Office of Inspector General
Corporation for National and Community Service

AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE GRANT AWARDED TO UNITED STATES VETERANS INITIATIVE, INC.

OIG REPORT NUMBER 07- 21

Prepared by:

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This report was issued to Corporation management on September 10, 2007. 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 March 10, 2008, and complete its corrective actions by September 10, 2008. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Corporation for
NATIONAL & COMMUNITY SERVICE

OFFICE OF INSPECTOR GENERAL

September 10, 2007

TO: Kristin McSwain
Director, AmeriCorps State*National

Margaret Rosenberry
Director, Office of Grants Management

FROM: Gerald Walpin
Inspector General

SUBJECT: Report 07-21, *Office of Inspector General (OIG) Audit of Corporation for National and Community Service Grant Awarded to the U.S. Veterans Initiative, Inc. (USVI)*

We contracted with the independent certified public accounting firm of Mayer Hoffman McCann P.C., Conrad Government Services Division (Conrad) to perform an incurred-cost and compliance audit of the Corporation for National and Community Service grant number 03NDHCA001. The contract required that Conrad conduct its review in accordance with generally accepted government auditing standards.

In its review of USVI, Conrad questioned Federal share costs of $502,774 and non-grant costs of $249,226 for AmeriCorps education awards. It also presented 10 findings on internal controls and compliance with grant terms.

In connection with the contract, we reviewed Conrad's report and related documentation and inquired of its representatives. Our review was not intended to enable us to express, and we do not express opinions on the conclusions expressed in the report. Conrad is responsible for the attached report, dated March 2, 2007, and the conclusions expressed therein. However, our review disclosed no instances where Conrad did not comply, in all material respects, with generally accepted government auditing standards.

Under the Corporation's audit resolution policy, a final management decision on the findings in this report is due by March 10, 2008. Notice of final action is due by September 10, 2008.

If you have questions pertaining to this report, please call this office at 202-606-9390.

Attachment

cc: Dwight Radcliff, Acting Chief Executive Officer,
U.S. Veterans Initiative, Inc.
Rene Jorgeson, Principal, Mayer Hoffman McCann P.C.
Nicola Goren, Chief of Staff
Jerry Bridges, Chief Financial Officer
William Anderson, Deputy Chief Financial Officer
Sherry Blue, Audit Resolution Coordinator

Audit of Corporation for National and Community Service
Grant Awarded to United States Veterans Initiative

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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 United States Veterans Initiative (USVI) from September 1, 2003, through August 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

USVI claimed total costs of $5,363,221 for the period audited. Of this total, we questioned $502,774. We also questioned $249,226 for Federal taxpayer-supported education awards, which are not included as costs claimed by USVI, but are earned when an AmeriCorps member, as certified by USVI, satisfies specific requirements. A questioned cost is what is believed to be a violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of Federal 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.

Additionally, USVI may not have properly accounted for a significant amount of program income resulting from its joint venture agreement (JVA) with Cantwell-Anderson Incorporated LLC (hereinafter 'CAI,' whether referring to Cantwell-Anderson Incorporated LLC and/or its wholly owned or predominately owned subsidiaries.) at its Westside Residence Hall site, and at other operating sites where JVAs have been negotiated between USVI and CAI. See page 38 for further details.

We determined that the transactions related to rent expenses and other transactions, between USVI and CAI, are less-than-arms-length. See page 37 for further details. We are also awaiting a final decision from the Department of Housing and Urban Development (HUD) on using grant funds from one Federal agency as match to another agency's grant. The results of our audit may also be impacted by the final resolution of the indirect costs that have yet to be audited.

Our audit included fieldwork at USVI's home office as well as testing at three of six program sites. Our audit found deficiencies and non-compliance with grant provisions including:

- Commingling of costs to a fund code used for the grant under audit and a newly awarded Corporation National Direct grant;
- Performance measures not clearly tracked and evaluated by the program;
- Transaction tests resulting in a 69 percent error rate, including indirect costs claimed as grant costs, costs claimed without proper support, costs directly allocated without explanation of benefit to the program, costs claimed which did not meet allowability criteria and costs claimed based on estimates;
- Retroactively dated transactions submitted as support for claimed costs without explanation;
- Personal expenses of USVI's Chief Executive Officer charged to the grant;
- An irreconcilable difference between costs claimed and records from a subsidiary accounting ledger; and
- A number of internal control weaknesses, including no documentation of monitoring visits.

Deficiencies found at program sites included:

- Incomplete AmeriCorps member eligibility documentation;
- Member evaluations not consistently performed;
- Member training hours not reported;
- Criminal record checks not performed on members serving vulnerable persons;
- Variances between hours recorded on member timesheets and hours reported by USVI to the Corporation's Web Based Reporting System (WBRS);
- Members who served more than two terms and received living allowances;
- Living allowances claimed for Education Award Only (EAO) members;
- Living allowances claimed for members for whom no records existed;
- Member living allowances claimed for USVI members enrolled in the Nevada Commission program;
- Members who provided no service to veterans or who performed administrative duties for USVI ;
- Members who provided services to the for-profit real estate development firm CAI;
- Employees of USVI or a USVI placement site enrolled as EAO members;
- Member living allowances classified as salaries; and
- Staff level of effort claimed based on estimates rather than timesheets.

The report includes ten findings and 22 recommendations to improve the grantee's internal controls and its compliance with grant provisions. USVI was last audited by this OIG on December 5, 1997. Results from that audit were similar to these results.

On May 8, 2007, the Corporation informed USVI that, based on issues raised during the exit conference, it was deferring action on its 2007 AmeriCorps National Direct continuation funding, and that current costs reimbursed to USVI would be limited to member costs and costs directly associated to support member activities. The Corporation instructed USVI to include supporting documentation for each cost claimed and stated that the following type of costs would not be reimbursed:

1. Indirect costs;
2. All costs not directly associated with member service activities; and
3. Salaries for USVI senior staff and those not directly associated with member oversight and supervision.

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 USVI, to assist in the creation of full-time and part-time service programs.

USVI is a non-profit entity headquartered in Inglewood, CA. It provides assistance to homeless veterans in California, Nevada, Arizona, Texas, Hawaii, New York and the District of Columbia. USVI receives Federal funding from:

- Corporation for National and Community Service;
- U. S. Department of Veterans Affairs;
- U. S. Department of Housing and Urban Development; and
- U. S. Department of Labor.

The Corporation funded USVI with a $6,811,252 AmeriCorps National Direct Grant, No. 03NDHCA001, and USVI has claimed costs of $5,363,221 through August 31, 2006. USVI processed drawdowns of $4,947,792 during the period under review.

USVI's relationship with CAI is discussed at length later in this report. In summary, a JVA was established on September 27, 1993, between USVI and Westside Residence Hall (Westside), a CAI wholly owned subsidiary, stipulating that profit generated from the operation of Westside would be evenly allocated to both entities. Similar JVAs with CAI were established for other USV1 operating sites throughout the country.

USVI also has a financial relationship with Century Housing Corporation (CHC), a California nonprofit corporation, and its affiliate, Century Villages of Cabrillo, Inc. (CVC), whereby rent is paid by USVI to CVC for the Long Beach facility and claimed to the National Direct and California Commission grants. In addition, USVI has agreed to allow CVC the use of its donated Navy furnishings for $1 per year.

USVI has been audited by its funding agencies, including the U.S. Department of Housing and Urban Development (HUD). The results of the HUD report, dated September 27, 2004, questioned consulting fees paid by USVI to CAI due to a lack of supporting documentation. USVI agreed to reimburse HUD approximately $134,000 for its share of the costs paid to

CAI. The costs for these fees were recovered through USVI's indirect cost pools. As a result, all of the other Federal awarding agencies, including the Corporation, are very likely entitled to a similar reimbursement from USVI for the amounts allocated for these same charges to their respective grants.

Objectives, Scope, and Methodology

We performed our audit during the period June 21, 2006, through March 2, 2007, and used methodologies we deemed appropriate. Our *Independent Auditor's Report* and our *Independent Auditor's Report on Compliance and Internal Control* provide additional details about scope and methodology. The objectives of our audit were to determine whether:

- USVI's financial reports fairly presented the financial results of the award;
- Internal controls were adequate to safeguard Federal funds;
- USVI had adequate procedures and controls to ensure compliance with Federal laws, regulations, and award conditions, including that AmeriCorps member services were appropriate; and
- Award costs reported to USVI were documented and allowable in accordance with the grant 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 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 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 Office of Management and Budget (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 USVI officials at an exit conference held on April 13, 2007. In addition, the OIG provided a draft of this report to USVI and to the Corporation for comment on July 25, 2007. Their responses are included as Appendices A and B, respectively.

Summary of USVI's Response

Most of USVI's response contains (i) agreement with OIG's audit findings; (ii) USVI's suggestion that documentation which might support USVI's financial representations might be provided in the audit resolution process (even though USVI did not provide that documentation during the audit); (iii) assertions by USVI of the correctness of its position without providing reference to supporting documentation or audit criteria; and (iv) implicit admissions of the validity of the audit findings by statements that USVI has changed its procedures to correct the reported defects.

The response also suggests that findings of non-compliance should be excused because USVI provides service to homeless veterans. The audit does not question the societal benefit of services to veterans. However, a good purpose does not relieve a Federal grantee from the obligation to comply with laws, regulations, OMB circulars and grant provisions.

Finally, the response comments on the lengthy duration of the audit. During the course of our work, we received numerous requests from USVI to delay or suspend the audit for months at a time. USVI was concerned that the original time frame for the audit would not be fair, and would not allow it the time needed to answer auditor questions and support costs. We have documented the fact that the duration of this audit includes considerable additional time provided to USVI by the auditors to find documentation and answer audit questions. Despite the additional time granted, USVI continues to state that it would like to provide additional data during the audit resolution process.

Grant Audited

Our audit of USVI covered financial transactions and compliance and internal controls testing of grant award 03NDHCA001 for the AmeriCorps National Direct Program, as follows:

Award Period: 09/01/03 to 02/28/07 **Audit Period:** 09/01/03 to 08/31/06

Costs Questioned

The following table summarizes the costs questioned:

Reason for Questioned Cost	Amount Questioned	Reference
Not in Accordance with Grant Provisions or Cost Principles	$ 15,665	Finding # 1
Indirect Costs Claimed as Direct	144,728	Finding # 2
Unsupported	46,120	Finding # 2
Allocation Percentage not Justified	33,715	Finding # 2
Not in Award Budget	3,866	Finding # 2
Not Allocable	1,915	Finding # 2
Unallowable due to AmeriCorps program non-compliance	142,894	Finding # 4
Less-Than-Arms-Length Transactions - Rent	113,871	Finding # 5
Total Grant Costs Questioned	$ 502,774	
Total Education Awards Questioned	$ 249,226	Finding # 4

We used a judgmental sampling method to test the costs claimed. Based upon this sampling plan, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been tested. We have made no attempt to project such costs to total expenditures incurred, based on the relationship of costs tested to total costs. We consider Findings 1 through 4 to be material weaknesses. For a complete discussion of these questioned costs, refer to the Independent Auditor's Report below.

Compliance and Internal Control Findings

Compliance Findings:

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

1. USVI did not have adequate financial controls or other procedures in place to ensure that it claimed costs in accordance with grant provisions and OMB's cost principles.
2. USVI did not implement an adequate financial management system that would ensure costs claimed were allowable, allocable and reasonable.
3. USVI claimed match costs that did not meet the requirements of the grant provisions, the Code of Federal Regulations, or the OMB Circulars.
4. USVI lacked controls to ensure AmeriCorps member program requirements were followed.
5. USVI claimed unallowable rent to the grant.
6. USVI program results were not clearly defined.
7. USVI did not consistently comply with specific grant provisions.

Internal Control Findings:

8. USVI does not have policies and procedures for drawdowns.
9. USVI has not updated its job descriptions.
10. A Financial Status Report (FSR) variance went undetected by Grantee.

We consider Findings 1 through 4 to be material weaknesses[1].

[1] 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 errors or irregularities, in amounts which would be material 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.

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INDEPENDENT AUDITORS' REPORT

We have audited the costs incurred by USVI for the award number listed below. These costs, as presented in the Schedule of Award Costs, are the responsibility of USVI management. Our responsibility is to express an opinion, based on our audit.

AmeriCorps Award Number	Award Period	Audit Period
03NDHCA001	09/01/03 to 02/28/07	09/01/03 to 08/31/06

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. We believe our audit provides a reasonable basis for our opinion.

Rulings from Other Agencies
USVI is the recipient of grant awards from other Federal agencies. We are waiting for rulings from another agency on certain issues which may affect the costs claimed to the Corporation grant. USVI claimed Corporation funds as match costs to its U. S. Department of Housing and Urban Development (HUD) grant. HUD is considering allowing these costs as a valid grant match. If these costs are ruled as a valid match, then the costs claimed as HUD match may not be allowable as claimed Corporation grant costs.

Indirect Costs
Costs claimed under this grant include indirect costs. The indirect cost rates have not been audited as part of this audit. As a result, costs claimed under the indirect cost category could be over- or under-stated.

Allocation of Costs
USVI allocates certain costs among various Federal grant awards. Audit evidence provided to support these allocations did not meet OMB Circular requirements.

Evidential Matter
During fieldwork, our discussions with USVI personnel and USVI management produced inconsistent and untimely responses. We found that certain source documents were questionable and some documents only partially supported costs claimed.

Error Rate of Costs Audited
Our sampling of transactions revealed that 69 percent of the tested transactions were unallowable, unsupported or not allocable. Due to the error rate and the internal control weaknesses causing those errors, we cannot be assured those costs that were not tested are similarly unallowable, unsupported or not allocable.

In our opinion, because of the matters previously discussed, the Schedule of Award Costs referred to above does not present fairly the costs claimed for the period September 1, 2003, to August 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 March 2, 2007, on our consideration of USVI'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. That report, beginning on page 11, describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing, but does not provide an opinion on those issues. 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
March 2, 2007

Corporation for National and Community Service Awards
United States Veterans Initiative
Schedule of Award Costs

September 1, 2003, to August 31, 2006

AmeriCorps Award Number	Approved Budget	Claimed Costs	Questioned Costs	Questioned Match Costs	Questioned Education Awards
03NDHCA001	$ 6,811,252	$ 5,363,221	$ 502,774	$ 560,681	$ 249,226

Notes to Schedule of Award Costs

Reporting Entity

The accompanying Schedule of Award Costs includes amounts budgeted, claimed, and questioned under the AmeriCorps National Direct grant from the Corporation for the period from September 1, 2003, to August 31, 2006.

Basis of Accounting

The accompanying Schedule has been prepared to comply with the provisions of the grant agreements between the Corporation and USVI. The information presented in the Schedule has been prepared from the reports submitted by USVI 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.

Related Party Transactions

USVI is a member of an established joint venture with CAI. The joint venture agreement provides for reimbursement by USVI of certain operating expenses. Activities between the parties for accounting support, consulting, rent and other services are considered related party transactions.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL

We have audited the Schedules of Award Costs which summarize the claimed costs of USVI under the Corporation and have issued our report thereon, dated March 2, 2007.

Program	Award Number	Award Period	Audit Period
AmeriCorps National Direct	03NDHCA001	09/01/03 to 02/28/07	09/01/03 to 08/31/06

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 USVI'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.

Compliance Findings

Our tests disclosed the following instances of noncompliance with grant terms:

Finding 1: USVI did not have adequate financial controls or other procedures in place to ensure that it claimed costs in accordance with grant provisions and OMB's cost principles.

USVI claimed costs that did not comply with AmeriCorps Provisions or the OMB cost principles. As a result, we questioned $15,665 of costs claimed as Federal share and $49 claimed as match.

Description	Federal Share	Match
CEO personal expenses	$ 1,294	$ -
Special Events	10,201	49
Entertainment Costs	1,953	-
Civic Organizations	1,500	-
Credits	100	-
Gifts Claimed as Supplies	217	-
Contributions/Donations	290	-
Unallowable Travel	110	-
Total Questioned Costs	$15,665	$49

Personal Expenses

USVI's Chief Executive Officer claimed costs for personal expenses, including payment for the CEO's home phone, home fax, home internet, and home cable television services. Also included in costs claimed were personal shipping fees for the CEO's returned items to a department store and magazine subscriptions to Texas Monthly, Washingtonian, and Phoenix Magazine. The subscriptions were bought by the CEO and purchased from her son with a check payable to the South Pasadena Middle School. The magazines were sent to the home of the CEO.

OMB Circular A-122, *Cost Principles for Non-Profit Organizations,* (hereafter OMB A-122) Attachment B. *Selected Items of Cost,* Paragraph 19 states: "*Goods or Services for Personal Use.* Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees."

Special Events

We identified costs claimed for special events staged by USVI for veterans. The majority of costs incurred for the special events were for meals. The events were titled:

- Spring Vet Party;
- Mother's Day Event;
- Cultural Celebration of Freedom Week;
- AmeriCorps Banquet (Includes Costs for Family Members);
- Artist Showcase Event;
- Make a Difference Day;
- Grand Opening for Ignacia House;
- Cinco De Mayo Celebration;
- Memorial Day Cookout;
- New Years Eve Barbeque;
- Graduation for 60 VIP Veterans;
- 1st Anniversary Luau;
- Christmas Event Party for veterans and one guest (included $125 for disc jockey);
- Christmas Party for USVI Staff;
- Halloween Party;
- Annual Celebration Party; and
- Black History Month Party.

USVI's per-diem grant with the VA, entitled Veterans in Progress (VIP), is designed to cover the costs of meals for veterans housed onsite. We, therefore, believe these costs are duplicative because they are recovered through the VA per-diem grant. We also note that the costs were not included in the Corporation's grant budget for the first two budget periods. Lastly, we believe these costs do not meet the requirements of costs considered to be reasonable as defined by the OMB Circulars due to the nature and the frequency of the events, and that many of the expenses were for the benefit of participating relatives of both AmeriCorps members and veterans.

OMB Circular A-122, Attachment A. *General Principles,* Paragraph A.2.f. *Basic Considerations*, *Factors affecting allowability of costs,* states: "To be allowable under an award, costs must meet the following general criteria: . . . f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period."

OMB Circular A-122, Attachment A. *General Principles,* Paragraph A.3 *Basic Considerations, Reasonable Costs* states:

> A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the

> preponderance of their support from awards made by Federal agencies. In determining the reasonableness of a given cost, consideration shall be given to:
>
> a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.
>
> b. The restraints or requirements imposed by such factors as generally accepted sound business practices, arms length bargaining, Federal and State laws and regulations, and terms and conditions of the award.
>
> c. Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government.
>
> d. Significant deviations from the established practices of the organization which may unjustifiably increase the award costs.

<u>Entertainment</u>
Costs claimed included those associated with special events discussed above that we consider to be entertainment and are outside the scope of the grant. They include payments for the following:

- Halloween Party in Houston for veterans that included costs for a disc jockey, games, contests, decorations, food, prizes and children's activities;
- Christmas Party in Houston for veterans and one guest that included costs for a disc jockey;
- Los Angeles Dodger baseball tickets for non-member volunteers ; and
- Veterans taking Polynesian Dance lessons.

OMB Circular A-122, Attachment B. *Selected Items of Cost,* 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."

<u>Civic Organizations</u>
We identified costs claimed for the CEO's membership to the Los Angeles Rotary Club totaling $1,500. These costs are allowable if prior approval is obtained from the cognizant agency. Prior approval from the Corporation was not obtained. Had approval been obtained, these costs would have been questioned as a direct grant expense on the basis that they represent costs that indirectly benefit the grant because the CEO's activities benefit all grants.

OMB Circular A-122, Attachment B. *Selected Items of Cost*, Paragraph 30.c, states: *Memberships, subscriptions, and professional activity costs*. Costs of membership in any civic or community organization are allowable with prior approval by Federal cognizant agency.

OMB Circular A-122, Attachment A. *General Principles,* Paragraphs B.1 and C.1, *Direct Costs* and *Indirect Costs* state:

> Direct costs are those that can be identified specifically with a particular final cost objective, i.e., a particular award, project, service, or other direct activity of an organization. However, a cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstance, has been allocated to an award as an indirect cost.
>
> *   *   *
>
> Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.

<u>Credits</u>
We identified claimed costs for an event for which a security deposit refund was received, but not credited to the grant. The amount of the security deposit was $100.

OMB Circular A-122, Attachment A. *General Principles*, Paragraph 5.a, states:

> *Applicable Credits*. The term applicable credits refers to those receipts, or reduction of expenditures which operate to offset or reduce expense items that are allocable to awards as direct or indirect costs. Typical examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing or received by the organization relate to allowable cost, they shall be credited to the Federal Government either as a cost reduction or cash refund, as appropriate.

<u>Gifts Claimed as Supplies</u>
USVI purchased 1,000 backpacks for its 2003 Christmas Party. We determined the cost of 20 of those backpacks had been claimed as “Supplies” to the grant and were given to veterans. These types of costs do not constitute allowable supplies. In fact, they more closely represent public relations-type gifts which are also not allowable. The amount claimed for the purchase of the gifted backpacks was $217.

OMB Circular A-122, Attachment B. *Selected Items of Cost*, Paragraph 28, states:

> *Materials and supplies.* The costs of materials and supplies necessary to carry out an award are allowable. Such costs should be charged at their actual prices after

> deducting all cash discounts, trade discounts, rebates, and allowances received by the organization. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing consistently applied. Incoming transportation charges may be a proper part of material cost. Materials and supplies charged as a direct cost should include only the materials and supplies actually used for the performance of the contract or grant, and due credit should be given for any excess materials or supplies retained, or returned to vendors.

OMB Circular A-122, Attachment B, *Selected Items of Cost,* Paragraph 1.f, states: "*Advertising and public relations costs*. . . . Unallowable advertising and public relations costs include the following: . . . (3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs."

<u>Contributions/Donations</u>
We found transactions in which USVI claimed contributions to a fundraiser "Hike for the Homeless" that included a $150 registration fee; a $90 donation to the Women's Care Cottage to attend a Literary Luncheon, and a $50 donation to attend a meeting of Military Women in Need.

OMB Circular A-122, Attachment B, *Selected Items of Cost,* Paragraph 12 states: "*Contributions and Donations rendered*. Contributions or donations, including cash, property, and services, made by the organization, regardless of the recipient, are unallowable."

<u>Unallowable Travel</u>
Cost claimed included the CEO's per-diem for a trip to Washington, DC. in addition to $110 for the cost of a dinner with the Director of the Veterans Administration Homeless Veterans Program and CAI's President. Claiming both per-diem and the actual costs of a meal represents an overcharge and does not comply with USVI's travel policies. In addition, the cost of the meal with the VA representative does not constitute an allocable AmeriCorps cost. Therefore, we have questioned these costs.

We determined that USVI lacked a clear understanding of OMB Circular Cost principles. We also noted that the CEO's monthly expense reimbursement reports were not reviewed or approved by anyone within USVI or its Board of Directors. We believe these costs were not properly supported due to USVI's lax approach in documenting and maintaining records of costs claimed to the grant.

OMB Circular No. A-122, Attachment B, *Selected Items of Cost,* Paragraph 51. *Travel costs*, states:

> b. *Lodging and subsistence*. Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed

> charges normally allowed by the non-profit organization in its regular operations as the result of the non-profit organization's written travel policy.

USVI travel policy 2.d. *Meals* states: "Initiative will pay current federal per diem rates for meals for the city to which you are traveling. If you only travel for a portion of a day, please break your day into thirds and request per diem accordingly."

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

Recommendations

Recommendation 1: The Corporation should determine the allowability of the questioned costs and recover unallowable costs including applicable overhead and G&A costs.

Recommendation 2: The Corporation should ensure that USVI improves its review process to ensure that only allowable costs are claimed.

Recommendation 3: The Corporation should ensure that USVI requires all CEO expenditures be reviewed and approved in accordance with USVI policies.

USVI's Response

USVI disagrees with the finding, but agrees that some mistakes were found. USVI contends it has have adequate financial controls and procedures to ensure that costs were claimed in accordance with grant provisions and OMB's cost principles.

Auditor's Comment

We believe the results of our testing fully support that controls either do not exist or are not followed. We reiterate our recommendation that USVI improve its process for reviewing grant transactions for allowability, as well as ensuring that all CEO expenses be reviewed prior to payment.

USVI did not specifically address the rationale for direct-grant charging the Executive Director's personal charges. USVI merely explains the nature of the expenses and is silent on the allocability of these charges that, to the extent they were not personal, clearly benefit the entire organization and should be charged as indirect. Furthermore, USVI does not address the rules and regulations quoted above which expressly prohibit charging grant funds for entertainment.

Finding 2: USVI did not implement an adequate financial management system that would ensure costs claimed were allowable, allocable and reasonable.

Our tests found numerous instances of costs claimed without sufficient or appropriate documentation.

Description	Federal Share Questioned	Match Questioned
Transactions Retroactively Added to 3/31/06 FSR	$ 6,760	$ -
Indirect Payroll Costs Charged as Direct Costs	117,322	5,478
Indirect Non-Payroll Costs Charged as Direct Costs	27,406	996
Payroll Costs Allocated to CNCS without Justification of Allocation	291	-
Non-Payroll Costs Allocated to CNCS without Justification of Allocation	26,664	1,294
Unsupported Payroll Costs	28,478	6,262
Unsupported Non-Payroll Costs	17,642	3,266
Costs not Approved in Award Budget	3,866	-
Costs not Allocable	1,915	47
Total	$230,344	$17,343

Transactions Retroactively Added to the March 31, 2006 FSR

The original scope of work was expanded from USVI's March 31, 2006, Financial Status Report (FSR) to the Corporation to include costs claimed on the September 30, 2006, FSR. We requested and received an updated transaction database of costs claimed and found that transactions had been retroactively added to the March 31, 2006, FSR for program years 2003/2004 and 2004/2005. Sixty-two transactions were added for Program Year 2003/2004 and 433 transactions were added for Program Year 2004/2005. An explanation was provided to the audit team on the last day of fieldwork. While most of the transactions were found to be valid and allowable, we questioned the following items:

1. Two credit card charges for 2003 travel expenses were not posted to the grant until March 2006. The explanation for these charges was that supporting documentation for the original credit card statement was difficult to assemble because many persons used the CEO's credit card for business purposes. It was not until March 2006 that all documentation had been assembled and USVI was confident that the charges pertained to the AmeriCorps grant. This explanation was provided to us the last day of fieldwork and, as a result, we were unable to review the supporting documentation to assess the appropriateness of the costs claimed. The transactions in question totaled $1,367. We also found seven credit card charges from 2005 that were not posted to the grant until March 2006. These charges totaled $973.

2. USVI received a grant (06NDHCA002) from the Corporation with a start date of September 1, 2006. We found some of the transactions which had been retroactively added to the grant under audit were actually for the new grant. This error occurred because the USVI fund code for the old award was also used for the new award. We identified $2,632 in transactions for the period September 1-30, 2006. However, the overlap of the two grants indicates the commingling of costs between the two awards most likely existed beyond the scope of our audit (through August 31, 2006).

3. Six transactions for USVI's California Commission grant were retroactively added to the March 2006 FSR in error. These transactions totaled $1,788.

<u>Indirect Costs Charged as Direct Costs</u>
We found 82 instances of non-payroll expenses charged to the grant whose benefit to the grant was indirect. Most of the questioned transactions pertained to costs incurred by the CEO. Activities of the CEO, the COO and Site Directors benefit the entire organization and those costs should be shared by all final cost objectives. Examples included:

- Costs of CEO labor charged directly to the grant - $117,322 (Federal share) and $5,478 (Match Costs);
- Costs of CEO travel charged directly to the grant - $18,647 (Federal share) and $173 (Match Costs);
- Other CEO costs directly charged to the grant - $3,967 (Federal share);
- Costs of COO travel charged directly to the grant - $3,148 (Federal share);
- Costs of Site Directors' travel charged directly to the grant - $439 (Federal share).

The HUD audit report on USVI, dated September 27, 2004, contained a similar finding against USVI for charging as direct costs those which should be charged as indirect. USVI has agreed to reimburse HUD for those erroneously charged direct costs thus acknowledging the error of the same charge USVI made against the Corporation. Furthermore, we note that the 2005-2006 indirect cost plan, used to negotiate provisional indirect rates, included the CEO's salary as an element in the indirect cost pool.

<u>Costs Allocated to Grant without Justification of Allocation</u>
We found charges that were split between various Federal grants. We were unable to determine the justification for the percentages allocated to the Corporation or to other Federal sources in 69 instances.

1. We found travel expenses that were allocated to the grant, but whose allocation was inconsistent with the traveler's labor distribution. One employee showed 100 percent travel costs claimed to the National Direct AmeriCorps grant, but the labor for this period was claimed to a VA grant. In another example, the traveler had claimed four days of labor to the California Commission grant and one day to the National Direct AmeriCorps grant. All of the travel costs were charged to the AmeriCorps grant. An explanation for these inconsistencies was not provided. Therefore, we questioned the travel costs claimed of $9,627 (Federal share) and $33 (Match Costs).

2. We identified other operating costs allocated to the grant with no explanation for the allocation basis. As a result, we questioned costs totaling $17,037 (Federal share) and $1,261 (Match Costs).

3. We identified $291 of payroll costs charged to the grant in error. They were the result of hours charged as vacation and sick time being charged directly to the grant. These costs had already been recovered through the fringe benefit rates.

Unsupported Costs

We identified 42 non-payroll transactions for which supporting documentation was either missing or insufficient to determine allowability, allocability or reasonableness.

1. Journal entries were not supported with originating documentation. We questioned the costs associated with these entries totaling $2,508 (Federal share) and $500 (Match Costs).
2. Insufficient documentation was provided for transactions charged to the grant. We questioned the costs associated with these transactions totaling $15,134 (Federal share) and $2,766 (Match Costs).
3. USVI's AmeriCorps Director in Houston completed her timesheet based on estimates. Her estimates included seven hours each day devoted to AmeriCorps and one hour each day to the VA VIP program. As a result, $24,770 costs were charged to the AmeriCorps grant based on estimates rather than actual effort. An additional $6,192 was claimed as match. The Director informed us that she had been instructed to complete her timesheets in this manner by USVI headquarters personnel. USVI officials denied making such statement. We were unable to determine the validity of the costs claimed, and therefore questioned them as being unsupported and not in compliance with OMB's timekeeping requirements.
4. We determined that the Hawaii Program Coordinator's labor of $1,824 had been arbitrarily charged based on the percentage included in the grant budget. We have questioned these costs due to a lack of support.
5. We found that timesheets were missing for the Los Angeles AmeriCorps Director during June 2004. We have questioned $1,488 of labor costs.
6. We determined that living allowances claimed were more than that recorded on USVI's July 2004 supporting payroll register. We questioned costs of $396 (Federal share) and $70 (Match Costs).

Costs Not Approved in Award Budget

We found insurance costs, including general and auto liability and umbrella coverage, normally charged to the indirect cost pools, were directly charged to the Corporation grant via journal entries. We also found direct payments made to insurance carriers for dishonesty and general liability insurance. These costs, totaling $2,072, were not provided for in the award budget, nor do they represent costs directly benefiting the grant.

We also found bank service fees totaling $920 charged directly to the grant. Despite communication with the bank and USVI, we were unable to determine what type of charges were assessed. USVI told us that it had claimed the costs in error.

Additionally, we determined that an $874 outlay for cell phones for AmeriCorps members had been charged to the grant. These costs, like the ones discussed above, were not included in the grant award budget.

Costs Not Allocable

We identified certain transactions whose costs clearly did not benefit the AmeriCorps program, either directly or indirectly. Examples of these costs included:

- Cell phones for persons not involved with the AmeriCorps program;
- Advertising for CAI's Transitional Housing Program[2];
- A first aid class that was not attended;
- A postage meter not used for the AmeriCorps program; and
- Supplies coded correctly on the supporting voucher, but charged to the AmeriCorps grant in error.

Transactions retroactively posted to the grant in error were due to the lax approach taken by USVI in assembling and gathering data for the FSR submission. The Controller did not review the FSR for accuracy or completeness. In addition, USVI did not consider the implications of reusing fund codes and the probable commingling of grant costs until it had been brought to its attention by the audit team. USVI contended that its MAS 90 accounting system would not accommodate another fund code and concluded it had no choice but to reuse fund codes. Through discussions with USVI, the audit team and USVI concluded there were in fact other codes which could be used to record costs of the new grant.

On January 25, 2007, USVI's Controller stated that he does not review cost allocations because the costs are too immaterial for his involvement. We were later told that the site directors at various USVI locations were responsible for coding the allocations and submitting this information to USVI's finance department. USVI has no policy in place requiring that allocations be documented and reviewed. During the same meeting, USVI's CEO stated that she had been instructed by an individual at the VA whom she could not identify, to record costs as direct costs whenever possible.

USVI has indirect ceiling limitations on its other Federal grants and these limitations may have caused USVI to directly charge the AmeriCorps grant and limit costs included in its indirect cost pools. Also, the low USVI member retention rates resulted in excess grant funds because there were fewer members than budgeted and therefore there were lower grant operating expenditures.

[2] Only certain veterans qualify for the Transitional Housing program. One qualification is that the veteran remains sober for a 90-day period. Tenants participating in the transitional housing program are required to pay rent directly to CAI.

Criteria

AmeriCorps Provisions (2003), Section C.22. *Financial Management Provisions,* states in part:

> a. 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.

45 C.F.R. § 2543, *Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.* Subsection 2543.21, *Standards for financial management systems,* states:

(b) Recipients' financial management systems shall provide for the following:

> (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in § 2543.51. If the Grants Officer requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient shall not be required to establish an accrual accounting system. These recipients may develop such accrual data for its reports on the basis of an analysis of the documentation on hand.
>
> (2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.
>
> (3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.
>
> (4) Comparison of outlays with budget amounts for each award. Whenever appropriate, financial information should be related to performance and unit cost data.

> (5) Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient. To the extent that the provisions of the Cash Management Improvement Act (CMIA) (Pub. L. 101-453) govern, payment methods of State agencies, instrumentalities, and fiscal agents shall be consistent with CMIA Treasury-State Agreements or the CMIA default procedures codified at 31 CFR part 205, ``Withdrawal of Cash from the Treasury for Advances under Federal Grant and Other Programs.''
>
> (6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.
>
> (7) Accounting records including cost accounting records that are supported by source documentation.

OMB Circular No. A-122, Attachment A. *General Principles*, Paragraph A.4. *Basic Considerations, Allocable Costs*, states:

> a. A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:
> (1) Is incurred specifically for the award.
> (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or
> (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

OMB Circular A-122, Attachment A. *General Principles*, Paragraphs B.1 and C.1, *Direct Costs* and *Indirect Costs* state:

> Direct costs are those that can be identified specifically with a particular final cost objective, i.e., a particular award, project, service, or other direct activity of an organization. However, a cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstance, has been allocated to an award as an indirect cost.
>
> *　　*　　*
>
> Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.

OMB Circular A-122, Attachment B. *Selected Items of Cost*, Paragraph 8.m, *Compensation for personal services, Support of Salary and Wages,* states:

> (1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, ...
>
> (2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards.

These AmeriCorps Grant Provisions are binding on the Grantee. By accepting funds under this grant, the grantee agrees to comply with the AmeriCorps Provisions, all applicable federal statutes, regulations and guidelines, and any amendments thereto. The grantee agrees to operate the funded Program in accordance with the approved grant application and budget, supporting documents, and other representations made in support of the approved grant application. The grantee agrees to include in all sub-grants the applicable terms and conditions contained in this award.

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

Recommendations

Recommendation 4: The Corporation should disallow the questioned costs and recover unallowable costs that were claimed, including applicable overhead and G&A costs.

Recommendation 5: The Corporation should review the costs claimed beyond the scope of this audit, September 2006 through February 2007, to determine if the costs are for Grant No. 03NDHCA001 and if these costs are allowable and allocable.

Recommendation 6: The Corporation should require that USVI's finance department review disbursements whose costs are split between grants and establish and document the basis. Once established, the allocation must be consistently applied.

Recommendation 7: The Corporation should require that USVI alter its cost accounting methodology to have labor and other allowable charges specific to the CEO, COO, Controller and similar indirect functions be recorded to the indirect cost pools commensurate with USVI's indirect cost rate proposal.

USVI's Response

USVI disagrees with the finding and states it has implemented an adequate financial management system to ensure costs claimed are allowable, allocable, and reasonable. USVI agrees to the basis of certain questioned costs, but also believes that final determination of these costs can be accomplished during audit resolution. USVI does not agree that indirect costs are being claimed as direct costs.

Auditor's Comment

We believe the results of our tests refute that an adequate financial system is in place or has ever been in place. The questioned costs identified in this finding are similar in nature to those previously questioned in OIG Report Number 98-13 of USVI, dated December 5, 1997.

Finding 3: USVI claimed match costs that did not meet the requirements of the grant provisions, the Code of Federal Regulations, or the OMB Circulars.

USVI claimed $2,079,359 toward grant match as of August 31, 2006. We found numerous instances of claimed match that was not allowable, allocable or supported, including in-kind donations of supplies and services and cash match costs, as shown below.

Exception Description	Match Costs Questioned	USVI Adjusted	Net Match Costs Overstated
Match Costs from Veterans Administration funding	$141,827	$ -	$141,827
Match Costs from Department of Labor funding	31,385	-	31,385
Match Costs allocable to California State Commission grant	115,613	(115,613)	0
Donated In-Kind Services for Supervision of Members	84,538	-	84,538
Donated In-Kind Goods	137,166	-	137,166
Other In-Kind Services	109,726	-	109,726
Total	$620,255	($115,613)	$504,642

Match Costs from Veterans Administration Funding
In a November 15, 2005 letter, the VA denied USVI the use of its grant funds toward the AmeriCorps program grant match. Upon notification, USVI ceased the practice. However, a retroactive adjustment to omit the VA funds used as grant match prior to the November 15 letter was never prepared. USVI personnel stated they were unaware that the ruling by the VA would require them to retroactively adjust the costs claimed prior receipt of the letter. As a result, we quantified the costs claimed from September 1, 2003, through November 15, 2005, and questioned the amount of $141, 827.

Match Costs from Department of Labor Funding
USVI claimed supplies totaling $31,385 obtained from Department of Labor funding through the Defense Revitalization and Marketing Offices in Hawaii. Items donated included:

- 10 insulated jugs;
- 1 meat slicer;
- 2 monitors;
- 3 computer systems;
- 15 water canteens;
- 55 field packs;
- 1 cold food counter; and
- 1 deep fryer.

We reviewed a memorandum, dated April 30, 1997, from a previous USVI Controller documenting USVI's knowledge of the restrictions placed on the use of Federal funds for purposes of grant match. Since it is apparent that USVI was aware of the match costs restrictions, we are unable to determine why it continued to record these expenses as match costs.

Match Costs Allocable to California Commission

We identified match costs claimed to the AmeriCorps National Direct grant which should have been claimed to the California Commission grant for operations at USVI's Long Beach site. This error was discovered by the audit team during fieldwork and subsequently adjusted by USVI on the September 30, 2006, FSR. The error occurred because the National Direct grant had included the Long Beach site during program years 2003/2004. When Long Beach switched to the Commission grant, USVI continued charging the match costs to the National Direct grant.

In-Kind Supervision

USVI claimed as in-kind match, the estimated time spent by site supervisors who oversaw the activities of AmeriCorps members. The basis of the effort was an estimated 2.5 supervisory hours per 10 member hours served. USVI has stated that the estimate was originally computed for purposes of budgeting and proposals but has since been used on each in-kind certification. We could not identify any form of alternative documentation to assess the actual level of effort that was provided in supervising AmeriCorps members. As a result, we have questioned all the estimated costs claimed toward grant match.

Donated In-Kind Goods

We noted problems with costs USVI claimed for donated goods as follows:

- The donor certificates had not always been signed by the donor;
- The value of the donated items had sometimes been assigned by USVI personnel; and
- The allocability of donations to the AmeriCorps program could not always be established.

Our efforts to establish allocability of some of the donated goods to the AmeriCorps program were unsuccessful. We contacted some donors to inquire whether the donated items were for the AmeriCorps program. Their answers included statements indicating they had never heard of AmeriCorps. USVI attempted to re-certify some of the donated items by getting signatures from individuals who had not previously signed the certificates. In three instances, we called these donors and found that, although a signature had been included on the re-certification, the individual stated they never signed the re-certification. The current re-certifications purport to support expenses that are two to three years old and we can not rely on them.

Following is an example of donated goods questioned:

- Krispy Kreme donuts - $7,000;
- Food and drinks for veteran event - $3,500;
- Costco gift cards - $450;
- Clothing, shoes and hygiene items from an individual - $500;
- Candy, chocolates, key chains, change purses from Hale Koa Hotel - $500.

Other In-Kind Services

USVI claimed the costs of services which were not verifiable or not properly supported. This precluded us from determining the allowability, allocability or reasonableness of these costs claimed to the grant match. Examples included:

- Accounting Services - $176;
- Training Services – $6,161;
- Public Relations/Marketing Services - $72,350;
- Use of rental truck - $11,196; and
- Donation of 30 hospital beds - $9,000.

Documentation supporting the public relations/marketing services was limited to a December 2, 2004, e-mail sent to USVI's CEO from the President and CEO of SMA Global that stated:

> "I'm confirming our various conversations this past year and recently in which we've agreed that SMA Global has donated services for the period January 1, 2004 – June 30, 2005 (18 months) with a value of $4,000 per month totaling $72,000 of which $48,000 was provide during 2004 and $24,000 will be provided during the first half of 2005."

We are questioning this match cost for lack of support because we were not provided any record of services provided, and the fact that SMA Global was merely anticipating providing services. The services for the month of December 2004 and for six months in 2005 had yet to be performed and therefore were merely anticipated.

The lack of required matching funds may prevent USVI from carrying out eligible activities, fully meeting program goals and requirements and maximizing the effectiveness of its programs.

Criteria

45 C.F.R. § 2543, *Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.* Subsection 2543.23, *Cost Sharing and Matching* states:

> (a) All contributions, including cash and third party in-kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following criteria.

(1) Are verifiable from the recipient's records.
(2) Are not included as contributions for any other federally-assisted project or program.
(3) Are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
(4) Are allowable under the applicable cost principles.
(5) Are not paid by the Federal Government under another award, except where authorized by Federal statute to be used for cost sharing or matching.
(6) Are provided for in the approved budget when required by the Federal awarding agency.
(7) Conform to other provisions of this Circular, as applicable.

*   *   *

(d) Volunteer services furnished by professional and technical personnel, consultants, and other skilled and unskilled labor may be counted as cost sharing or matching if the service is an integral and necessary part of an approved project or program. Rates for volunteer services shall be consistent with those paid for similar work in the recipient's organization. In those instances in which the required skills are not found in the recipient organization, rates shall be consistent with those paid for similar work in the labor market in which the recipient competes for the kind of services involved. In either case, paid fringe benefits that are reasonable, allowable, and allocable may be included in the valuation.

(e) When an employer other than the recipient furnishes the services of an employee, these services shall be valued at the employee's regular rate of pay (plus an amount of fringe benefits that are reasonable, allowable, and allocable, but exclusive of overhead costs), provided these services are in the same skill for which the employee is normally paid.

(f) Donated supplies may include such items as expendable equipment, office supplies, laboratory supplies or workshop and classroom supplies. Value assessed to donated supplies included in the cost sharing or matching share shall be reasonable and shall not exceed the fair market value of the property at the time of the donation.

*   *   *

(h) The value of donated property shall be determined in accordance with the usual accounting policies of the recipient, with the following qualifications.

*   *   *

(5) The following requirements pertain to the recipient's supporting records for in-kind contributions from third parties.

(i) Volunteer services shall be documented and, to the extent feasible, supported by the same methods used by the recipient for its own employees.

(ii) The basis for determining the valuation for personal service, material, equipment, buildings and land shall be documented.

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

Recommendations

Recommendation 8: The Corporation should disallow the questioned costs, including applicable overhead and G&A costs, and consider those costs in its computation discussed below under Recommendation number 12.

Recommendation 9: The Corporation should ensure that USVI obtains appropriate documentation for actual member hours supervised for future claims.

Recommendation 10: The Corporation should direct USVI to ensure that donated goods and services charged to the AmeriCorps grants are necessary and reasonable.

Recommendation 11: The Corporation should direct USVI to prevent errors by more closely scrutinizing costs claimed to match prior to FSR submissions.

Recommendation 12: The Corporation should review match costs beyond the scope of this audit and determine the allowable match for the grant. The Corporation should disallow the unmatched Federal share if the allowable match falls short of the required amount.

USVI's Response

USVI disagrees with the finding and contends that although mistakes were found, claimed match meets the requirements of the grant. USVI specifically denies that VA funds were used as match and states that donated in-kind goods and services questioned are valid match costs. USVI also offers that, in some cases, further supporting documentation can be provided during audit resolution to refute the finding.

Auditor's Comment

Match costs claimed on this grant prior to the November 15, 2005, VA letter include VA grant funds. USVI never retroactively adjusted the charges after receiving the VA's notification on match. Moreover, USVI had knowledge of the match restrictions based on the April 30, 1997, memorandum noted above.

The exceptions noted in the audit report were disclosed during fieldwork leaving USVI with eight months in which to either provide further supporting documentation or further state its case. We find it troublesome that audit evidence was not provided for our review during this span of time. We reiterate our recommendation that USVI improve its approach in accumulating and reporting match costs on its FSRs.

Finding 4: USVI lacked controls to ensure AmeriCorps member program requirements were followed.

We found non-compliance with member requirements which affected the allowability of costs claimed.

Description	Federal Share	Grant Match	Education Award	Reference
Lacked Proof of Citizenship	$ 6,395	$ 1,129	$ 14,520	**A**
Insufficient Hours for Education Award	-	-	18,900	**B**
Partial Education Award without Compelling Reason	-	-	4,031	**C**
Members Serving 3rd Term	25,033	-	-	**D**
Living Allowance Claimed above Ceiling	2,575	-	-	**E**
Living Allowances Claimed for Education Award Only Members	4,690	-	-	**F**
Members Not Enrolled in Program	4,760	830	-	**G**
Nevada Members Claimed to the National Direct Grant	4,564	805	9,450	**H**
Member Duties not Allocable to Program	94,877	16,743	41,675	**I**
Employees Earned Education Awards	-	-	160,650	**J**
Total	$142,894	$ 19,507	$249,226	

A. Proof of Citizenship
During our initial testing, USVI was unable to provide proof of citizenship for seven members. However, birth certificates for two members were later obtained during fieldwork. As a result, we did not question living allowances for those members. Four of the remaining five members in question were Education Award Only (EAO) members which we questioned. We questioned the living allowance and the education award of the remaining member.

AmeriCorps Provisions (2003), Section A.14. *Definitions, Member*, states:

> Member means an individual: . . . b. Who is a U.S. citizen, U.S. national or lawful permanent resident alien of the United States.

B. Questioned Education Awards

Education awards were questioned for six members either due to errors in the computation of the timesheets or missing timesheets. We identified computational errors on timesheets of four other members. These errors, however, did not affect education awards because the members did not earn them.

AmeriCorps Provisions (2003), Section C.22.c. *Financial Management Provisions*, *Time and Attendance Records,* states:

> ii. AmeriCorps Members. The Grantee must keep time and attendance records on all AmeriCorps members in order to document their eligibility for in-service and post-service benefits. Time and attendance records must be signed and dated both by the member and by an individual with oversight responsibility for the member.

C. Partial Education Award

A partial education award was granted to a member who exited the program early due to behavioral problems. Members are not eligible for partial education awards due to behavioral problems per the grant provisions. As a result, we questioned the partial education award.

AmeriCorps Provisions (2003), Section B.9.a. *Release from Participation, Compelling Circumstances,* states:

> Compelling personal circumstances include those that are beyond the member's control, such as, but not limited to:
>
> **i.** A member's disability or serious illness;
> **ii.** Disability, serious illness or death of a member's family member if this makes completing a term unreasonably difficult or impossible; or
> **iii.** Conditions attributable to the program or otherwise unforeseeable and beyond the member's control, such as a natural disaster, a strike, relocation of a spouse, or the non renewal or premature closing of a project or program, that make completing a term unreasonably difficult or impossible.

D. Third Term Members

We identified four members who received living allowances for three consecutive terms. We have questioned the living allowances for the third terms.

AmeriCorps Provisions (2003), Section B.12. *Post-Service Education Awards*, states in part:

> No Corporation or other federal funds may be used to provide member support costs for a third or subsequent term of service in an AmeriCorps State or National Program.

E. Living Allowance Claimed Above Established Ceiling Limits

We identified eight instances of costs claimed to the grant for member living allowances in excess of the established 85 percent limitation. As a result, we have questioned the amount claimed exceeding the limitation.

AmeriCorps Provisions (2003), Section B.11. *Living Allowances, Other In-Service Benefits and Taxes*, states in part:

> a. Living Allowances. Unless otherwise agreed upon, a Grantee must provide a living allowance to full-time members in accord with the following:
>
> i. Full-Time Requirements. … The Corporation will only fund up to 85% of the minimum living allowance. A minimum of 15% must be matched by non-federal sources.

F. Living Allowances Claimed for EAO Members

We questioned four instances of living allowances paid to members whose enrollment was termed Education Award Only. Living allowances can be paid to EAO members by the grantee, but cannot be charged to the grants.

G. Unsupported Member Living Allowances

The cost of living allowances was claimed for three persons whose member status could not be verified. These persons were not listed as members in the Web Based Reporting System (WBRS) nor did they have a member file. Based on information available to us during fieldwork, we could not determine whether they met the criteria to be AmeriCorps members. As a result, we questioned the living allowances for these three members.

H. Nevada AmeriCorps Members

We identified three members who performed services under assignment to the Nevada Commission grant but whose living allowances were claimed to USVI's National Direct grant. As a result, we questioned these living allowances as well as the education awards earned by two of the members.

OMB Circular A-122, Attachment A, *General Principles*, Paragraph A.4., *Basic Considerations, Allocable Costs*, states:

> a. A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

(1) Is incurred specifically for the award.
(2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or
(3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

b. Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.

I. Member Duties not Allocable to Program

We found members whose activities were considered prohibited or were not allocable to the grant. Those activities include:

- Two members stated that they had never performed services related to veterans.
- Four members performed administrative services for USVI.
- Three members performed services for CAI, including janitorial work, assisting in the preparation of lease agreements, processing veterans into Transitional and Long Term Housing, and acting as the receptionist at the Westside Residence Hall site.

OMB Circular A-122, Attachment A, *General Principles, Basic Considerations*, Paragraph A.4., states:

a. A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:
(1) Is incurred specifically for the award.
(2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or
(3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

b. Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.

45 C.F.R. § 2540.110, *General Administrative Provisions*, states in part:

f. Non-displacement. . . . (5) A participant in any program receiving assistance under this chapter may not perform services or duties that have been performed by or were assigned by any – (i) Presently employed worker; (ii) Employee who recently resigned or was discharged; (iii) Employee who is subject to a reduction in force or who has recall rights pursuant to a collective bargaining agreement or applicable personnel procedures; (iv) Employee who is on leave (terminal, temporary, vacation, emergency, or sick) or (v) Employee who is on strike or who is being locked out.

OMB Circular A-122, 4.a. *Definitions*, states:

> Non-profit organization means any corporation, trust, association, cooperative, or other organization which: . . . (2) is not organized primarily for profit;

Employees Earning Education Awards

We found 22 AmeriCorps members who were actually employees of USVI or one of USVI's placement sites and who had earned an education award. We determined that the members were employees based on interviews of the members or their supervisors, and reviews of timesheets and personnel files. We also reviewed an interview conducted by HUD-OIG on March 22, 2005, of USVI's CEO, in which she confirmed one of the members in question was an employee as shown below:

> "CEO stated that she does not agree with many of the items the HUD-OIG identified as questionable. For example, CEO explained HUD-OIG Audit's disallowance of approximately $20,000 in salary paid to an individual named XXXX. According to CEO, XXX worked in the US Vets Veterans Activities program as a receptionist and assistant. CEO explained that XXXX took phone calls and handled the mail; however, XXXX also helped veterans become acclimated to the program. CEO stated that XXXX wrote the office directory for the program and while doing so, XXXX gave herself the title of Receptionist/Assistant since she performed both duties."

These members also counted their employee work hours as service hours. As a result, we questioned their education awards. We also determined that there were eight other employees who had recorded their regular employment hours as service hours. These persons, however, had not yet been certified for education awards.

AmeriCorps Provisions (2003), Section 6. *Eligibility, Recruitment, and Selection*, states in part:

> f. Member Classification. AmeriCorps members are not employees of the Program or of the federal government. The definition of "participant" in the National and Community Service Act of 1990 as amended applies to AmeriCorps members. As such, "a participant (member) shall not be considered to be an employee of the Program in which the participant (member) is enrolled". Moreover, members are not allowed to perform an employee's duties or otherwise displace employees.

These problems stem from USVI's lax approach in administering the grant, as well as its lack of clear understanding of specific grant provisions. We also have determined that the delineation established by USVI between roles of AmeriCorps members and the roles of USVI and CAI employees is vague.

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

Recommendation

Recommendation 13: The Corporation should review the records of all USVI AmeriCorps members, on this grant and the ongoing grant, to ensure they are not also working concurrently as USVI or site employees.

Recommendation 14: The Corporation should recoup education awards certified by USVI for members who were also employees. Any education awards not yet used by these employees should be de-certified.

Recommendation 15: The Corporation should require USVI to establish policies to prevent employees from serving as a member and ensure these policies are enforced at all USVI sites.

USVI's Response

USVI disagrees with the finding, but acknowledges that mistakes were made. USVI contends that controls are in place to ensure AmeriCorps member program requirements are followed.

Auditor's Comment

The results of our testing were based on a sample of member files. The pervasiveness of exceptions noted within our sample conflict with USVI's response that it has controls in place to ensure program requirements are followed. We continue to recommend that policies be established to address each area of noncompliance noted within this finding.

Finding 5: USVI claimed unallowable rent to the grant.

USVI claimed costs it paid to CAI and Century Housing for the allocated portion of rent specific to its AmeriCorps program, as well as other Federal programs. Our examination of rent revealed costs to be questionable under three conditions:

- Less-than-arms-length – Questioned Costs $113,871;
- Allocation not verifiable – Questioned Costs $53,595; and
- Allocated to the wrong grant – Questioned Costs $5,839.

The $53,595 above can also be questioned because the basis of the allocation of rent paid to Century Housing could not be determined. The rental cost of $5,839 can also be questioned because these costs support the California Commission Grant.

Less-than-arms-length

A ruling issued to USVI via letter by the VA's Associate Chief Consultant on March 24, 2004, stated that the rent payments involving USVI and CAI were less-than-arms-length. This ruling was reaffirmed in another letter from the VA's Associate Chief Consultant on September 7, 2004. The VA agreed to reconsider the matter based on USVI's appeal. USVI is currently awaiting a final determination by the VA General Counsel.

But without regard to what we believe were correct decisions by the VA, we, in auditing USVI can not fully perform this audit without making our own decision on that issue. We agree with VA's original ruling and have determined transactions related to the rent expenses are less-than-arms-length. Our decision is based on our determination that USVI and CAI are related parties. We believe the two entities are related for the following reasons:

- The influence of CAI's President over the USVI programs throughout the country, as shown in our discussion of the HUD interviews below. CAI's President also represented USVI in sworn testimony before Congress on March 9, 2000, and March 16, 2006.
- The long personal relationship that has existed between the USVI's CEO and the CAI's President. OIG representatives were told that they are currently engaged to be married.
- The frequency with which both CAI's President and USVI's CEO jointly conduct official USVI business.
- The sharing of resources by the two entities. For example, we found that some USVI AmeriCorps members performed duties that directly or indirectly benefited CAI.
- The documented involvement of CAI's President at USVI board of director meetings.
- USVI's Controller was originally hired by CAI's President as a CAI employee, and then reassigned to USVI without any change in the person's job description.
- USVI and CAI organizations share the same Internet web site.
- USVI, CAI, and several of its related entities organizations are all located at the same Inglewood, CA property owned by CAI.
- During the period 1993 through 1996, the President of CAI also served as the Executive Director of USVI. During that period, USVI bound itself to a form of joint venture with CAI involving Westside Residence Hall. This created the relationship between USVI and CAI which continues to the present date, governing each of their joint venture sites.
- USVI's 2005 financial statements show a note-payable balance owed to CAI of $516,000 and another outstanding balance owed of $385,000. The

origins and purpose of the loans are unclear, as are the terms and conditions for repayment. Statement of Auditing Standards, Section 334.03, states that an indication of a related party transaction is one where there is a loan between parties where there is "no scheduled terms for when or how the funds will be repaid" and where there is "borrowing or lending on an interest-free basis or at a rate of interest significantly above or below market rates."

- The financial structure of the Joint Venture Agreements (JVA) between USVI and CAI, whereby the proceeds generated from activities performed by USVI are to be evenly split between the two entities. We believe this revenue is the result of activities of USVI Federal awards and is discussed below.
- In 1998, the USVI CEO and CAI President entered into a Business Services Agreement (BSA) wherein CAI would provide "'accounting services" and "consulting services" to USVI. The agreement was entered into without public announcement of the bid and competition as required.
- Under the "accounting services" portion of the BSA, CAI was assigned financial management responsibilities for USVI such as maintaining USVI's general ledger, preparing USVI's budget, and maintaining USVI's financial statements records. CAI also was assigned personnel administration responsibilities for USVI such as payroll, insurance benefits, and records administration.
- Under the "consulting services" portion of the BSA, CAI was to perform a described "broad range of services," such as designing and overseeing "strategies" for services to be delivered to veterans; acting as liaison with USVI's Federal funding sources, including the Department of Veterans Affairs, Department of Health and Human Services, and Department of Housing and Urban Development; and consulting with USVI officials on staffing, revenue, budgeting, and "program compliance."
- The BSA expired in June 2000, but CAI continued to perform and USVI made payments under the agreement through 2003.

Joint Venture Agreements

The joint venture agreements were established at sites in Inglewood, Hawaii, Houston and Las Vegas. Each agreement stipulates that 50 percent of net income is to be paid to USVI and the remaining 50 percent to remain with CAI. This is income which is generated at the various operating sites throughout the country, and as we have discussed in finding number 4. above, was sometimes generated through the use of AmeriCorps members. Based on the joint venture agreements and the organizational structure, it is apparent that CAI has a financial stake in the operations of USVI. It receives fees for each bed filled and receives rent from veterans who have been brought into the facilities by either USVI personnel or AmeriCorps members.

CAI's President entered into the above-mentioned JVA between Westside and USVI in 1993. This JVA established policies and procedures for the operations of USVI that remain in effect to this day. By its terms, the JVA shows that CAI, through Westside, has, as cited by Statement of Financial Accounting Standards (SFAS) No. 57, Related Party Disclosures[3], "the power to direct or cause the direction of the management . . . of an enterprise . . ., by contract;" that CAI has "significant influence over the management or operating policies" of USVI; and that CAI prevents USVI from "fully pursuing its own separate interests." The following terms of the JVA exemplify this control:

i. USVI's right to contract is controlled by CAI.

ii. USVI's financial plans and reports require prior approval from CAI.

iii. USVI must obtain prior approval from CAI to engage in "other business".

HUD Interviews

Correspondence between HUD and USVI, and excerpts from the HUD OIG interviews with USVI employees, disclosed the following:

- CAI's President and USVI's CEO had overlapping duties;
- CAI's President gave instructions regarding the operation of USVI site(s) and was considered "the boss;"
- Confusion as to who worked for CAI and who worked for USVI;
- Pressure applied from CAI's President on USVI to keep beds full and assistance as to how to better perform outreach and bring in more veterans; and
- CAI's President and USVI's CEO were romantically involved.

We have determined that, based on the arrangements described above, the two parties are related and rent paid to CAI from USVI was not at arms-length. As a result, these transactions do not meet established cost principles and such should not be claimed.

Questioned costs on this grant award, due to the less-than-arms-length lease are as follows:

	Questioned Costs	
Program Year	**Corporation Share**	**Match**
03-04	$ 53,595	$ -
04-05	51,642	4,641
05-06	8,634	14,500
Total	$113,871	$19,141

[3] SFAS 57 defines "related parties" as **"[a]ffiliates** of the enterprise; . . . and other parties with which the enterprise may deal if one party **controls** or can significantly influence the management or operating polices of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests." Also, a party is a related party if "it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests." (emphasis added).

Allocation not Verifiable
During Program Year 03/04, rent for the Long Beach facility was paid to Century Housing. We examined the lease between USVI and Century Housing and found only mention of the VA and programs pertaining to the VA. We requested that USVI support the basis of rent costs allocated to the grant but never received a response. The rent costs of $53,595 are questioned for less-than-arms-length and also because the allocation is not verifiable and therefore unsupported.

Allocated to the wrong grant
We determined that, in addition to the problem of less-than-arms-length identified above, some of the same costs are questionable on the basis of allocability. Specifically, some rent charges should have been charged to the California Commission grant and were therefore not allocable to the National Direct grant, as shown in the table below.

	Questioned Costs	
Program Year	**Corporation Share**	**Match**
03-04	$4,173	$ -
04-05	5,002	-
05-06	(3,336)	58
Total	$5,839	$58

Criteria

OMB Circular No. A-122, Attachment A, *General Principles, Basic Considerations*, Paragraph A.2., states:

> *Factors affecting allowability of costs.* To be allowable under an award, costs must meet the following general criteria:
>
> a. Be reasonable for the performance of the award and be allocable thereto under these principles.
>
> b. Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.
>
> c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.
>
> d. Be accorded consistent treatment.
>
> e. Be determined in accordance with generally accepted accounting principles (GAAP).

OMB Circular No. A-122, Attachment B, *Selected Items of Cost*, Paragraph 43. *Rental Costs*, states:

> a. Subject to the limitations described in subparagraphs b through d**,** rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased. . . .
>
> b. Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the non-profit organization continued to own the property. . . .
>
> c. **Rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the nonprofit organization**. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to those between (i) divisions of a non-profit organization; (ii) organizations under common control through common officers, directors, or members; and (iii) a non-profit organization and a director, trustee, officer, or key employee of the non-profit organization or his immediate family either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest. . . . (Emphasis added)

Transactions that are less-than-arms-length do not meet generally accepted accounting principles and therefore do not represent allowable costs. USVI is entitled to charge rental costs to the grant only to the extent of the cost to USVI, had title to the property vested with USVI. The cost of ownership can best be calculated using CAI records.

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

Recommendation

Recommendation 16: The Corporation should disallow and recover the questioned costs including applicable overhead and G&A costs. The Corporation should also disallow the difference between the lease and ownership costs charged to its grants that were not included in this audit.

Recommendation 17: The Corporation should instruct USVI to cease claiming rental costs paid to CAI to ongoing grants and subgrants.

USVI's Response

With the exception of $5,002, USVI disagrees that rent claimed to the grant is unallowable. USVI also contests 10 of the 15 items presented to establish that USVI and CAI are related parties.

Auditor's Comment

USVI's response makes clear that it does not contest five of the grounds listed which support the opinion that the relationship between USVI and CAI is at less than arm's length. For those 10 items it contested, USVI failed to support its position.

For example, USVI does not question the factual accuracy of the statement in the audit report that Tim Cantwell, President of Cantwell Anderson Inc., and Stephani Hardy, then Executive Director or CEO of USVI, had a "long standing personal relationship" and are now "engaged." Rather, USVI simply asserts that the "regulations governing arm's-length transactions" do not expressly include these two relationships as evidence of non-arm's-length relationships. The regulations do not specify each type of relationship which supports a non-arm's-length transaction. Rather, they set forth the general nature of that relationship. OMB Circular A-122, Attachment B, Selected Items of cost, Paragraph 43, Rental Costs (c) states:

> "Rental costs under less-than-arms-length leases are allowable only up to the amount…that would be allowed had title to the property vested in the nonprofit organization. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to those between divisions of a non-profit organization; non-profit organizations under common control through common officers, directors, or members; and a non-profit organization and a director, trustee, officer, or key employee of the non-profit organization or his immediate family either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest."

In addition, as included in footnote 2, SFAS 57 defines related parties as "[a]ffiliates of the enterprise; …and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other…." Neither the OMB Circular or the SFAS specifically list the relationships that constitute a less-than-arms-length transaction; the ability of one party to influence or control the other is the determining factor in our finding. In our judgment, evidence of the relationship between USVI and CAI, commencing in 1993, demonstrates that CAI has long possessed the ability to influence or control USVI and therefore the two parties are related.

USVI's only other major response, to the OIG findings that "CAI's President and USVI's CEO jointly conduct official USVI business," label it as "inaccurate and misleading". But, the response further includes the statement that "CAI's President and other members of CAI staff often conducted business . . . at each of the sites in which USVI administers programs" with "USVI's CEO . . . . [having] traveled to sites at the same time, attended meetings together, lunches and dinners together . . . .″ The Business Service Agreement, which did not result from a competitive procurement, and various joint venture agreements, referred to in the USVI response as the "collaboration of U.S. VETS," are two examples of the level of the relationship between the entities.

Finding 6: USVI program results were not clearly defined.

Program results were commingled among the various funding agencies. USVI members provide services to various programs under grants from other Federal agencies, making it difficult to accurately summarize the performance results of a particular grant. As a result, program results reported through WBRS and used for grant applications to the Corporation are not always clearly supported.

The Office of Management and Budget describes performance measurements as follows:

> "Performance measurement indicates what a program is accomplishing and whether results are being achieved. It helps managers by providing them information on how resources and efforts should be allocated to ensure effectiveness. It keeps program partners focused on the key goals of a program. And, it supports development and justification of budget proposals by indicating how taxpayers and others benefit."

Criteria
AmeriCorps Provisions, Section B.18 *Performance Measurement and Evaluation*, states in part:

> All grantees must establish, track, and evaluate performance measures (i.e., outputs, intermediate-outcomes, end-outcomes) for **their programs**. (Emphasis added)

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

Recommendation

Recommendation 18: We recommend the Corporation work with USVI to identify and report results specific to Corporation grants to better assess the strengths and weaknesses of the program.

USVI's Response

USVI disagrees with the finding and asserts that program results are clearly defined. USVI's response states that program results reported to the Corporation include only homeless veterans served by AmeriCorps members.

Auditor's Comment

Based on the audit, we believe that the results of the program are tracked in total with combined funding sources. USVI's response included no documentation to support that only homeless veterans, served by AmeriCorps members, were included in the reported program results.

Finding 7: USVI did not consistently comply with specific grant provisions

We tested 138 member files and noted the following exceptions:

- Members at the Houston site serving vulnerable veterans in HUD's Critical Intense Program did not undergo required criminal background checks. The veterans were considered vulnerable because they were classified as dual disorder (chemically dependent and mentally challenged). This program began in February 2006. The Houston's Site Director stated that background checks would be "useful."
- Five member files did not contain evidence of mid- or end-of-term evaluations.
- Member timesheets did not reflect training hours in 30 instances. Rather, all hours were coded as "service" hours.
- Seventy-eight enrollment forms were not recorded in the Web Based Reporting System (WBRS) within the prescribed 30- day period.
- Forty-two exit forms were not recorded in WBRS within the prescribed 30 days after members ended their service.
- Two out of two change-of-status forms tested were not recorded in WBRS within the prescribed 30-day period.

<u>*Criteria*</u>

The AmeriCorps Provisions (2003), Section B.6.h., *Eligibility, Recruitment, and Selection*, states:

> Programs with members or employees who have substantial direct contact with children (as defined by state law) or who perform service in the homes of children or individuals considered vulnerable by the program, shall, to the extent permitted by state and local law, conduct criminal record checks on these members or employees as part of the screening process. This documentation must be maintained consistent with state law.

AmeriCorps Provisions, Section B.16.b. *AmeriCorps Member-Related Forms*, states:

> 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 Provisions, Section B.7.g., *Performance Reviews*, states:

> The Grantee must conduct and keep a record of at least a midterm and end-of-term written evaluation of each member's performance.

AmeriCorps Provisions, Section B.7.c., *Training*, states:

> The Grantee must conduct an orientation for members and comply with any pre-service orientation or training required by the Corporation.

We note that, although USVI management visited its operating sites throughout the country, it did not formally document the monitoring procedures and results of its visits. Documentation of these visits was limited to travel vouchers and e-mails indicating that visits had taken place. As a result, we can not properly assess the quality of the monitoring or determine if the exceptions above were caused by deficient monitoring.

Without monitoring tools and reports, USVI cannot properly review, track, and monitor the activities of its operating sites and objectives of the AmeriCorps program. In addition, without current member and financial information, the Corporation may be unable to make timely and effective management decisions.

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

Recommendation

Recommendation 19: The Corporation should require that USVI formally document its monitoring of its operating sites and stress the importance of grant provision compliance to all its AmeriCorps Directors. The Corporation should review the results of USVI's monitoring to ensure the recommendation is implemented.

USVI's Response

USVI disagrees with the finding and believes it consistently complies with grant provisions. However, USVI acknowledges that mistakes were made.

Auditor's Comment

We believe that due to the number of exceptions noted, it is apparent that compliance monitoring of certain grant provisions has not occurred. We reiterate the importance of developing policies and procedures for monitoring operating sites to prevent these non-compliances.

Internal Control Findings

Finding 8: USVI does not have policies and procedures for drawdowns.

USVI policies and procedures do not include withdrawing funds from the Department of Health and Human Services' payment management system (PMS). USVI does not have written policies and procedures for withdrawing funds because there is one employee who has always performed this role and knows how to request drawdowns. Without policies and procedures, USVI drawdowns may be improper or may not be able to be performed in the absence of that one employee.

Criteria

45 C.F.R. § 2543, *Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.* Subsection 2543.21(b)(5), *Standards for financial management systems,* states recipients shall provide, "[w]ritten procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient."

45 C.F.R. § 2543, *Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.* Subsection 2543.21(b)(6), *Standards for financial management systems,*. states recipients shall provide, "[w]ritten procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award."

Recommendation

Recommendation 20: The Corporation should direct USVI to establish policies and procedures to document its drawdown process and ensure these are implemented.

USVI's Response

USVI disagrees with the finding and makes reference to its Cash Drawdown policy. However, USVI agrees to expand the policy to include specific procedures for utilization of the HHS payment management system.

Auditor's Comment

The policy to which USVI refers is very general and does not contain sufficient detail on how it performs drawdowns. For example, the policy does not address the roles and responsibilities of USVI employees involved in the drawdowns. We continue to recommend that the Corporation work with USVI to develop an acceptable policy.

Finding 9: USVI has not updated its job descriptions

We determined that USVI had not kept job descriptions current as roles have changed. Specifically, we determined the following:

- USVI Controller – The current job description states that the Controller is an employee of CAI. The Controller became a USVI employee in mid 2005. However, his new role as USVI Controller had not been defined in a formal and updated job description.

- USVI CEO – The current job description describes the role as Executive Director. However, in mid 2005, the title was changed from Executive Director to Chief Executive Officer. The job description has never been updated to reflect the new title and any new responsibilities associated with it.

Criteria

Job descriptions are an important component of internal controls and should contain enough detail to track the labor charges to determine the allocability of the labor charges to Federal grants, and to describe whether the effort is indirect or direct.

Recommendation

Recommendation 21: The Corporation should direct USVI to review all job descriptions to ensure that they currently reflect the expectations and positions held by USVI employees.

USVI's Response

USVI disagrees with the finding because it believes the employees' roles have not changed.

Auditor's Comment

USVI did not explain why the Controller's job description, which included detailed CAI employee benefit information, was not changed when he began employment with USVI. We believe that whenever titles or positions change between entities, an updated job description should be prepared. Establishing a formal document will assist in clearly defining roles and responsibilities.

Finding 10: An FSR variance went undetected by the grantee

USVI's finance department noticed an error, overstating costs claimed by $30,526, in its March 31, 2006, FSR only after it was assembling data for the audit team. The error revealed that the costs claimed on the FSR were higher than the costs supported by the accounting records. This was corrected in USVI's September 30, 2006, FSR.

USVI lacked a policy requiring the finance department to review and approve the accumulation and reporting of data claimed on its FSR. As a result, errors were not discovered in a timely manner.

Criteria

AmeriCorps Provisions, Section B.21.a. *Accountability of Grantee* states:

> The Grantee has full fiscal and programmatic responsibility for managing all aspects of the grant and grant-supported activities, subject to the oversight of the Corporation.

Recommendation

Recommendation 22: The Corporation should instruct USVI to establish a policy, and verify implementation, requiring a review of all data submitted to the Corporation prior to submission. This review process should be formalized and include the preparer's signature as well as that of the reviewer(s).

USVI's Response

USVI concurs with the recommendation and has agreed to develop a more formalized procedure in documenting the review and approval process of the FSR.

Auditor's Comment

USVI's response, when implemented, should improve the accuracy of FSRs.

OTHER MATTERS

Indirect Costs

USVI claimed $5,363,221 under National Direct AmeriCorps grant number 03NDHCA001 through the period ending September 30, 2006. Costs claimed toward grant match for the same period ending were $2,079,358. Of the costs claimed, $1,667,193 was claimed as indirect costs as shown below.

Description	Federal Share	Grant Match
Total Costs Claimed	$5,363,221	$2,079,358
Indirect Costs	1,142,534	524,659
Net Direct Costs	$4,220,687	$1,554,699

USVI has not submitted final indirect rate submissions. There has never been an audit of USVI's final indirect cost rates by the VA or any other Federal agency and, therefore, we make no representation regarding the allowability, allocability or reasonableness of the indirect costs claimed. On May 23, 2007, the Corporation's OIG notified USVI that it had initiated an indirect rate audit of fiscal years 2000 to 2006.

Based on the findings in this report, specifically the instances of indirect cost being charged direct and lack of documentation supporting allocation of joint costs, we recommend the Corporation not close grant No. 03NDHCA001 until final indirect rates are negotiated.

Evidential Matter

During fieldwork, there were instances when USVI personnel answered auditor questions, but USVI management then contradicted those statements. There were instances during fieldwork of USVI managers contradicting themselves. Also noted was the length of time it took for the auditors to receive answers to specific questions and the number of questions that were not answered. This, along with USVI's search for supporting documents, resulted in substantial delays to the audit process, causing fieldwork to span almost nine months and resulting in significant costs questioned for lack of support.

We called several donors who had signed in-kind certifications to verify the accuracy of the certificates and were told, in some instances, that the donors denied signing the documents.

Program Income

Revenue totaling $19,930,118 was generated by Westside Residence Hall from 1994 through 2005. The portion flowing through the joint venture agreement to USVI, based on CAI's determination of net income, has totaled only $907,754 and none of it was actually paid to USVI, but was to be used to reduce what has been listed as outstanding loans. Stipulations in the joint venture agreement, however, require 50 percent of the net proceeds to be paid into a trust account in USVI's name, to be used by USVI for the benefit of veterans. None of the net proceeds has been used for this purpose. Despite the fact that the joint venture agreement, signed in 1993, required that USVI's 50 percent share "shall be paid directly to and deposited in a separate trust account" to "be opened by [USVI] with any bank," no such trust account has ever been created. According to USVI, it has never reviewed the joint venture agreement analysis that is prepared by CAI; and USVI's CEO, Controller and Board of Directors could not explain the significant expenses that should be included in the analysis.

A 1993 court order stated that "50% of net rental income (Vet proceeds) from the Inglewood property were to be allocated to Vet services." We consider USVI's proceeds from the joint venture agreement to be program income that should be reported to the Federal awarding agencies and should be allocated to USVI and used to benefit veterans in accordance with the court order, as well as the joint venture agreement.

<u>Ruling from Another Agency</u>

USVI is awaiting a ruling from HUD that may affect the costs claimed under this award.

USVI claimed Corporation funds to its HUD grant as grant cash match. HUD originally questioned the match because USVI was unable to support its cash match requirements. A final determination is pending by HUD on whether the Corporation grant costs can be used as valid match costs for the HUD grant.

Internal Controls Over Financial Reporting

In planning and performing our audit of awards costs for the period September 1, 2003 to August 31, 2006, we considered USVI'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 USVI's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. In addition to Internal Control findings numbered 8 through 10 above, Compliance findings numbered 1 through 7, 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 Findings 1 through 4 are material weaknesses.

Mayer Hoffman McCann P.C.

Mayer Hoffman McCann P.C.
Irvine, California
March 2, 2007

Appendix A

Response to the Draft Report by
United States Veterans Initiative

United States Veterans Initiative
HONORARY BOARD OF DIRECTORS
President Jimmy Carter
Sidney Poitier
Oliver Stone
Dennis Franz

IN MEMORIAM
President Gerald Ford
Gregory Peck
Jimmy Stewart
Martha Raye
Jack Lemmon

NATIONAL ADVISORY BOARD
Heather French Henry
Gus Hein
Tony Orlando

BOARD OF DIRECTORS
Col. Joseph Smith
Capt. Donald Clark
Maurice Kane
Keith Ellis
David Farrar
Michael Dolphin
Greg Green
Robert Jordan
Linda Miles-Celistan
William Nash
Robert Price
Adam Siegler

August 27, 2007

Mr. Stuart Axenfeld
Audit Manager
1201 New York Avenue, NW
Suite 830
Washington, DC 20525

Dear Mr. Axenfeld,

This letter covers the response of United States Veterans Initiative to the Draft Audit Report issued by your office on July 25, 2007. You are now in receipt of a written response to each of your findings. You have also received this response via email and fax. Please let me know if there are any questions. I can be reached at 310-348-7600 ext 3122.

Sincerely,

Dwight Radcliff
Acting Chief Executive Officer
United States Veterans Initiative

United States Veterans Initiative, a 501(c)(3) non-profit
Serving Those Who Served

733 S. Hindry Avenue
Inglewood, California 90301
(310) 348-7600
www.usvetsinc.org

FINDING 1:

USVI disagrees. While mistakes were found, USVI does have adequate financial controls and procedures to ensure that costs are claimed in accordance with grant provisions and OMB's cost principles.

Personal Expenses

USVI disagrees with all but the $7.76 personal shipping fee charge. The auditor characterizes $1,294 of expenses incurred by USVI's CEO as personal expenses that were NOT personal expenses. We believe this item is deliberately misleading and contest the questioned items for reasons stated below.

Home Phone - The only charges claimed from the CEO's home phone were work-related. When questioned about this, the auditor stated that there was no documentation to prove that these charges were work related. This is not accurate. All phone bills were included with phone numbers circled which could all be traced to work-related calls. It should also be noted that after August 2004, there were no questioned charges to AmeriCorps for the CEO's home phone.

Home Fax & Home Internet – The CEO's home fax line and home internet were charged only because the CEO worked increasingly from home. When questioned about this, the auditor stated that there was no evidence to support this charge. We contend that hundreds of thousands of faxes and emails would be ample evidence. It should be noted that the date of the transactions for the internet charges were in FY 03-04. After August 2004, there were NO charges to AmeriCorps for these services.

Home Cable Television Services – The CEO's home cable television services were NOT charged to any grant. The cable internet bill is combined with the cable television bill. The CEO went to the cable provider's office to find out which costs were specifically related to the internet and charged ONLY those costs. This fact was confirmed by USVI Accounting Staff by calling the Cable provider offices.

Personal Shipping Fees – This item is misleading. On one occasion there was a $7.76 personal shipping fee left on a UPS invoice that was otherwise all work-related. When examining other invoices it would be clear that the CEO meticulously separates out any personal items from receipts. In addition, during the exit interview, the auditor stated that they recognized that this was just a mistake, that it was immaterial and would not be included in the audit report.

Subscriptions to magazines – Each magazine (or newspaper) purchased was for cities in which the USVI AmeriCorps program has operating sites. Articles from these magazines were sent to operating site directors and can still be found in corporate development files today. It is accurate that some of the magazines were purchased from the CEO's son during a magazine drive, but since they were purchased for a price considerably cheaper than would have otherwise been available, we are not aware of a regulation against this. When asked about this, the auditor simply stated that the magazine drive information was added because it was useful to the reader as background information. We question the meaning and intention of including this statement when it has no other bearing on the audit. In addition, the items were not sent to the CEO's home (as stated in the report) but were sent to the office since the magazines were for work-related use and since the CEO receives mail in the office.

Special Events

USVI disagrees and contests all of the $10,201 in question for special events (and $49 match). Special events are all service projects designed and implemented by USVI's AmeriCorps programs, and are an essential part of the support services offered to homeless veterans. Supplies necessary for the implementation of these events are charged to AmeriCorps because they were specific to the AmeriCorps event. USVI disagrees with this finding for reasons listed below.

1. The auditor states these events are questioned because a majority of the costs incurred were for meals. Auditors state, they "believe these costs are duplicative because they are recovered through the VA per-diem grant". We contest the basis of this finding. While the cost to feed veterans within USVI programs on a routine daily basis is recovered through other funding sources besides AmeriCorps, there are circumstances when a special event arranged by AmeriCorps for the veterans includes meals. These AmeriCorps event meal costs are separate from the costs recovered from other funding sources, not duplicated.

2. Finding 1 lists seventeen special events "staged by USVI for veterans" stating that "the majority of the costs incurred for the special events were for meals". We contest the questioning of the entire AmeriCorps event costs since other supplies were purchased that are directly related to the AmeriCorps event and the grant.

3. "Graduation for 60 VIP veterans" with a cost of $468.60 was incorrectly inputted on a check request that was actually an AmeriCorps Member Graduation. Supporting documentation was presented during the audit that sufficiently proves this cost should not be questioned.

4. The last six AmeriCorps Events listed took place during the 2005-2006 program year and are described both in the AmeriCorps Grant Narrative and the AmeriCorps Budget Narrative. We contest the finding and believe the auditor's determination that these events are unreasonable is subjective.

Entertainment

AmeriCorps Members have been instrumental in developing the therapeutic community of the programs in which they serve for the past thirteen years. Members coordinating holidays and other special events, classes, and outings, provide homeless veterans with the life skills and socialization they need to become productive members of society. These activities build self-esteem and help break the barrier of isolation that most homeless veterans experience. USVI disagrees with the questioning of events determined by the auditors as "entertainment" for reasons listed below.

> **Halloween party and Christmas party** – Both events were service projects led by AmeriCorps Members, within the scope of the grant. These events and their corresponding supplies were not implemented to provide entertainment, but as a part of the support services and life skills this program seeks to provide to its beneficiaries.
>
> **Polynesian Dance lessons in question** - These lessons are led by an AmeriCorps Member as a recreational class for veteran residents. Member-led classes are within the scope of the grant as a part of the support services provided by Members. Of particular note is the cultural importance of this and other classes and events led by our Hawaii AmeriCorps Members.
>
> **Los Angeles Dodger baseball tickets** - These tickets were purchased for Member-recruited volunteers as a recognition and morale-building event. Recruitment and retention of volunteers is a required and essential component of our AmeriCorps grant.

Civic Organizations

The CEO's Membership in Rotary was charged to this grant because it was believed that the association would specifically benefit the AmeriCorps program. No other memberships to civic organizations have been classed to the AmeriCorps program since the audit brought this to our attention.

Credits

USVI disagrees with this finding. The audit report states "We identified claimed costs for an event for which a security deposit refund was received but not credited to the grant." USVI never received this refund and demonstrated this to the auditors during their fieldwork.

Gifts Claimed as Supplies

USVI contests the $217 for backpacks purchased for homeless veterans distributed during the AmeriCorps Christmas Service Project. The project was initiated, planned and implemented (including purchase of supplies) by the AmeriCorps Members. Documentation was provided to auditors to demonstrate the level of Member involvement in these events. The backpacks were purchased as supplies to carry out the event.

Contributions/Donations

USVI contests the entire $290 and disagrees that they are contributions for the reasons listed below.

1. $150 registration fee for Hike for the Homeless – Fee was paid for registration in order for the AmeriCorps program to provide outreach and information about services for the homeless. The $150 fee paid was not made as a donation. USVI was unaware that to pay a fee allowing the program to provide outreach services would be considered the equivalent of making a donation.

2. $90 "donation" to Women's Care Cottage – Fee in question was paid as the ticket price for the CEO to attend a networking luncheon of providers and foundations. USVI was unaware that to pay the cost to attend this event would be the equivalent of making a donation.

3. $50 "donation" for Military Women in Need luncheon - Fee was paid for the CEO to attend this luncheon as a networking opportunity. The topic was related to services provided to female veterans by Members. USVI was unaware that to pay the cost to attend this event would be the equivalent of making a donation.

Unallowable Travel

The auditor states that the CEO's expense reimbursement reports were not reviewed by anyone within USVI, which is not accurate. Prior to recording of these expenses, the reports are reviewed by accounting personnel. There is only one questioned cost for $110 in this category out of thousands of dollars spent on travel. This particular expense was mistakenly charged to the grant. The auditor also states that these costs were not properly supported due to USVI's lax approach in documentation. The infrequency of such occurrences demonstrates that such reports are reviewed, also contradicting the statement about the lax approach.

FINDING 2:

USVI disagrees. USVI has implemented an adequate financial management system to ensure costs claimed are allowable, allocable, and reasonable.

Transactions Retroactively Added to the March 31, 2006 FSR

USVI recorded several transactions dated prior to March 31, 2006 after the FSR for the period had been completed. These transactions were included on the September 30, 2006 FSR which is completed on a cumulative basis. As the auditors state in their report, nearly all of these transactions were found to be valid and allowable, except for the issues listed below.

1. USVI incurred a delay in the recording of corporate credit card charges due to a lengthy reconciliation process. This reconciliation has been completed and recorded, but the supporting documentation was not reviewed by the auditor at the time the audit report was written thus they questioned two transactions from the program year 2003-2004 and seven transactions for the program year 2004-2005. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time.

2. USVI's accounting system is set up to track revenue and expenditures by program, funding source, program year, and site. For the CNCS National Direct grant 03NDHCA001 that relates to this audit, USVI had set up a coding system to distinctively track activity for each of the three program years; for program year 2003-2004, the digit 1 was utilized to track all activity, for program year 2004-2005, digit 2 was utilized, and for program year 2005-2006, digit 3 was used. As this three year grant came to an end and the renewal grant was initiated, USVI reverted back to the digit 1 to track activity for the first year of the renewal grant. Since this method of tracking activity on the general ledger was adopted in 2004, USVI has historically reutilized program year codes to match the program year of the grant. USVI has historically (since the 2004 coding system was adopted) reutilized program year codes to match the program year of the grant, so as year three came to an end USVI reverted back to the digit 1 for the new grant which began in 2006. This potential overlap was brought to USVI's attention by the auditors. USVI immediately addressed the issue and has restructured the program codes to reflect the current grant beginning in 2006-2007 by utilizing digits 4-6 to track activity. All adjustments have been made to correct any overlap. All 2006-2007 activity is now reflected in program year 4.

Of the $2,617 questioned by the auditors, $160 was correctly coded to the previous grant, and $318 were miscoded but the appropriate adjustment was made and should not be questioned. The remaining $2,153 has been placed in the newly created program code AMCN4 (as described above). These costs are fiscal year end benefit adjustments to 2003-2004 salaries not questioned by the auditor. An additional $318 of this questioned amount was a miscoding to the 2003-2004 program year and was adjusted to its proper program year 2005-2006 and should not be part of questioned overlapping costs. The remaining $2,153 did relate to activity under the 2006-2007 program year. These costs have been shifted to the newly created program code AMCN4_ (site not specified) which is separate from costs relating to the first program year of the previous grant.

3. We agree that six months of space costs were allocated to the National Direct grant by mistake. During program year one of the grant, the Long Beach site was part of the National Direct grant. Beginning in program year two, the Long Beach site was included in the California Commission AmeriCorps grant. Through the conversion process, six months of program year two space costs were incorrectly coded to the National Direct grant, but corrected from that point forward.

Indirect Costs Charged as Direct Costs

CEO labor, travel, and other costs - We contest the CEO's labor, travel, and other costs charged directly to the grant in the amount of $117,322 (and $5,478 match). The CEO charged only time spent directly on specific programs to any specific site or funding source. These hands-on activities would include, but not be limited to, facilitating site or AmeriCorps meetings and/or training sessions, program development for specific sites or programs, and community development for specific sites or programs. In addition, the HUD Audit Report on USVI dated September 27, 2004 contained no findings that the CEO had charged time inappropriately to any HUD grant, recognizing, it would seem, the hands-on nature of the work done and the time charged.

Site director's travel- We disagree with $439 being questioned. It is unclear to USVI why the costs of Site Directors' expenses are grouped into this category of indirect costs charged as direct costs. Site Directors rarely charge any labor, travel, or other expenses directly to the AmeriCorps grant. When they are working specifically for AmeriCorps, it is appropriate to do so. In this instance, the Phoenix site had a brand new AmeriCorps director and the Phoenix Site Director had been the acting AmeriCorps director for some time.

Costs Allocated to Grant without Justification of Allocation

1. **Traveler's labor distribution** –Where travel costs were claimed to the AmeriCorps grant, but labor claimed to a different grant, this was a coding error. The employee traveled for purposes directly related to the AmeriCorps grant, but used the wrong codes on the timesheet, as substantiated by back up documentation during the audit. In fact, in some cases it appears that the National Direct grant was UNDERCHARGED for travel related directly to AmeriCorps.

2. **Other operating costs allocated to the grant with no explanation** – USVI contest the $17,037 (and $1,261 match) of costs for various transactions. Backup documentation was provided for each of these expenses. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time.

3. **Payroll costs charged to the grant in error** - USVI Contests the $291 of vacation and sick time that the auditor claims was recovered twice. These costs WERE NOT recovered twice.

USVI uses an allocation method for benefit costs set forth by its Indirect Cost Rate Agreement. The benefit rate in the agreement is a provisional rate. This provisional rate is an interim rate until a final rate is determined. The final rate is established by calculating the total benefit costs captured in the benefit pool divided by total salaries as a base. This finding involves two employees who mistakenly charged sick and vacation time to the grant directly. This cost would have been captured in the grant salaries line and not captured within the benefit pool. Since these costs were not part of the benefit pool, they would not have been allocated to the program through the ICR benefit calculation. These costs therefore would not have been recovered as direct costs and through the fringe benefit rate.

Unsupported Costs

1. **Journal entries without originating documentation** - 6 total transactions totaling the $2,508 (and $500 match costs) are being questioned. Further research is necessary to provide originating documentation. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time.

2. **Insufficient documentation** - Documentation for transactions totaling $15,134 (and $2,766 match costs) was provided to the audit team during fieldwork. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time.

3. Houston Program Director timesheets - The Houston Program Director does devote a portion of her time to the VIP program to facilitate classes for the veterans. The audit states that auditors were unable to determine the validity of the costs claimed. We seek further guidance on how to validate the time in question.

4. Hawaii Program Director timesheets – Timesheets were reviewed and show that they were completed based upon activity. However, when the timesheets were calculated for payroll, the payroll department followed the guideline of 0.50 that the Program Director had placed above the payroll code, instead of calculating based upon the actual hours that were recorded on the timesheet. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time.

5. Los Angeles AmeriCorps Director – One timesheet is in question. Timesheets for the periods before and after the missing timesheet are indeed there, indicating that the Program Director was employed during the time period in question. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time.

6. Living allowances claimed were more than recorded – This was a result of a system error that has already been corrected.

Costs Not Approved in Award Budget

USVI disagrees with the questioned insurance costs of $2,072. Through 6/30/05, the cost of insurance was included in the Overhead component of USVI's Indirect Cost Rate Agreement. As of 7/1/05, the Indirect Cost Rate Agreement, previously approved by the Corporation for National Service, was terminated and a new approved agreement was initiated with the Department of Veterans Affairs. This new agreement included dissolving the Overhead component. The items previously allocated through Overhead were to now be allocated directly. The same method of allocation, which uses salaries as the base, would be used to allocate these costs directly instead of being part of the Indirect Costs Rate allocations. The auditors are questioning the insurance costs allocated to the AmeriCorps program from July through August 2005. This is the period of time where the cost of insurance was approved in the budget within the line item Overhead. The auditors did not question the cost of insurance prior to July 2005. These costs were initially approved in the Overhead line item of the budget, and allowable through June 2005, therefore should continue to be allowable for the final two months of the program year since the costs did not change nor did the basis of the allocation methodology. For the program year 2005-2006, USVI did budget insurance costs as a line item and these costs were not questioned by the auditors.

USVI agrees with the audit as it relates to bank service fees. There was an error in the allocation of the bank service fees. These fees were part of an overhead allocation that was erroneously allocated to only corporate programs, AmeriCorps parent site included. This overhead allocation is no longer used. Currently, the bank service charges are part of the Indirect Cost Rate Administrative pool and are allocated out to each program, as are all other Administrative costs, using total costs as the base for the allocation.

USVI disagrees with the questioned cell phone charges of $874. The auditors questioned cell phone charges incurred from the usage of cell phones by AmeriCorps members. Per the auditors list of questioned costs, these charges resulted from two of USVI's operating sites, Washington DC and Los Angeles. The Washington DC site has within its approved budget a line item for telephones for both the questioned program years 2003-2004 and 2004-2005. Los Angeles also has within its approved budget a line item for cell phones for both program years questioned 2004-2005 and 2005-2006. Also on the list of questioned costs, the auditors state that only living allowances and fringe benefit costs are approved for members. USVI does not understand this position since there are other operating costs that members incur such as mileage, training materials, and cell phone charges that would be allowable under the grant. Since both sites have line items within their approved budgets for telephone, USVI believes that these items should not be questioned.

Costs Not Allocable

The audit lists six examples of costs where the allocation of these costs was not accurately charged. The value of these six examples questioned under the Federal Share is $1,915.

USVI DOES review the FSR's prior to submission. The Controller worked with the Financial Analyst in calculating the figures to be reported on the FSR and was also involved during the submission process of the FSR into the e-grants system.

As stated previously, USVI DID take action to adjust the general ledger coding structure to ensure that there was no commingling of grant costs. Through the process, it was determined that there was $2,153 of costs that did relate to a future grant but originally coded to the grant under this audit. The correction was made to shift these costs into a code separate and distinct from the 03-04 program year. Also, the statement in the audit "USVI contended that its MAS 90 accounting system would not accommodate another fund code and concluded it had no choice but to reuse fund codes" was taken out of context. USVI knows that the MAS 90 system could accommodate an additional numerical program year field, but again as previously stated in Finding 2, it had historically reverted back to program year one to reflect the first program year of the new grant period. The audit team did not discover or conclude that other codes within the general ledger accounting structure could be used.

The statement "USVI's Controller stated that he does not review cost allocation because the costs are too immaterial for his involvement" was taken out of context. USVI's recollection is that the auditor asked USVI's controller if he had reviewed the allocation of a single invoice of approximately $100. The controller stated that he does not review the allocation of every invoice submitted to accounting. He does review the allocations of benefits and administrative costs as well as some other direct allocation items including food. Each direct invoice, and its allocation if necessary, is typically approved by the Site Director.

USVI's process of allocating costs to programs is based on the outcome of the activity performed as to which program such activity benefits. If a cost or activity performed is directly associated with a particular program, this cost is directly charged to that program. This method follows OMB Circular A-122, Attachment A. General Principles, Paragraph B.1.

FINDING 3:

USVI disagrees. Although mistakes were found, claimed match does meet the requirements of the grant.

Match Costs From VA

USVI contests the costs from the VA totaling $141,827. The November 15, 2005 letter mentioned in the audit states that the VA"...does not authorize our per diem funding to be used as a match." USVI has not used VA per diem funds as match to the AmeriCorps program.

Match Costs from Department of Labor Funding

USVI contests this finding for supplies totaling $31,385. USVI did have, through budget modification, a line item for "In-Kind Supplies and other Misc. Items" approved in its budget. The in-kind match in this finding was used as part of USVI's matching costs within Section I – Program Operating Costs. Program Operating Costs may be matched using federal sources. USVI is not aware of the memo referred to in the audit report.

Match Costs Allocable to California Commission

As the audit report states, the Long Beach site was included in the National Direct grant during the 2003-2004 program year. Beginning in the 2004-2005 program year, Long Beach was taken out of the National Direct grant and included in the newly awarded California Commission AmeriCorps grant. During the first part of the 2004-2005 program year, the in-kind collected from the Long Beach site was erroneously included in the draw calculations with the Los Angeles Site. The coding was always correct. The error occurred by including the data in the draw calculation. This was corrected and the value of the in-kind donations collected in Long Beach was shifted out of the National Direct grant and into the California Commission grant. As shown on the Finding 3 chart, there are no questioned costs associated with this issue.

In-kind supervision

USVI disagrees with the $84,538 in question. In past years, a formula of estimating 1.5 hours of supervision for every 10 hours worked was used as a guide or example for site supervisors. This formula was derived by analyzing what activities supervisors were engaging in with Members based on what they agree to as site supervisors. Such activities include weekly meetings with Members, supervising their service, training Members, structuring Member activities, discipline and evaluation. Over the years, this guide became included in the form. The in-kind supervision form has already been modified so that supervisors estimate their supervision hours without such a formula.

It is USVI's understanding that in recording match, donors must estimate the value of their donation and certify that the value is accurate. While the formula did present a standard guideline, supervision forms also contained the necessary criteria for recording a donation as match. The auditors state that they sought additional support from site supervisors such as copies of timesheets that would reflect their time spent in supervision of AmeriCorps Members. This is the first that USVI had heard of the need for supervisors to submit timesheets for their supervision donation. No previous audits or monitoring visits determined that another method to document supervision as match was necessary. Supervision takes place daily in many different forms. Members are indeed supervised and supervision should be allowed as match. USVI requests that alternate methods of verifying supervision be offered. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time.

Donated in-kind goods
USVI disagrees with the $137,166 match being questioned for donated in-kind goods for reasons listed below.

Donor signatures – USVI understands that a donor must certify their donation certificate with a signature. Several signatures have already been obtained. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time. Training has been provided to AmeriCorps Directors and Site Directors to insure thorough completion of in-kind forms going forward. The National AmeriCorps Director now reviews all in-kind forms for accuracy before the in-kind donation is recorded. Incomplete forms are not recorded.

Value of donation assigned by USVI personnel - We are not certain of all instances where this happened. On some occasions, the donor left receipts or other documentation to show the value of the donation and the form was completed by USVI personnel.

Allocability of donations to the AmeriCorps program – USVI records donations to the AmeriCorps grant when they are related to Member activities as stated in the grant. We disagree with the auditor's position that allocability of donations could not always be established. Member activities take place in many forms daily. Every activity with the use of a donated item may not be written down on anything that could be provided to the auditors, as was requested in order to establish allocability. That method alone would prove unsuccessful. USVI has changed the in-kind forms to document the purpose of the donation more clearly going forward. We ask for alternate consideration to establish allocability of these donations rather than question the entire amount because in fact, the donations are related to services provided by AmeriCorps Members. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time.

The audit report states that some donors were called and indicated that they had never heard of AmeriCorps. This statement is misleading. Although USVI makes every effort to promote the AmeriCorps program, donors are most likely to associate their donation with homeless veterans rather than an AmeriCorps Program. Those veterans are indeed being served by AmeriCorps Members with the assistance of donations from the community. This report claims that donors never signed re-certification forms. However, USVI has never been informed of this or given the opportunity to investigate.

Other in-kind services

Accounting Services – We contest the $176 of match being questioned for this service. A professional CPA provides accounting services (tax preparation, budgeting) to clients as part of support services offered by this grant. The CPA still volunteers and can indicate the value of the donated time and certify the donation. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time.

Training Services – We contest the $6,161 being questioned of in kind training services provided to our DC AmeriCorps Members. According to CNCS training materials, the donor must estimate the value of their service and sign to certify their donation. All of the above was done and the training was all directly related to AmeriCorps. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time.

Public Relations/Marketing Service – In the supporting schedule for "Other In-kind Services", the total dollar amount being questioned is overstated by $32,350 due to $32,000 of this donated service counted twice. There is also no matching $350 transaction found for this item. This inflates the total stated dollar amount of match being questioned! This discrepancy should be corrected in the final report and in the supporting schedule. These services were donated for a total of $72,000. The documentation was done and the training was directly related to the Members. We contest the entire $72,000 being questioned of this donation. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time.

Rental Truck – USVI contests the entire amount of $114.57 which is the actual amount claimed from this donation. The audit reports that the questioned cost of this donation is

$11,196, which is incorrect. The Auditor has overstated the claimed donation by $11,081.43! Penske donated the rental truck which was used for an AmeriCorps Service Project. The correct value is $114.57, as indicated in the documentation. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time.

FINDING 4:

USVI disagrees. Mistakes were made but USVI does have controls to ensure AmeriCorps Member program requirements are followed.

Proof of Citizenship

The draft audit report states that five Members' education awards and one of those Members' living allowance are all being questioned. However, only four Members' birth certificates were not located. This is a discrepancy in the draft audit report. This discrepancy should be corrected to represent the accurate number in the final report.

Birth certificates for two Members were not located at the time of the audit. The third Member referenced served two terms and is counted as two members. His documentation is unclear because of his legal name. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time. USVI now provides additional monitoring to insure that no Members are enrolled without a birth certificate.

Questioned Education Awards

USVI has systems in place to insure that data is entered correctly. Human error will occasionally cause minor errors as is the case with the four members listed below:

> **Member #1:** USVI does not feel this Member's education award should be questioned for this small discrepancy of hours. Three hours were crossed off of the Member's timesheet, but entered into WBRS. This member would certainly have served the additional hours if this error had been found in a more timely way. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time.
>
> **Member #2:** USVI does not feel this Member's education award should be questioned for this small discrepancy of hours. Data entry resulted in the Member being two hours short of the 1700 requirement. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time.
>
> **Member #3:** USVI does not feel this Member's education award should be questioned. Due to a filing error, the timesheets of another Member with the same last name was inadvertently entered in WBRS. This resulted in the Member appearing 220.5 hours short of the 1700 hour requirement. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time.

Member #4: USVI does not feel that this Member's education award should be questioned. The Member failed to record 56 hours served. The omitted hours were spent in training and orientation, and in hours served in program activities outside of her normal schedule (that she did not realize were eligible to be recorded). The Member added the hours retroactively to a timesheet which is why the hours are being questioned by the audit team. It is USVI's expectation that these documents can be reviewed during the audit resolution process and resolved at that point in time.

Partial Education Award

One Member in 2004-2005 received a partial education award for their exit due to personal and compelling circumstance. The AmeriCorps Director for that program year has since moved and left no additional information in the member's file regarding the reason for the Member's exit.

Third Term Members

USVI agrees with the audit. During the audit it was discovered that some AmeriCorps Directors misunderstood the rule on maximum terms of service. The appropriate definition of maximum terms has been communicated to the operating sites to insure compliance going forward. No third term Members are currently enrolled for the 2006-2007 program year. The practice ceased immediately with this audit finding so that the issue will not arise again.

Living Allowance Claimed Above Established Ceiling Limits

USVI agrees with the audit. The audit states there were eight instances where a member received stipend payments above the established ceiling limit. These eight instances totaled $2,574.83. In seven of the eight instances, the amount received by the member above the ceiling was equal to or less than a full bi-weekly stipend amount. Seven of the eight errors were from the 2003-2004 program year and the eighth was in 2004-2005. USVI's payroll processor maintains a spreadsheet of all current members and the accumulation of stipend payments made to each of these members. These excess stipend payments were related to errors in that payment spreadsheet. Additional processes have been put into place to guard against these errors happening again. The spreadsheet is now being reviewed against the payroll registers to ensure its accuracy and is also being monitored closely before each payroll to determine any living allowance limitations prior to the processing of the stipend payments.

Living Allowances Claimed for EAO Members

USVI agrees with the audit. The four instances referenced in the audit were from the program year 2003-2004. There was some confusion around the classification of these members at the beginning of that program year that caused their stipend payment to be charged CNCS. A correction was made to classify their stipend payments appropriately once the mistake was determined. Currently, the payroll processor for USVI checks the status of the member with the member contract on file to verify the correct classification of the member.

Unsupported Member Living Allowances

Audit report states there were four persons whose Member status could not be verified. The supporting schedules provided by auditors for this item only indicates three Members were unsupported, not four. This discrepancy should be corrected to represent the correct number of Members in the final report. These Members were not enrolled in WBRS was because they served less than 30 days and left prior to the Program Director enrolling the Member in WBRS. One of the three Members in question did in fact have a Member file that was given to the audit team but the Member still remains in question. The other two Member files were not able to be located or incomplete because the Members left the program before the required enrollment date.

Nevada AmeriCorps Members

USVI disagrees that these Members' living allowance and education awards should be questioned. Three Members did serve in Las Vegas, Nevada in direct service to homeless veterans. These Members were not serving for any purpose outside of what was written in the National Direct grant that includes the Phoenix operating site. Members did not take part in any prohibited activity. They were recruited, enrolled and managed appropriately. The program was unaware that Members could not serve on another site within the same organization where cause, activities, and beneficiaries are the same. The program grants assurance that going forward, while all Members of this grant will continue to be recruited to serve homeless veterans across numerous communities, Members will not serve on another site other than where the slot is awarded.

Member Duties not Allocable to Program

We disagree with $94,877 federal share, $16,743 match, and $41,675 education award costs being questioned in this finding. All Members served veterans and did not perform any prohibited activities.

"Two members stated they had never performed services related to veterans"- The service that these Members provide is elaborated below.

> These members serve at a placement site that is dedicated to providing services to the entire homeless population which includes homeless veterans. It is a network of housing, employment, and treatment programs across the city. CNCS is aware that Members of this program will serve both homeless veterans and non-veterans. Homeless veterans make up nearly a quarter of the homeless population. Placing Members in agencies that serve the homeless is designed to insure that veterans coming to that agency for assistance will be connected to appropriate social services by the AmeriCorps Member. This practice also helps to create links in the continuum of care and foster referrals and collaborations targeted to benefit veterans at different sites. The number of veterans Members

served at this site increases each year. These Members also participate in each AmeriCorps service project and serve hundreds of homeless veterans through these projects.

"Four Members performed administrative services for USVI" – The audit only questions three members services, not four. In addition, only one of these members served in a program administered by USVI. These discrepancies should be corrected in the final report. It must be understood that it is impossible to provide direct social services without performing some administrative work. USVI contests the finding entirely for the following reasons:

Member #1: This Member served as a Case Manager for homeless veterans living in transitional housing. The Member interview summary provided by the auditors cites that the Member "assists the clients in other administrative matters..." USVI is fully aware that Members cannot be engaged purely in administrative work. It should be acknowledged, however, that with any and all Member positions, there will be administrative functions incidental to providing a direct service. Interviewing prospective clients, as mentioned, will include completing paperwork necessary for moving a veteran into supportive housing. These duties are included in case management and are minimal compared to the direct service that the veteran receives from the AmeriCorps Member.

Member #2: This Member serves as an Information and Referral Specialist, working with the homeless population including homeless veterans, who are in crisis situations. CNCS is aware that Members serve within agencies that serve both homeless veterans and non-veterans. The auditors' interview summary lists various duties that the Member completes. Phone interviews and directing the homeless to local service agencies that best fit their needs is a referral process which connects the continuum of care for the homeless in an attempt to best meet the individual's needs. It is mentioned that the Member fulfills administrative duties within the placement site. Again, all positions will include a certain amount of administrative work necessary to accomplish the direct service. Providing referrals to the homeless for services, and its related tasks, as is in the case of this Member, is not administrative.

Member #3: This Member serves as an Intake Specialist within a permanent housing facility for homeless veterans, referred to as the DeGeorge. It should be reiterated that the DeGeorge is no longer a hotel and has not functioned as a hotel in over 20 years. The hotel was converted to single room occupancies for homeless veterans. The duties listed by the auditors are related to moving a homeless veteran into permanent housing. Again, there will be a certain amount of administrative work involved in serving these veterans, yet should not be considered prohibited.

"Three Members performed services for CAI, including janitorial work, assisting in the preparation of lease agreements, processing veterans into Transitional and Long Term Housing, and acting as the receptions at the Westside Residence Hall site" - The supporting schedules lists five Member names not already addressed. The list does not indicate what activity is being questioned of each Member listed. Clarification was asked of the auditor in order to respond accordingly, but none was received. Therefore, a brief position description of these five Members will be provided:

Member #1: This Member served as Volunteer/Donation Coordinator. The Member was in charge of all donations to the homeless veterans of the VIP program. The Member collected, managed, and distributed clothing and other donations to the veterans of the program. Member was also in charge of recruiting and managing volunteers that came in to the program to provide services to homeless veterans.

Member #2: This Member served as Veteran Community Service Supervisor. Member provided community service supervision to homeless veterans in the Veterans In Progress program. Community Service is a tool that is used in the first phase of the VIP program to help the participating veteran's recovery by his investment in a therapeutic community.

Member #3: This Member served as Case Manager. Member case managed homeless veteran clients in the aftercare stages of the Veterans In Progress program.

Member #4: This Member served as Homeless Program Case Manager. The Member was responsible for screening homeless veterans upon their admission to the U.S. VETS program. The Member also served to insure that veterans attended their appointments with the Veterans Administration.

Member #5: This Member served as Veterans Activities Assistant. The Member's duties included preliminary screening of walk-in veterans interested in U.S. VETS programs and providing referrals to the next step in being admitted to one of those programs. The Member provided information and referrals to veterans inquiring about U.S. VETS. The Member conducted resource development for the benefit of veterans by sending out donation request letters and making follow up-calls. The Member also planned and implemented various service projects held for the veteran residents.

Employees Earning Education Awards –
We contest the continued use of HUD OIG interviews throughout the audit. These statements are taken out of context, not entirely accurate, and in most cases had nothing to do with AmeriCorps.

In this case, the CEO did not know that the individual in question was an AmeriCorps Member and was arguing about the direct service aspects of the individuals duties. The CEO never stated that the individual was a receptionist and assistant since this was the basis of the entire argument!

USVI disagrees that all 22 Members in question counted their employee work hours as service hours. Several Members did service hours separate from employee hours. It is USVI's expectation that for these Members, their status can be reviewed during the audit resolution process and resolved at that point in time.

USVI does agree that employees should not earn education awards for employee hours. In the instances where this occurred, this was clearly a misunderstanding of USVI's plan to place Members in education award-only slots. It is USVI's understanding that non-stipended or education award-only Members could be paid a stipend from a different source up to a maximum amount. It was USVI's intention to find a source to pay a stipend to an education award-only Member. It was never USVI's intention to give education awards to employees. Site visits and closer monitoring is in place to insure this does not occur again.

FINDING 5:
USVI disagrees. Rent claimed by USVI to the grant is allowable.

Less Than Arms Length
USVI contests 10 of the 15 items listed by the auditor to substantiate their claim that leases between USVI and CAI are less than arms length.

- There is no language in the regulations governing arms length transactions or related parties about "long standing personal relationships" or "being engaged".
- At no time did the auditor ask the CEO if any precautions had been put into place to ensure the arms length nature of any transactions in which both parties were participants.
- To the best of our knowledge, the statement "CAI's President and USVI's CEO jointly conduct official USVI business" is inaccurate and misleading. CAI's President and other members of CAI staff often conducted business in the capacity of the Business Services Agreement or in their capacity as property owners and managers at each of the sites in which USVI administers programs for homeless veterans. USVI's CEO and other staff, including USVI's COO, Community Development Director, and several site directors and program directors have, over the years, traveled to sites at the same time, attended meetings together, lunches and dinners together, and have represented the collaboration of U.S. VETS together in a variety of ways. We are unaware of any regulations governing related parties or arms length transactions that prohibit this type of activity.
- The only benefit CAI has received from AmeriCorps Members services is that homeless veterans have remained off the street. We believe this benefits all citizens of the United States.

  USVI currently provides services to homeless veterans in eleven locations (ten cities) throughout the country. Nine of those locations include housing components for homeless veterans. Two of those facilities are service centers with adjacent housing. Five of these eleven facilities are owned by subsidiaries of Cantwell Anderson, Inc. (CAI). Four of the facilities are owned by the Federal Government, but leased to subsidiaries of CAI for the sole purpose of providing housing for homeless veterans. Two of the facilities are owned by non-profit housing developers. Ten of the eleven properties are managed by an affiliate of CAI. USVI provides services to homeless veterans. USVI uses their resources to provide services necessary to help homeless veterans abandon life on the streets and successfully reintegrate into society. Those services include outreach, intake and assessment, drug and alcohol treatment, extensive employment and education programs, life skills, financial management, legal services, clothing, food, transportation, family integration and reunification where possible, sexual trauma, post-traumatic stress disorder, and social gatherings and events. Since 1994, USVI has also utilized AmeriCorps Members to provide these services. The beneficiary of the services is the homeless veteran, not the building.

- USVI's Controller was originally hired by CAI's President as a CAI employee because CAI had a Business Services Contract to do all the accounting functions for USVI. When USVI terminated this contract and moved the accounting services in house, all the accounting personnel remained the same. No job descriptions were revised, which is a finding that is later addressed in this report. It is unclear in any regulations governing arms length and related parties how this contributes to the finding in any way.
- CAI owns the property in Inglewood that houses the Westside Residence Hall, which is the first program started by USVI. USVI's office for the Westside Residence Hall is there, as are USVI's corporate and accounting offices, since this is where our programs started. We are not aware of any regulations governing related parties or arms length transactions that prohibit a property owner from occupying space they own or a non-profit occupying space in a building that also has space occupied by a property owner.
- Contrary to the auditor's statement, USVI's notes owed to CAI are interest-bearing.
- The auditor's statement about the JVA is inaccurate. There is no splitting of proceeds generated from USVI activities between the two entities. The splitting of proceeds flows one way, from CAI to USVI.
- The statement that USVI's CEO and CAI's President entered into a Business Services Agreement is misleading and inaccurate. The contract is between USVI and CAI. It is clear from Board Minutes that these agreements were entered into by the Board of Directors and was signed by the CEO on behalf of the organization.
- Although the BSA expired, Board Minutes during that time specifically call for the agreement to be recurring annually.
- Per the audit, the arms length transactions between CAI and USVI are in question. There is no mention of an arms length issue with Century Housing (CVC). The auditors are questioning the Corporation's share of rental costs totaling $113,871. Of this amount, $5,809.53 relates to rental charges from Century Housing (CVC). It is inaccurate to report in the audit the amount relating to CVC when that-relationship is not in question.

HUD Interviews
USVI calls into question the use of excerpts from correspondence between HUD and USVI and HUD OIG interviews with USVI employees since this information is taken out of context for a different purpose. All statements constitute "heresay" and in some cases are misleading.

Allocation not Verifiable
It is inaccurate to state that USVI did not respond to the request to support the basis of rental costs from Century Housing (CVC). Following the Exit conference on 4/17/07, per the auditors request, USVI submitted to the auditors a copy of a CVC rental invoice as well as a supporting schedule of the allocation. Also, the $53,595 questioned does not correspond to Century Housing (CVC). That figure corresponds to the entire amount of rental charges for the 03-04 program year as listed in the audit and on the auditor workpaper. This includes charges from Westside Residence Hall (a CAI owned company). The amount relating to CVC is made up of only $2,617 of rental charges.

Allocated to the wrong grant
The amount questioned in the Corporation's share of questioned costs is inaccurate. During the program year 2003-2004, USVI did not have a grant through the California Commission. The Long Beach site was part of the National Direct grant. The $4,173 relating to 2003-2004 was not allocated to the wrong grant and should be allowable. During the year 2004-2005, the Long Beach site did become part of the California Commission grant. USVI did mistakenly charge $5,002 in rental costs relating to CVC to the National Direct grant, but this allocation error has since been corrected.

FINDING 6:
USVI disagrees. USVI program results are clearly defined.

USVI Program Results Were Not Clearly Identified

We disagree with this finding. USVI records the veterans served by individuals so that program results reported in WBRS and used for grant applications to the Corporation reflect only the homeless veterans for which AmeriCorps Members provided outreach services, case management, or employment services.

It should also be noted that USVI has worked with CNS TTA providers on performance measures three times over the past 13 years. Each provider notes the challenges in separating the efforts of one individual or one funding source in any service organization where multiple factors lead to the desired outcome. USVI absolutely establishes, tracks and evaluates performance measures for our programs!

FINDING 7:
USVI disagrees. Mistakes were found, but USVI does consistently comply with grant provisions.

Background checks

Houston's CTI program serves veterans with mental illnesses but who are not considered vulnerable. They advocate for themselves and are self-sufficient. Even the Veterans Administration does not require background checks on any persons who serve those veterans. For these reasons, USVI did not determine these veterans as vulnerable and Members did not undergo background checks prior to serving them.

Mid- or end-of-term evaluations

The auditors cite five evaluations that were missing from Member files. Two of these five Members' evaluations were misfiled, but were completed. One Member's Site Supervisor left her position prior to completing an evaluation for the Member. Regarding the remaining two evaluations that were missing, the program grants assurance that it is aware of the requirement to conduct a mid-term and final evaluation with AmeriCorps Members during their term of service. It is the practice of this program for the Member's Site Supervisor and AmeriCorps Program Director to conduct and file evaluations. USVI is now executing this requirement more diligently. The completion of evaluations is monitored by the National AmeriCorps Director through desk monitoring practices. AmeriCorps Program Directors send copies of Member evaluations for review to identify any evaluations that may be missing, and to ensure their completion.

Training hours

All Members receive Member development training during their term of service. Pre-service training and ongoing client interaction trainings are provided. Other training topics are designed to enhance the personal and professional development of Members. While all AmeriCorps Members are required to log their training hours on their bi-weekly service hour logs, it has come to USVI's attention that some Members have failed to do so in past program years. Corrective action steps have been taken to insure that going forward all Members will log both training and direct service hours separately with each timesheet. To demonstrate that Members do receive training, sign-in sheets signed by Members were presented to the auditors. Sign-in sheets verify Member attendance in trainings although some Members did not separate these training hours from direct service hours on timesheets.

Enrollment/exit forms

USVI disagrees with 18 of the 78 enrollment forms, as well as 1 of the 42 exit forms that were listed as being late in the Web Based Reporting System (WBRS). In these 19 instances, the Members were enrolled or exited a month after their start date. For instance, the Member began service on 10/04/2004 and was enrolled in WBRS on

11/04/2004. While October has 31 days in the month, it seems obvious that the Program Director strived to enroll the Member on time. Such dates were never questioned as late in prior monitoring visits and audits of USVI's AmeriCorps programs. The enrollment/exit and approval system of this program has been improved. In past years, Program Directors only had the ability to enter the enrollment data in WBRS. A parent staff member would then be contacted to approve the forms. In some instances, this system created a lag in time for the approval to be entered. Program Directors have since been granted their own approval access to WBRS to cut down the time lag between enrollment or exit and approval of Members.

Change of status forms

Approval process has been improved as stated above. This program is more diligently monitoring the timeliness of entering all forms in WBRS to insure compliance with the prescribed 30-day rule.

USVI did not comply with specific grant provisions

USVI disagrees. The auditor states that USVI management visited its operating sites throughout the country but documentation of these visits was limited to travel vouchers and emails indicating that visits had taken place. This is inaccurate. Site Visits were documented through notes, emails, and memos kept on file at the corporate office. This documentation was presented to auditors during their fieldwork.

FINDING 8:
USVI disagrees. USVI does have policies and procedures for drawdowns.

It is inaccurate to state that USVI does not have written policies and procedures for drawdowns. A Cash Drawdown Policy is written within the USVI Accounting Manual under "Policies Associated with Federal Awards". USVI will expand on this policy to include procedures specific to the Department of Health and Human Services' payment management system (PMS). Additionally, USVI will set up and train additional staff to perform drawdowns from the PMS system.

FINDING 9:
USVI disagrees. USVI updates its job descriptions as necessary.

Job Descriptions
USVI disagrees with this finding. The roles listed below have not changed.

USVI Controller - With the termination of the Business Services Agreement with CAI, all accounting employees working on USVI accounting were moved in house. However, their position descriptions did not change.

USVI CEO - The Executive Director's title change to CEO was an informal process through discussions in two separate meetings of Board Members with USVI staff and was simply reflective of the evolution of the growth of the organization. A job description change was not deemed necessary.

FINDING 10:
FSR VARIANCE

The error referenced in the computation of the March 31, 2006 FSR was made during the process of transposing the support documentation into the e-grants system. All the attached corresponding support for the March 31, 2006 FSR matches the correct cumulative figures. However, as part of the data entry to e-grants, an error was made in calculating Section 10c of the report therefore overstating costs. As stated by the auditors, this input error was corrected on the September 30, 2006 FSR.

The March 31, 2006 FSR was reviewed and input into the e-grants system by both the Program Officer and the Controller. The error was not detected at time of entry. To further document this review process, USVI will develop a more formalized procedure in documenting the review / approval of the FSR.

OTHER MATTERS:

Evidential Matters

- The auditor mentions the length of time it took for the auditors to receive answers and attributes this to inactivity on USVI's part. We assure you this was not the case. Staff worked many extra hours to be responsive to the auditors while performing tasks necessary to the daily operations of the programs.
- The auditor describes contradictions, which may or may not be explainable when you consider the different level of organizational history and program history various staff may have. However, it is impossible for USVI to comment on vague statements which are hearsay and taken out of context.

Program Income

- The auditor states that none of the JVA proceeds have been used for the benefit of veterans, which is inaccurate. All of the JVA proceeds have been used to repay debt incurred providing services to homeless veterans.
- The auditor states that according to USVI it has never reviewed the JVA analysis. However, Board Minutes contradict this statement.
- USVI's CEO was never asked to explain what significant expenses should be included in the analysis.
- USVI's Controller never represented that he does not know about the JVA. He is aware of it and has read it.
- USVI is unaware of its Board being interviewed about anything during the course of this audit.

Ruling from Another Agency

The auditor states that HUD originally questioned USVI's cash match because its origin was from another federal source. THIS STATEMENT IS INACCURATE. HUD did not question USVI's match due to the nature of the source. In fact, page one of Finding One regarding cash match clearly states that HUD match can come from a variety of sources, including federal funds. Please see HUD OIG Audit Report 2004-LA-1008.

APPENDIX

United States Veterans Initiative has spent a significant amount of time since the audit entrance conference on June 21, 2006 providing audit officials with documentation to support our activities and to eliminate most of the findings in this report.

This audit indicates that mistakes were found within our AmeriCorps program and that USVI can improve in areas to operate a stronger AmeriCorps program. We look forward to working with the Corporation for National and Community Service to resolve these items. However, while USVI acknowledges that mistakes were made, we disagree with several statements made in this report. USVI does maintain adequate financial systems and controls to remain within compliance of grant requirements. USVI does not take a lax approach in documentation of costs or of maintaining records of costs claimed to the grant. USVI does not take a lax approach in its grant administration.

USVI calls to attention that there are instances where a charge has been questioned in full under two different findings, thus the total questioned costs stated in this report have been overstated. This discrepancy needs to be corrected for the final report.

The audit states that transactions related to rent expenses between USVI and CAI, are less-than-arms-length. The arms length issues are still awaiting VA General Counsel determination. USVI Board and Staff are reviewing all relationships with CAI to ensure that USVI is adequately insulated as an independent entity.

The statement made in the draft audit report that transaction tests resulted in a 69% error rate is misleading. Per an email from the auditor on August 3, 2007, the audit team judgmentally selected items to test. Sixty-two percent of the total errors found came from five recurring issues. These consisted of in-kind supervision, CEO/COO related costs not charged as indirect, rent invoices that were determined by the auditor to be less-than-arms-length, in-kind goods in which the auditor was unable to determine the allocability to AmeriCorps, and California Commission in-kind recorded in error to the National Direct grant. With the exception of the last issue, these types of transactions were handled consistently over the duration of the grant causing multiple findings, most of which USVI believes to be in error. The judgmental sampling method resulting in a 69% error rate is misleading, because it does not statistically represent the transaction population in total.

The duration of the audit has been extremely lengthy, extending for more than 12 months. There is mention of the length of time it took for auditors to receive answers to specific questions from USVI staff. The timeline of the audit was impacted by communication challenges between auditors and USVI staff. These challenges included mistakes on the auditor's part including the misrepresentation of findings and dollar amounts in question (as indicated in USVI's response). There were also instances where the audit team did not fully disclose all information that would satisfy and remove a questioned cost or activity from their list of exceptions. This led to duplicated efforts by USVI staff to satisfy one transaction, during a time when the number of transactions requested expanded by 300%. The exit conference of this audit took place on April 13, 2007. USVI was told that a draft audit report would be issued 30 days after the exit conference. It was not until July 25, 2007, more than 90 days after the exit conference, that USVI actually received the draft audit report. On May 8, prior to receipt of the draft audit report, USVI was informed by the Corporation that it was deferring action on its 2007 AmeriCorps National Direct continuation grant. It was stated that this was due to issues raised in the exit conference. USVI called to question the fact that this decision was made prior to the issuing of the draft audit report and without USVI's response to the findings. The timeline and the effect of this audit have impacted USVI through the loss of staff and of funding which has eliminated important services to homeless veterans.

Since 1994, USVI's AmeriCorps program has served thousands of homeless veterans. More than two hundred of our AmeriCorps Members have been formerly homeless veterans and this program has enabled them to serve others like themselves. Many of USVI's financial and programmatic systems have already been strengthened since the inception of this audit and we believe we have consistently demonstrated thoughout the years, a willingness to own any mistakes and correct them.

Appendix B

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

Corporation for
NATIONAL & COMMUNITY SERVICE

To: Gerald Walpin, Inspector General

From: Margaret Rosenberry, Director of Grants Management
Kristin McSwain, Director of AmeriCorps

Cc: Jerry Bridges, Chief Financial Officer
William Anderson, Deputy CFO for Finance
Andrew Kleine, Deputy CFO for Planning and Program Management
Frank Trinity, General Counsel
Sherry Blue, Audit Resolution Coordinator, Office of the CFO

Date: August 27, 2007

Subject: Response to OIG Draft Audit Report on the Audit of the Corporation Grant to the United States Veterans Initiative

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Thank you for the opportunity to review the draft audit report of the Corporation's grants awarded to the U.S. Veterans Initiative. Due to the significant nature and extent of the findings, we do not have specific comments at this time. After your final audit report is issued, we will review the findings in detail, work with the U.S. Veterans Initiative to resolve all findings and recommendations, determine the allowability of questioned costs, and provide you with our management decision.