrantee sites, and HIPPY, using a checklist, will review documentation while performing site visits. The checklists will be completed during the site visit and initialed by the Executive Director.

Auditor's Comment

We agree that the new procedures will help ensure that member eligibility documentation will be available for review and that members are eligible prior to service. The Corporation should obtain documentation to support the eligibility of the 15 members. Without the documentation of eligibility, these members should not receive an education award.

Finding 3: HIPPY did not fully monitor subgrantee compliance with grant provisions.

We found instances where subgrantee member documentation at Homey’s Youth Foundation was lacking (or the function not performed), or submitted late. We tested 33 member files for selected attributes, not all of which were applicable to each member, as highlighted in the table that follows:

Exception Description	Files Applicable to Criteria Requirement	Exceptions	Range of Days Late
Enrollment forms approved within 30 days of member’s commitment	33	15	5 to 33 days late
Exit forms submitted within 30 days of completed service	15	2	5 days
Mid-term evaluations completed for period when requirement was applicable. ¹	29	29	n/a
End-of-term evaluations prepared	8	8	n/a

Homey Youth Foundation entered enrollment and exit forms into the Web Based Reporting System (WBRS) late because its program officials in San Diego received the information late from its program sites throughout California. In addition, its program officials were not familiar with the requirement for performing mid-term evaluations. The remaining exceptions were due to the program’s lack of adherence to the grant’s requirements.

Entering enrollment and exit information late can distort the information presented to the Corporation, which in turn, is responsible for accurately and timely deobligating the Trust account, which funds the education awards. Program officials must become familiar with grant requirements ensure that they are met.. The Grantee and the subgrantee are not in compliance with the provisions, and therefore we also consider this finding to be an internal control weakness.

Criteria

AmeriCorps Special Provision, Section B.16., *Reporting Requirements.*, in part, states:

b. AmeriCorps Member-Related Forms. The Grantee is required to submit the following documents to the National Service Trust at the Corporation on forms provided by the Corporation. Grantees and Sub-Grantees may use

¹ Beginning with PY 2005/2006, mid-term evaluations were only required for Half Time and Full Time members. Those committed to serving less hours, i.e. Reduced Half Time and Quarter Time were not required to have mid-term evaluations. Although we tested 33 files, there were only 29 that required mid-term evaluations per the provisions.

WBRS to submit these forms electronically. Programs using WBRS must also maintain hard copies of the forms:

i. Enrollment Forms. Enrollment forms must be submitted no later than 30 days after a member is enrolled....

iii. Exit/End-of-Term-of-Service Forms. Member Exit/End-of-Term-of-Service Forms must be submitted no later than 30 days after a member exits the program or finishes his/her term of service.

AmeriCorps Special Provision, Section IV.D. *Training, Supervision and Support*, state:

6. Performance Reviews. The grantee must conduct and keep a record of at least a midterm and end-of-term written evaluation of each member's performance for Full and Half-Time members and an end-of-term written evaluation for less than Half-time members. The evaluation should focus on such factors as:

- a. Whether the member has completed the required number of hours;
- b. Whether the member has satisfactorily completed assignments; and
- c. Whether the member has met other performance criteria that were clearly communicated at the beginning of the term of service.

Recommendation

Recommendation 5: The Corporation ensure HIPPY effectively implements corrections that assure member entrance and exit forms and evaluations are prepared and submitted on time.

HIPPY's Response

HIPPY concurs with the finding and will implement procedures to test for entrance and exit forms in its newly developed semiannual desk audits and in its review of randomly selected member files.

Auditor's Comment

We agree the actions described above should improve monitoring of subgrantees and help detect noncompliance with requirements for timely submission of member entrance and exit forms.

Finding 4: HIPPY submitted its Financial Status Reports (FSRs) late.

HIPPY did not submit any of its FSR's on time, as shown in the table below.

FSR Period Covered	Required Date	Date Submitted	Days Late
10/01/04 – 03/31/05	04/30/05	08/12/05	104
04/01/05 – 09/30/05	10/30/05	12/16/05	47
10/01/05 – 03/31/06	04/30/06	07/12/06	73

Hippy representatives advised and we confirmed that they had great difficulty in submitting the data into the Corporation's systems although they had the information available to submit. Late submission of FSRs was due primarily to difficulty experienced with eGrants, although we are unsure whether HIPPY's inexperience with eGrants was solely responsible for the late FSRs. Corporation officials revealed during the exit conference that HIPPY's difficulties may have been caused by Corporation officials who did not perform timely reviews and enter their approval of the prior FSR. We were further advised that a grantee may not have been able to enter its subsequent FSR into eGrants until the Corporation reviewed and approved the prior FSR.

As a result of the late reporting, the Corporation did not have accurate financial information related to the HIPPY grant. The condition also caused HIPPY to be noncompliant with the provisions of its grant. This finding is also considered to be an internal control weakness.

Criteria

AmeriCorps Special Provision, Section B.16., *Reporting Requirements.*, states:

a. Financial Status and Progress Reports. Progress and Financial Status reporting requirements in these Provisions apply only to the Grantee. Grantees are required to review, analyze, and follow up on progress and financial status reports they receive from AmeriCorps subgrantees or operating sites. Each Grantee must submit Progress and Financial Status Reports by the required due dates.

Requests for extensions of reporting deadlines will be granted when 1) the report cannot be furnished in a timely manner for reasons legitimately beyond the control of the grantee and 2) the Corporation receives a request explaining the need for an extension before the due date of the report.

Extensions of deadlines for FSRs (SF 269a) may only be granted by the Office of Grants Management, and extensions of deadlines for Progress Reports may only be granted by the AmeriCorps Program Office.

i. Financial Status Reports. The grantee shall submit semi-annual cumulative financial status reports summarizing expenditures during the reporting period using eGrants (Financial Status Reports menu tree). Financial Status Report deadlines are:

Due Date

April 30
October 30

Reporting Period Covered

Start of grant through March 31
April 1 – September 30

A Grantee properly utilizing eGrants meets financial reporting requirements when the Grantee uses that system to submit reports within the approved time frames. A Grantee must set its own submission deadlines for its respective Sub-Grantees.

Recommendation

Recommendation 6: The Corporation should require its grant managers, in addition to any standard notification procedures, to contact grantees whenever FSRs are substantially or routinely overdue, determine and document the causes, and assist the grantee in overcoming impediments to timely submission.

HIPPY's Response

HIPPY concurs with the finding, but maintains that the problem existed on the part of the Corporation's application, which did not recognize receipt of the FSR. As a result, HIPPY has designed alternative procedures to document when FSR's are submitted in the event that there is a technical problem with the Corporation's application.

Auditor's Comment

We agree the actions discussed above will help HIPPY document when it has submitted its FSRs. The recommendation provides for Corporation grant managers to document these problems and assist grantees in resolving the issues.

Finding 5: Inaccurate reporting of FSRs

HIPPY incorrectly underreported expenditures from the onset of the grant. As of March 31, 2006, its understatement of expenditures amounted to \$57,272. Conversely, HIPPY overstated expenditures on its Report of Federal Cash Transactions (SF-272), a drawdown request, by \$9,538.

The grantee manually compiled its financial data for purposes of computing costs claimed on the FSR and for the SF-272. Certain documentation was inadvertently omitted when HIPPY prepared the FSR, which caused its expenditures to be understated. The grantee also inadvertently overstated the SF-272 drawdown request on September 20, 2005, by including the same invoice twice. This cost information had already been included in its drawdown request of August 11, 2005, which caused HIPPY to drawdown \$9,538 in excess of costs incurred. These errors are further explained, as follows:

FSR- Data erroneously omitted from the compilation of the FSR are:

Date of Invoice	Amount	Entity
12-10-04	\$2,000	Parent (HIPPY)
12-03-04	4,841	Parent (HIPPY)
12-03-04	6,361	California Subgrantee
09-22-04	<u>44,070</u>	Parent (HIPPY)
Total	<u>\$57,272</u>	

SF-272 The table below includes draw-down requests submitted through March 31, 2006:

Date of Request	Amount	Cumulative
03/30/2006	\$13,783.84	\$13,783.84
03/22/2006	20,778.85	34,562.69
02/09/2006	7,505.47	42,068.16
02/08/2006	23,216.67	65,284.83
01/31/2006	8,927.33	74,212.16
12/07/2005	18,708.88	92,921.04
11/02/2005	19,111.21	112,032.25
10/18/2005	43,332.60	155,364.85
10/13/2005	54,822.27	210,187.12
09/20/2005	9,537.68	219,724.80
09/15/2005	23,799.46	243,524.26
08/11/2005	31,697.69	275,221.95
For brevity, 18 requests subsequent to 8/11/05 are not shown		
09/22/2004	44,070.16	532,706.61
Total	<u>\$532,706.61</u>	

Criteria

AmeriCorps General Provision, sub section 22.a, states:

General. The Grantee must maintain financial management systems that include standard accounting practices, sufficient internal controls, a clear audit trail and written cost allocation procedures as necessary. Financial management systems must be capable of distinguishing expenditures attributable to this Grant from expenditures not attributable to this Grant. This system must be able to identify costs by programmatic year and by budget category and to differentiate between direct and indirect costs or administrative costs. For further details about the Grantee's financial management responsibilities, refer to OMB Circular A-102 and its implementing regulations (45 C.F.R. 2543) or A-110 and its implementing regulations (45 C.F.R. 2541), as applicable.

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

Recommendation

Recommendation 7: The Corporation should ensure HIPPY improves its controls to assure more accurate reporting by reconciling costs claimed on the FSR to the accounting system. One way to do improve its controls is for HIPPY to eliminate manual processing by automating financial report preparation. This practice is within the capability of its existing accounting software package.

HIPPY's Response

HIPPY concurs with the finding and will use its software to produce automated data for FSR submission. It will also implement a policy, effective immediately, which requires the National Program Director to provide a copy of the completed drawdown, initialed by the accountant, to the Executive Director. This will allow the Executive Director to verify its accuracy.

Auditor's Comment

The actions taken by HIPPY should improve financial reporting.

Internal Control Finding

Finding 6: Ineffectively Segregated Duties.

Roles and duties at HIPPY and at one of its subgrantees, Homey's Youth Foundation, have not been segregated to safeguard assets and to detect misappropriation of assets in a timely manner. The following weaknesses were identified during our review.

HIPPY's Accountant/Program Administrator:

Receives cash receipts

- Performs bank reconciliations
- Has the ability to change receipts transactions in the general ledger

Prepares non-payroll checks

- Maintains the general ledger

The subgrantee did not sufficiently segregate duties for staff members handling cash disbursements. The Executive Director for Homey's Youth Foundation has the ability to perform the following functions:

- Approve his own purchases
- Post transactions to the general ledger
- Access blank checks
- Access printed checks
- Sign checks

The person who verifies the use of the funds also has access to all documentation needed to initiate the use of funds. This lack of segregation could allow any unauthorized use of funds to go undetected. Although our audit did not identify any unusual transactions, the existing organizational structure leaves the entities with little control to ensure that unauthorized use or misappropriation of funds would be detected in a timely manner.

Criteria

The 45 C.F.R. §2541.200, Standards for financial management systems, states in part:

- (b) The financial management systems of other grantees and subgrantees [other than a State government grantee] must meet the following standards...

(3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Recommendation

Recommendation 8: The Corporation ensure that HIPPY strengthens its controls and ensures its subgrantees segregate duties to provide effective internal financial controls in accordance with 45 C.F.R. §2541.200(b)(3). If reorganization is not practical to strengthen internal controls, then the Corporation and HIPPY should consider increasing its testing during onsite monitoring visits.

HIPPY's Response

HIPPY concurs with the finding and notes that the subgrantee, which did not adequately separate those roles, is no longer operating. HIPPY also notes that it will rely on increased testing during its monitoring to mitigate weaknesses in the segregation of duties. Lastly, segregation of duty issues identified at HIPPY will be addressed once a new Executive Director is hired next year and the relocation of the national office is completed.

Auditor's Comment

We agree that reliance on increased and more frequent testing will mitigate risks stemming from internal control weaknesses related to segregation of duties. Once HIPPY hires its new Executive Director, it should establish appropriate roles and duties for its accounting staff.

Internal Controls Over Financial Reporting

In planning and performing our audit of awards costs as presented in Exhibit A for the period August 16, 2004 to March 31, 2006, we considered HIPPY's internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide an opinion on the internal controls over financial reporting. However, we noted certain matters involving the internal control over financial reporting that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect HIPPY's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Compliance findings numbered 1 through 6, as set forth in the Compliance and Internal Control Findings Sections of this report, are also considered as internal control reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal controls that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe all of the reportable conditions identified above represent material weaknesses.

Mayer Hoffman McCann P.C.

Mayer Hoffman McCann P.C.
Irvine, California
September 6, 2006

Appendix A

**Response to the Draft Report by
Home Instruction for Parents of Preschool Youngsters, USA**



HIPPYUSA[®]

October 30, 2006

Home Instruction for Parents of Preschool Youngsters

BOARD OF TRUSTEES

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HIPPY International

TRUSTEES EMERITI

Hillary Rodham Clinton

United States Senate

Avima Lombard

HIPPY Founder

Nan Rich

Florida State Senate

Dr. Ruth Westheimer

Professor and Therapist

Ms. Carol Bates

**Assistant Inspector General for Audit
Corporation for National and Community Service**

Office of Inspector General

1201 New York Avenue, NW Suite 830

Washington, DC 20525

Dear Ms. Bates:

Please find our response below to the draft report on the *Audit of the Corporation for National and Community Service Grant Awarded to Home Instruction for Parents of Preschool Youngsters, USA*.

Page 12: Finding 1: HIPPY did not have adequate financial monitoring or other procedures in place to ensure that its sub grantees claimed costs in accordance with grant provisions or OMB's principles.

Page 13: Recommendation 1: The Corporation determines the allowability of the questioned costs, recover unallowable costs that were charged to the grant, including administrative costs, and ensure that HIPPY improves its fiscal monitoring so that costs are incurred and claimed in compliance with the cost principles and grant terms.

Recommendation 2: The Corporation ensure, in view of the prior lack of supporting documentation, that HIPPY pay only that portion of future HOMEY invoices that are supported by documentation sufficient to determine the allowability of submitted costs.

Concur

We agree with the auditors in adequate fiscal monitoring of subgrantees is important and we realize how important fiscal monitoring is for any organization. We had \$19,960 questioned of our \$465,897 claimed total costs of which 15K is for Homey Youth Foundation which has gone out of business since the audit.

Homey Youth Foundation - To date, we have received an additional \$8100 of \$9006 credit card receipts from Homey Youth Foundation, which were not available at the time of the audit. We will share these findings with Doug Gerry at the Office of Grants Management to make the final decision. Any expense that cannot be clearly linked back to legitimate AmeriCorp budget we'll pay the remaining balance. We have \$4301 that was never advanced to Homey; therefore any unallowable expenses can be deducted from these dollars.

The unsupported personnel cost (\$4820) for subgrantee "Advocates for Children" cost is not overstated. The costs were incorrectly calculated between salary lines. In November 2005, the Program Director resigned and staffs were working from the following AmeriCorps Grant Provisions M3D, page 22. It states that grantees may transfer funds among approved direct cost

categories when the cumulative amount of such transfers does not exceed 10 percent of the total program budget. Staffs believed they could switch between salary lines as long as staff did not go over 10% of the total salary line. We understand that you are concerned with these dollars being the budget dollars versus the actual dollars. We will work on getting the backup of timesheets and allocation of salaries charged.

Action Taken As A Result of the Audit: We did not wait for the final draft report to come out. As soon as we learned of these issues we took immediate action as cited below.

1. When these findings were presented to HIPPYUSA the organization had a HIPPYCorp Pre-Service Training coming up on August 7 - 8, 2006 in Jersey City, New Jersey. Adjustments were made to the Pre-Service Training to review program and fiscal monitoring as a result of the audit. All Americorp's' Directors and Assistant Directors were required to attend. On August 7, 2006 Mr. Gregory FT Winn, of the Corporation for National and Community Service provided a PowerPoint presentation on Documentation of Match Funding. There was a question and answer segment, which also included discussion on fiscal monitoring.

Action Plans

1. Desk Audits: Each state will be required to complete a desk audit twice a year of which one desk audit will be financial. States will be selected at random and will be required to submit the last month's financial records and supporting documentation.
2. Western Regional Conference – March 2007 – It has been suggested that there be a desk audit review session on the agenda and to review this past year's audit.
3. Alternative Solution: HIPPYUSA will come up with a plan by May 2006 when a new executive director will be hired. This plan may include submission of copy of receipts as backup along with a new fiscal monitoring form for subgrantees to track all expenditures. This form may include date of expenditure, vendor, and purpose of expense and dollar amount. Appropriate HIPPYUSA personnel would review this form for allowable funding and sign off on it. The accounting personnel would ensure that organizations are reimbursed for the allowable cost. This new procedure will prevent up front any unsupported credit card charges or unreconciled or unallowable cost such as entertainment. This will also give the organization time to expedite a new procedure with a new contract year.

Page 14: Finding 2: HIPPY did not have adequate procedures in place to ensure that its sub grantees documented member eligibility.

Page 15: Recommendation 3: The Corporation ensures that HIPPY subgrantees document member eligibility before the sub grantee approves the members' enrollment in Corporation systems.

Recommendation 4: The Corporation requires that HIPPY ensure that the Homey Youth Foundation retains copies of eligibility documents.

Concur

We understand the importance of eligibility of documents; however we no longer are working with Homey Youth Foundation as they have gone out of business. On September 5, 2006, Homey Youth Foundation secured 18 of 19 documents to provide proof of citizenship. We forwarded these to the auditors, who could only accept 5 of these. The reasons they gave include the following:

1. Eleven were Driver Licenses and Social Security Cards, which we understand, are not acceptable forms of identification for federal funding.

2. However three documents were from the Santa Barbara and Santee School District and only one was acceptable. The Human Resources Department verified employment, Drivers License and Social Security Card or stated proof of citizenship. They stated that personnel files are confidential and they would not send copies of documentation.
3. The outstanding person (#19) was enrolled in the 2005-2006 programs and did not complete her service.

We will continue to do the following with sub grantees to ensure that all states are in requirement of state law.

1. During the site visits a checklist will be provided and proof of citizenship and consistent practice of identifying the documents will be reviewed at the site. We will ensure that they maintain a record for our review. The Project Director or National Program Director will complete the site visit form. The executive director will initial. If for any reason they are not in compliance they will be notified in writing immediately that they must comply within 30 days to the national office or their status will be jeopardized and we reserve the right to withhold funding. The National Program Director will ensure that a follow-up will take place, and will sign off on this.
2. In March 2007, a Western Region Conference will take place for the training. As part of this training a review of adequate documentation will take place.
3. Hope Baker, School Readiness Coordinator is now the new HIPPYCORP Director for the state of California as of the end of October 2006. As the new point person for California, she will be actively working on securing all of the eligibility documents. This should be completed no later than January 1, 2007.

Page 16: Finding 3: HIPPY did not fully monitor sub grantee compliance with grant provisions.

Recommendation 5: The Corporation ensures HIPPY effectively implements corrections that assure member entrance and exit forms and evaluations are prepared and submitted on time.

Concur

We agree that member entrance and exit forms, along with evaluations should be submitted on time. HIPPYUSA will not assure that Homey Youth Foundation completes this task, as they have gone out of business.

Action That Has Been Developed As A Result of the Audit: Deadline Dates: All will be completed by June 2007.

1. Each state will be required to complete a desk audit twice a year. One will be a program audit and the other will be a financial audit.
2. States will be selected at random and will be required to submit two member files and supporting documentation. This includes eligibility, time logs, enrollment forms, exit/entrance forms and term of service forms, along with performance reviews.

Page: 18 Finding 4: HIPPY submitted its Financials Status Reports (FSRs) late.

Page 19 Recommendation 6: The Corporation should require its grant managers, in addition to any standard notification procedures, to contact grantees whenever FSRs are substantially or routinely overdue, determine and document the causes, and assist the grantee in overcoming impediments to timely submission.

Concur

We agree that this has been an issue, but the problem of lateness did not rest with HIPPYUSA. We submitted all FSR's on time, but the eGrants system has not recognized these reports on time. We have talked to our Grants Manager about how CNCS has fixed this at their end. It is our understanding that the corporation has developed a new website and we should be able to get a response back that has been received, which we will attach to each hard copy. If we have any problems we will also fax a hard copy and have a receipt on file that it has been sent.

Finding 5: Inaccurate reporting of FSRs.

Page 21: Recommendation 7: The Corporation should ensure HIPPY improves its controls to assure more accurate reporting by reconciling costs claimed on the FSR to the accounting system. One way to do improve its controls is for HIPPY to eliminate manual processing by automating financial report preparation. This practice is within the capability of its existing accounting software package.

Concur

We agree that the FSR's should be based on reports printed directly from QuickBooks and this is how we will handle the reporting in the future. Our policy presently is before a draw down is completed, it is approved by the National Program Director. In the future once the draw down is completed, a copy of the draw down will be given to the executive director and the accountant will verify it. This will be initialed and the accounting department will keep records and perform reconciliation's. This will result in a check and balance. This procedure will start immediately.

Page: 22 Finding 6: Ineffectively Segregated Duties.

Recommendation 8: The Corporation ensure that HIPPY strengthens its controls and ensures its subgrantees segregate duties to provide effective internal financial controls in accordance with 45 C.F.R. 2541.200(b)(3). If reorganization is not practical to strengthen internal controls, then the Corporation and HIPPY should consider increasing it's testing during onsite monitoring visits.

Concur

We understand the importance of internal controls and agree that division of financial duties is a challenge in a small organization whether HIPPYUSA or other subgrantees. Homey Youth Foundation is now out of business and it is the only subgrantee that came from a small office. The other subgrantees are part of school districts and universities where segregated duties amongst staffs have not been an issue.

Action Already Taken: We did not wait for the final draft report to come out. As soon as we learned of these issues we took immediate action as sited below.

1. At the HIPPYCorp Pre-service in August 2006 Mr. Gregory FT Winn, Corporation for National and Community Service touched upon segregation of accounting duties during the questions and answer period. We will continue to use the sample checklist, which is available to all program staffs through AmeriCorp.

Future Plans.

1. As previously completed the CNCS monitoring tool will continue to be used as Project Director and National Program Director monitor sites. Instead of filing these reviews after each site visit, each review will be initialed by the executive director. If a site does not meet compliance, then a letter will be sent by the Project Director requiring compliance and if necessary a correction plan, which will be returned within 30 days. Failure to comply will allow HIPPYUSA to reserve the right to terminate our agreement with the party. The Project Director will complete follow-up. A summary monitoring tool will be kept to ensure that everything is completed. This will be completed by January 1, 2007.
2. HIPPYUSA will further study their segregation of duties for audit resolution.

We believe that the internal control system at HIPPYUSA is adequate and is functioning as intended. Since the national office will be moving next year, I believe any additional transition should take place when the new executive director is hired. Please feel free to contact me during this transition period to assist you at 212-532-7730 x 223 or e-mail me at sbennett@hippyusa.org.

Sincerely,



Sandee Bennett, MS, CTRS
Interim Executive Director

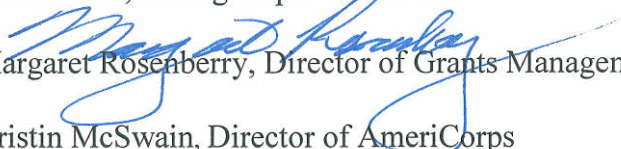
Cc: Doug Gerry

Appendix B

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

Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

To: Carol Bates, Acting Inspector General

From: 
Margaret Rosenberry, Director of Grants Management

Cc: Kristin McSwain, Director of AmeriCorps
Sherry Wright, Audit Resolution Coordinator, Office of the CFO

Date: November 6, 2006

Subject: Response to OIG Draft Audit Report: Audit of Corporation for National and Community Service Grant Awarded to Home Instruction for Parents of Preschool Youngsters, USA (HIPYPYUSA)

Thank you for the opportunity to review the draft audit report of the Corporation's grants awarded to HIPYPYUSA. We have received HIPYPYUSA's corrective action to date. They are gathering supporting documentation for questioned costs and revised a pre-service training held in August 2006 to review program and fiscal monitoring and documentation requirements for match.

We do not have specific comments at this time. We will respond to all findings and recommendations in our management decision when the final audit is issued; we have reviewed the findings in detail; and worked with HIPYPYUSA to resolve the audit.

