


Audit Report No. 95-02

Date: August 31, 1995

CORPORATION

FOR NATIONAL

 **S E R V I C E**

OFFICE OF THE INSPECTOR GENERAL

Program and Financial Compliance Audit of

City Year of Boston

Boston, Massachusetts

COMMISSION ON NATIONAL AND COMMUNITY SERVICE GRANT #92NMSTMA00004

This report is issued to an Corporation for National and Community Service Management Official to resolve. Following OMB Circular A-50, the Corporation must make a final management decision within 180 days of the report. Consequently, the auditor's findings do not necessarily represent the final resolution of the issues presented or the amount of disallowed costs.

The Inspector General must approve any request for public release of the report.

Corporation for National and Community Service
Office of Inspector General
Program and Financial Compliance Audit of
Commission on National and Community Service Grant #92NMSTMA00004
Awarded to Commonwealth of Massachusetts and
Subrecipient, City Year of Boston, Massachusetts

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The Office of Inspector General (OIG)¹ selected this grant for audit because (a) it was one of the Commission on National and Community Service's (the Commission) largest awards under Subtitle D of the National and Community Service Act of 1990 and (b) City Year's program was one of the seven demonstration models for potential replication as a national program of community service.

The grant was awarded to the Commonwealth of Massachusetts (the State) through the Massachusetts Department of Education with City Year, Inc. of Boston, Massachusetts as the subrecipient. The initial award was \$7.0 million for the period August 1, 1992 through July 31, 1994. On September 30, 1993, the Commission amended the grant increasing the total award to \$8,371,472 and extending the expiration date through August 31, 1994.

Summary

As a result of our audit we found that while City Year's reported accomplishments accurately reflect their activities, and City Year's internal evaluations fostered program improvement, fiscal oversight of City Year requires improvement and that during FY 1993 and FY 1994, City Year's accounting system and financial management controls did not meet Federal standards. These conditions were first detected during the audit of City Year's 1993 financial statement by KPMG Peat Marwick, City Year's independent auditing firm.

OIG and Corporation for National and Community Service (the Corporation)² management teamed to perform an audit follow-up visit in January 1995 to assess progress in correcting the deficiencies reported in the audit. Our review revealed that City Year has made significant progress in installing a new financial management system and in correcting many of the deficiencies reported.

¹ On December 14, 1993, the Corporation for National and Community Service established in the Corporation Office of Inspector General audit responsibility for all programs administered by the Corporation as well as grants awarded by the former Commission on National and Community Service.

² As a result of the National and Community Service Trust Act of 1993, the Commission on National and Community Service merged with the Corporation for National and Community Service.

In addition, City Year had hired experts to advise the organization on improving its financial system and to aid in the preparation of its financial reports and engaged its auditors to perform an audit of its fiscal year (FY) 1994 financial statements in compliance with Federal requirements. Although City Year received an unqualified opinions on its FY 1993 and 1994 financial statements, in its recent report on City Year's FY 1994 financial statements, KPMG Peat Marwick continues to report material weaknesses and other weaknesses in City Year's management controls over financial information, compliance with laws and regulations, and safeguarding of Federal funds.

This report discusses conditions and issues found in our audit and recommends additional actions needed to improve financial oversight and to resolve issues relating to the Commission on National and Community Service's grant funds. It was first issued as a draft in March 1995; however, we allowed an extended response period because matters related to the reprogramming of unused education benefits needed to be negotiated among the Massachusetts National and Community Service Commission, City Year and the Corporation for National Service. The additional response time was also necessary because all parties were heavily involved in the CNS grant renewal process and none had the resources to address the complexities related to the reprogramming.

The extended response period also allowed KPMG to complete its audit of City Years FY 1994 financial statements. The audit reports were submitted to CNS and CNS OIG in July 1995. We have included information from these reports in this report only as it relates to the findings OIG is reporting. KPMG's reports are a matter of public record and can be obtained through City Year.

Background

City Year is a team-based, urban youth corps program established in 1988 in Boston, Massachusetts. It received the grant to serve as a model for a large-scale national service program. In October 1993, City Year opened a pilot expansion project in Providence, Rhode Island followed by four new programs launched during 1994 in (1) Columbia, South Carolina, (2) Columbus, Ohio, (3) Chicago, Illinois, and (4) San Jose, California.

City Year corps members are an economically and culturally diverse group of young people, age 17 to 23. Corps members spend four days of each week in community service activities with the fifth day set aside for education and reflection. During the year, corps members serve one month in individual internships to increase skills for future employment and provide community service. Those who do not have a high school diploma attend G.E.D. classes. A weekly stipend of approximately \$100 and eligibility for a post-service education benefit and

public service award of up to \$10,000 in FY 1993 and \$7,500 in FY 1994³ were offered in exchange for a commitment of nine months in service and educational activities.

Corps members serve in teams comprised of a team leader and approximately 10 to 12 members. Five to six teams constitute a division which focuses on a service theme, e.g. school partnerships, community building, homelessness and housing, youth leadership, and conservation and environment. Annually, corps members work with local citizens during a one-day Serve-a-thon to engage the public in community service and raise funds for City Year.

Objectives, Scope, and Methodology

The OIG established five objectives for this audit, specifically to determine if

- adequate Federal and State oversight was provided over the programmatic and fiscal aspects of the grant;
- actual program accomplishments were consistent with reported accomplishments;
- internal and external evaluations fostered internal improvements and measured program effectiveness and participant and community impact;
- City Year's accounting system and system of internal controls for FY 1993 and FY 1994 were adequate to document grant expenditures according to Federal standards and safeguard grant funds and other assets under its control; and
- costs charged to the grant were reasonable, allocable, and allowable and if Federal funds were spent for purposes detailed in the terms, conditions, and requirements of the grant award.

Our audit covered (a) the Commission on National and Community Service's and the State's financial and programmatic administrative responsibilities for the two-year period of the grant, (b) City Year's programmatic operations for the 1993 and 1994 corps years, and (c) financial operations for FY 1993 with selected analyses for FY 1994.

³ Although corps members were eligible for a post-service education benefit and public service award of up to \$10,000 in FY 1993 and \$7,500 in FY 1994, City Year reports the typical benefit was \$5,000. Awards in addition to the \$5,000 education benefit were not funded by nor part of the Federally-supported project.

We performed the audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Our procedures included

- interviews and discussions with officials of the Corporation for National and Community Service, the State,⁴ and City Year,
- review of KPMG Peat Marwick's (City Year's independent accountants) workpapers and reports supporting their audit of City Year's FY 1993 financial statements, and
- review and testing of City Year's and Massachusetts' reports and records.

The programmatic phase of the audit was performed March 1 through March 9, 1994. To minimize duplication of audit effort⁵ we utilized information and reports developed during the single audit performed by KPMG Peat Marwick. Our review of KPMG Peat Marwick's workpapers was performed August 22 through August 26, 1994.

KPMG Peat Marwick began the audit of City Year's FY 1993 financial statements in March 1994. The audit was not completed until August 1994 primarily due to (1) the lack of a disciplined accounting system requiring monthly closes, formal reconciliations, and budget to actual reporting analyses and (2) significant personnel turnover in City Year's financial staff. Because KPMG Peat Marwick's audit of City Year's FY 1993 financial statements covered only ten months due to City Year's changing its fiscal year, we reviewed City Year's budget, draw down of funds from the State, and trial balances for July and August to cover the grant year.

On January 23 and 24, 1995, the OIG and Corporation for National and Community Service management conducted a follow-up review of City Year's new accounting system, actions to correct deficiencies, evaluation plans, and the State's oversight and financial reporting actions and responsibilities.

⁴ In FY 1993, the Massachusetts Department of Education was the legal and fiscal conduit for grant funds. With the passage of the National and Community Service Trust Act of 1993, the Massachusetts National and Community Service Commission (MNCSC) was designated legal responsibility for AmeriCorps and Learn & Serve Community-based funds. The MNCSC is staffed through a public/private partnership with the Massachusetts Youth Service Alliance (a501(c)3), the Department of Education, and the Massachusetts Department of Employment and Training.

⁵ in compliance with the Single Audit Act of 1984 and *OMB Circular A-133, Audits of Institutions of Higher Learning and Other Non-Profit Institutions*, which requires a coordinated audit approach to minimize duplication of effort between independent and Federal auditors.

In July 1995, OIG requested and received City Years' Single Audit Reports issued by KPMG Peat Marwick as a result of its audit of City Years FY 1994 financial statements. We updated our report considering the information reported by KPMG Peat Marwick.

We obtained responses from the Massachusetts Commission, City Year and the Corporation, on this report. Their responses are included in Exhibits B, C, and D, respectively. We also considered their responses in the final text of this report.

Findings

We found City Year's quarterly reports accurately reflect their activities and accomplishments to provide community service and foster corps member development. They have a well-organized visitors program, an internally developed training academy, and an ambitious expansion program. In addition, City Year actively seeks private sector support and engages partners and local citizens in community service activities through its annual Serve-a-thon.

City Year continuously seeks ways to improve its operations through internal evaluations and the services of outside consultants. Outside consultants have been used to develop the strategy for City Year's expansion program. Recently City Year hired an outside contractor to assess their current evaluation efforts, identify best practices, strengthen areas that have not been effective, and design the FY 1996 evaluation plan. For FY 1995 City Year is monitoring and assessing the impact of their work related to community service, participant development, and community building. City Year's organizational development and program improvements have benefitted from their evaluation efforts and lessons learned.

However, as discussed below, we found conditions and issues related to oversight of the grant, City Year's financial systems, and custody of Federal funds which require improvements and resolution, specifically.

I. The Corporation and the Massachusetts Commission need to increase fiscal oversight over City Year's operations, and the Corporation needs to provide additional training to its state commissions to ensure adequate monitoring and reporting of grantee and subrecipient financial activities.

Both the Commission on National and Community Service and the State (the grantee) were responsible for oversight over City Year (a sub-recipient). The National Community Service Act of 1990 (Subtitle G) established the Commission's administrative responsibility. The Commission established its regulations in 45 CFR 2541.200 (b) which required the State to ensure that the subrecipient's financial management system meets financial reporting, accounting records, internal control, budget control, allowable cost, source documentation, and cash management standards. In addition, *OMB Circular A-128, Audits of State and Local*

Governments, paragraph 9, detailed the State's responsibility to determine whether its subrecipient spent the Federal funds in accordance with applicable laws and regulations.

When Congress gave the Commission on National and Community Service the responsibility of distributing approximately \$150 million of Federal funds, the Act authorized a very limited technical staff, not to exceed 10, to accomplish the mission. As a result, the staff directed more of their effort toward awarding grants and providing programmatic oversight than toward monitoring the states and their subrecipient's financial activities. For example, we found the Financial Status Reports (SF 269)⁶ did not accurately reflect the grant's fiscal activity. The dollar amounts reported during FY 1993 were budgeted amounts for each quarter, and for FY 1994, only one report instead of the required four was submitted. A final FSR for FY 1994, although due November 30, 1994, had not been submitted as of January 1995. We found no indication that either the Commission's grants officer or the program officer noticed problems with the Financial Status Reports (SF 269A) concerning the dollar amounts and frequency.

At the State level, the Massachusetts Department of Education⁷, had fiscal oversight responsibilities. The Department of Education administers between \$300-400 million dollars in Federal funds annually in over 50 categorical programs represented by over 6,000 grants. Accordingly, it primarily relies on the subrecipients' meeting the terms and conditions of their agreement and on audit reports. The State, however, did not receive a copy of City Year's audit report (issued September 1994) until January 23, 1995.⁸

Further, we have noted that Massachusetts omitted Commission funding from its *Report on Schedule of Federal Financial Assistance* for the fiscal year ended June 30, 1994. As a consequence, CNS funding could not be included in the Federal funds tested when Massachusetts financial reports were audited under Single Audit Act requirements.

As a consequence of the lack of fiscal oversight, (1) the problems with City Year's accounting system went undetected until near the end of the two-year Commission grant when KPMG Peat Marwick performed its Single Audit Act audit (under OMB Circular A-133) of City Year's FY 1993 financial statements and (2) we found that City Year, rather than requesting funds that

⁶ submitted by the State

⁷ The Commission on National and Community Service awarded the Massachusetts Department of Education \$110,050 to cover costs to administer \$5,069,335 of grants for four community service programs during FY 1993. Two entities supported the FY 1993 grant, each with separate oversight responsibilities. The Massachusetts Youth Service Alliance undertook primary programmatic responsibility for the Subtitle D grants and the Department of Education served as the legal and fiscal conduit.

⁸ According to *OMB Circular A-133, Audits of Institutions of Higher Learning and Other Non-Profit Institutions*, paragraph 15.g, the subrecipient's auditors are responsible for submitting the report to the recipient of Federal funds within 30 days after the completion of the audit.

closely matched its incurred costs, drew down its entire budget⁹ resulting in \$844,269 of Federal funding in excess of its immediate needs for FY 1993 alone. Additionally, City Year's non-Federal expenditures required in Federal reports were omitted, partially because the State's financial forms City Year completed did not include a request for non-Federal information.

In order to prevent recurrences of the problems identified, we recommend that

- (1) the Corporation for National and Community Service
 - (a) reemphasize State Commissions specific fiscal oversight responsibilities for subrecipients of grants awarded to the State
 - (b) provide written guidance and training covering those responsibilities. Federal and State fiscal oversight should include identifying subrecipients who have dealt with Federal money and those who have not. For programs that are unfamiliar with Federal fiscal requirements, targeted training and additional monitoring should be provided.
 - (c) consider using *exception* reports (listing, for example, those grants whose drawdowns and expenditures equal budgeted transactions or for which financial reports or audit reports are overdue) to facilitate monitoring grantees. Presently, the Corporation receives reports arraying information such as reported expenditures, budgeted expenditures, and cash draw downs for all grantees. A report, however, that focuses attention on specific grantees whose activities or reports meet or exceed certain parameters may serve to direct attention to those requiring closer monitoring.
- (2) the Massachusetts State Commission conduct pre-award surveys to ensure that its subrecipients' financial management systems meet standards to adequately account for Federal funds, and the Corporation consider extending this recommendation to all State Commissions. Pre-award surveys of subrecipients' financial management systems are particularly important for subrecipients that have never received Federal funds.
- (3) the Massachusetts State Commission submit quarterly Financial Status Reports for its subrecipients based on actual expenditures for both Federal and non-Federal funds.

⁹ in quarterly allotments based on their budgeted expenditures and expected need as reported to the State

- (4) Because in FY 1995 and FY 1996, City Year receives funding both through the Massachusetts Commission as a Subrecipient and from CNS as a directly funded Grantee, the Massachusetts Commission and CNS team to review City Year's progress in correcting the findings reported by OIG as well as those included in its Single Audit Act reports from KPMG Peat Marwick.

In responding to this report, CNS cited a new control initiated over the past few months, whereby grantee and subgrantee drawdowns, expenditures and budgets are reviewed. The Massachusetts Commission response indicates that subgrantees are required to submit their *Single Audit* reports as a part of their application to the states for AmeriCorps funding.

Acknowledging that improvements may have been made in oversight by both CNS and the Massachusetts Commission, OIG will continue to monitor City Year's fiscal activities until we are comfortable that the conditions reported herein and those cited in City Year's *Single Audit* reports have been corrected.

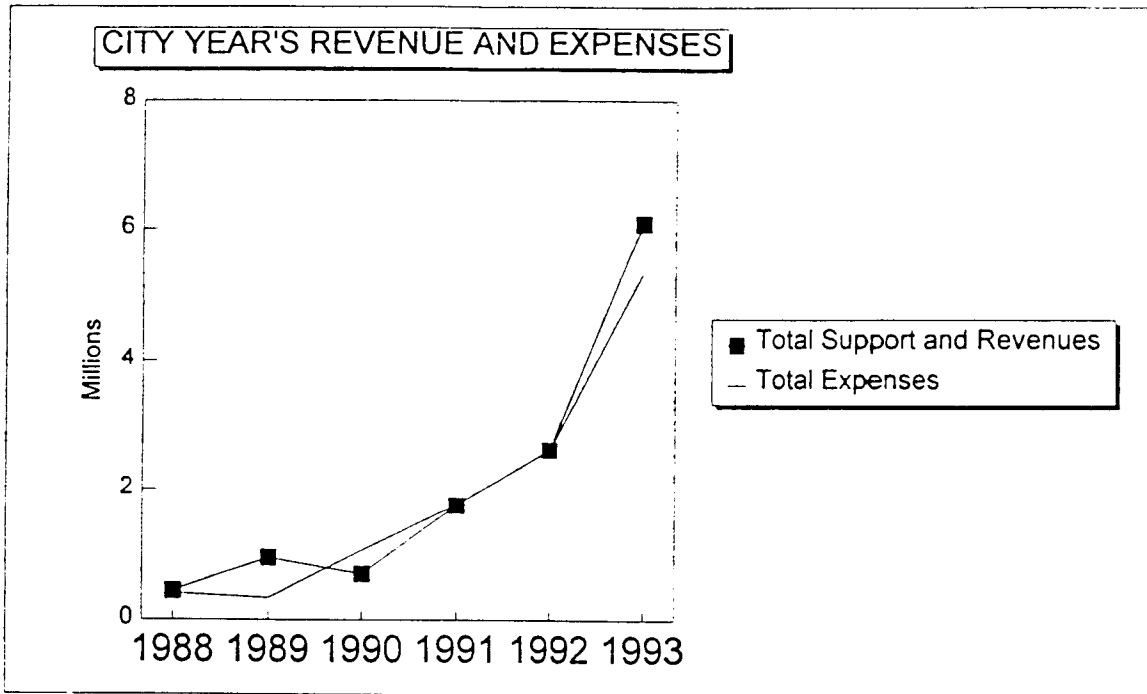
II. In FY 1993 and FY 1994, City Year's accounting system and system of internal controls were inadequate to (a) accommodate the rapid growth experienced with the introduction of Federal funds and (b) meet Federal standards for accounting for grant expenditures and safeguarding grant funds and other assets under its control.

Although KPMG Peat Marwick audited City Year's annual financial statements and has issued unqualified opinions each year since 1988, during the audit of City Year's fiscal year (FY) 1993 financial statements, KPMG Peat Marwick found that City Year had not developed accounting policies and procedures or procured software that had the capability to meet the new requirements associated with Federal funding in 1993 and 1994. KPMG's report on City Year's FY 1994 financial statements indicates, that while some improvements are evident, material weaknesses were not completely corrected during FY 1994.

In 45 CFR 2541.200 (b) states...financial management systems of subrecipients of Federal funds must (1) provide accurate, current, and complete disclosure of financial results of financially assisted activities, (2) maintain records that identify the source and application of funds, (3) have adequate internal controls to safeguard property and assure its use for authorized purposes, (4) compare actual expenditures with budgeted amounts, (5) ensure the reasonableness, allowability, and allocability of costs, (6) maintain source documentation to support accounting records, and (7) have procedures to minimize the time elapsing between disbursements and the transfer of funds from the U.S. Treasury.

Since its inception in 1988, City Year has experienced phenomenal growth. Prior to receiving Federal funds in fiscal years 1993 and 1994, City Year operated exclusively with funds raised

from private donations and corporate sponsors. However, as illustrated below, with the introduction of Federal funds, City Year's revenues more than doubled.



City Year's automated general ledger system was designed for small, for-profit businesses and could not fully support fund accounting and grant reporting requirements without significant modifications. KPMG Peat Marwick reported that

- (a) monthly summaries of the results of operations were not produced for management's review,
- (b) recorded entries in the cash receipts and disbursements journals reflected only daily cash activity, not all of City Year's financial activity,

- (c) reports of the results of operations of the individual restricted and unrestricted fund groups were not produced or compared to budget because the general ledger was not properly designed,
- (d) system information was not reconciled with source documentation since reports and summaries were not produced.
- (e) source documentation could not be located for all journal entries or vendor invoices for individual transactions, and
- (f) documentation did not indicate that invoices were reviewed or approved by an authorized individual or canceled when payment was made.

Consequently, considering Federal reporting and accounting requirements as well as the former Commission's regulations, we identified \$15,254 in interest due to the Federal government and questioned \$1,915,593 of costs charged to the grant. The interest due the Federal government arises from City Year's practice of drawing cash far in advance of its immediate needs. (This practice and its effects are also discussed in Finding III.) The interest due and specific reasons for the questioned costs are part of Exhibit A.

**Schedule of Incurred, Accepted, and Questioned Costs
for the Period September 1, 1992 through August 31, 1993**
(The last two months were not audited by OIG)

FEDERAL SHARE

Cost Category	Incurred	Accepted	Questioned	Notes
Program Expenses:				
Corps Members	\$ 667,284	\$ 667,284		
Educational Benefits	550,616			(1)
Team Leaders	447,477		\$ 447,477	(2)
Other Staff	963,709		930,571	(2)
			<u>33,138</u>	(3)
Subtotal	2,629,086	667,284	1,411,186	
Financial & Admin.. Staff	146,500		146,500	(2)
Fringe Benefits	449,917	153,166	296,751	
Contractual Services	103,600	103,600		
Corps Member Retreats	53,500	53,500		
Supplies	207,443	206,085	1,358	(3)
Other Expenses	<u>181,657</u>	<u>121,859</u>	<u>58,408</u>	(3)
Total Federal Costs	<u>\$ 3,771,703</u>	<u>\$ 1,305,493</u>	<u>\$ 1,915,594</u>	(4)

Note 1: During 1993 City Year received \$3,771,703 of Federal funds and spent \$2,927,434 which was \$844,269 in excess of needs. (OIG balances may differ somewhat from the adjusted balances that result from KPMG Peat Marwick's audit of City Year's FY 1994 financial statements.) The \$844,269 excess included \$550,616 for education benefits. During the second grant year, City Year drew down its entire budget which included an additional \$821,250 for education benefits. As of January 1995, City Year records indicate that only \$218,355 of the education benefits has been disbursed.¹⁰

¹⁰ This matter is discussed further in finding III.

Notes to Exhibit A (Continued)

We found the practice continued into FY 1995. For its FY 1995 national direct grant from the Corporation, City Year draw down an excess of \$358,711 for the period July 1, 1994 through January 6, 1995. Each of the last four draw downs for the FY 1995 direct grant were for \$233,333 (on 11/9/94, 12/2/94, 12/13/94/and 1/6/95).

The cash management requirements in 45 CFR 2541.200 (b) (7) state that when advances are made by electronic transfer, the grantee must make draw downs as close as possible to the time of making disbursements. Furthermore, the Federal Cash Transaction Report, SF272 requires an explanation as to the why the draw downs were made prematurely or other reasons for the excess if more than three days cash requirements are on hand.

City Year deposited funds received in an interest-bearing account but did not remit the Federal share to the Corporation as required by *OMB Circular A-110*.¹¹ We determined that \$15,254 of \$29,983 interest earned during the first ten months in FY 1993 is due to the Federal government. Additional interest is due for FY 1994 and FY 1995. The amount for FY 1994 will be determined upon completion of the audit of City Year's 1994 financial statements.

Note 2: As required by *OMB Circular A-122, Cost Principles for Nonprofit Organizations*,¹² we questioned \$1,524,548 in personnel costs and \$296,751 in fringe benefits because staff salaries, wages, and fringe benefits were charged to the grant without supporting documentation. The personnel costs include \$447,477 for Team Leaders, \$930,571 for Other Staff, and \$146,500 for Financial and Administration. Although City Year requires corps members to keep time sheets, it had not implemented a system to allocate staff salaries and wages to the Federal grant supported by personnel activity reports that documented time spent at work, on vacation, or sick leave and were signed by the employees and their immediate supervisors. (As discussed below OIG, City Year and KPMG Peat Marwick have agreed to try alternative methodologies for determining appropriate personnel costs to be charged against the grant.)

Note 3: We questioned \$92,751 for fund-raising activities. This amount calculated from City Year's audited financial statements includes \$33,138 of Staff Salaries \$1,358 of Supplies and \$58,408 of Other Expenses. Costs classified as fund-raising activities are unallowable according to *OMB Circular A-122, Attachment B, paragraph 19b*.

Note 4: We questioned only the \$1,390 of payments for which supporting documentation could not be located in KPMG Peat Marwick's sample of vendor payments. We attempted to verify additional vendor charges; however, City Year did not have an adequate audit trail whereby the documents could be retrieved.

¹¹ *OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Attachment I, paragraph 8.a requires recipients to remit interest earned on Federal funds at least quarterly less an administrative expense of \$100 per year.

¹² *OMB Circular A-122, Cost Principles for Nonprofit Organizations*, Attachment B paragraph 6.l(1) requires salaries and wages to be supported by personnel activity reports.

When KPMG Peat Marwick identified deficiencies in City Year's accounting system and financial management controls, City Year's management immediately began taking corrective action. Management's most significant actions were:

- Hiring a Controller with over twenty years accounting experience, of which more than ten years is in nonprofit organizations.
- Reorganizing the financial management division and reviewing and approving new position descriptions for personnel in the accounting department.
- Scheduling, with an allowance for summer schedules, monthly Finance Committee meetings to ensure timely board review of financial policies and monthly reports.
- Reviewing all prior accounting and control policies and preparing a new manual of accounting policies and procedures.
- Purchasing and installing a fund accounting general ledger software that can support the production of monthly reporting, cash forecasting, and financial analysis.
- Revising the chart of accounts and coding structure to ensure proper and timely allocation of revenues and costs to the appropriate grants, departments, and projects.
- Upgrading services available from the payroll vendor which includes exporting and analyzing payroll information and providing an effort reporting system that charges salary expenditures to the correct grant, department, and/or project.
- Searching for a Chief Financial Officer to fill the recently vacated position.

Although City Year's management has made much progress, work remains in several areas including:

- tracking expenses by fund monthly,
- implementing the fixed asset and accounts receivable modules,

- linking time sheets to the payroll system to record vacation and sick time, and
- correlating draw downs of Federal funds with expense allocations, and calculating interest earned on Federal funds.

To resolve the issue of questioned costs, the Office of Inspector General, City Year, and KPMG Peat Marwick agreed that City Year would develop an alternative methodology to support costs charged against the grant in 1993 and 1994 for staff salaries, wages, and fringe benefits. KPMG Peat Marwick agreed to test the reliability of the alternative analysis during the 1994 audit. The proposed methodology was to be based on payroll records, department allocations, publicly distributed documents, and internal memos, rosters, and records that validate the identification of salary expense related to the grant award.

In the *Single Audit Act* reports on City Year's FY 1994 financial statements, KPMG Peat Marwick states in the *Independent Auditors' Report on Compliance with Specific Requirements Applicable to Major Programs, Schedule of Findings and Questioned Costs*, June 30 1994, Finding 11, that such procedures were performed and their audit of the resulting analysis revealed no exceptions.

We recommend that

- (1) the Corporation and the Massachusetts Commission review City Year's planned corrective actions and determine that all necessary improvements to the accounting system are completed and that draw downs of Federal funds from the direct grant closely match needs,
- (2) the Corporation review City Year's alternative methodology to support staff salaries, wages, and fringe benefits and determine the amount of OIG-questioned costs to be allowed.
- (3) the Corporation collect \$1,390 for unsupported vendor payments, \$92,905 for unallowable fund-raising activities, and \$15,254 (less a \$100 administrative allowance) of interest earned on Federal funds, and amounts disallowed (if any) for staff salaries, wages, and fringe benefits as a result of KPMG Peat Marwick's audit or the Corporations review of the alternative methodology.

City Year's response (Exhibit C, pages 6-8 of 14) reports significant management control improvements and other corrective actions taken to correct the deficiencies we are reporting. City Year also indicated that amounts previously reported as fundraising charges have been revised. CNS management and OIG will review these corrective actions and review the alternative methodology to determine those costs which will be allowed against the grant.

III. As illustrated Exhibit C¹³, City Year withdrew post service education benefits funds from the Federal treasury in advance of its need to disburse them to educational institutions - a violation of Federal requirements. Furthermore, Corporation management and City Year appear to differ in their understanding as to how these funds can be used under the grant agreement and Corporation policies on reprogramming.

The Corporation for National and Community Service's policy is that grantees use education award funds for education purposes only. Any reprogramming of funds has to be approved through established procedures. The Corporation will not allow grantees to reprogram education budget line items which were committed or earned by participants. Excess education funds not committed or earned can be rebudgeted for continuing activities only with the approval of the Corporation - much the same as any other unused budget lines within a grant award. If there are funds remaining at the close of a grant, the Corporation allows these monies (including monies for education awards) to be carried forward into a new grant for the purposes of that grant, generally reducing the amount of new monies to be included in the grant.

Our discussions with former Commission staff, State officials, and City Year management reveal that City Year has been operating with the understanding that it could reprogram the funds without Commission or CNS approval. City Year's financial statements report "excess" grant funds¹⁴ as deferred revenue in accordance with this understanding. Furthermore, in its financial planning, City Year is relying on an understanding that benefits earned by corps members that are not claimed within the eligibility time period will revert to City Year and will be available for purposes related to City Year's program as outlined in their July 1992, proposal to the Commission.

City Year's budget submission, upon which the grant award was based, requested a total of \$1,371,866 in Federal funding for post service education award benefits to be earned during City Year's 1993 and 1994 programs. The requested benefits were based on a Federal contribution of \$2,500 for each *anticipated* Corp member.

Over the two years, 450 corps members actually completed the program and qualified for post service education award benefits resulting in a Federal commitment to finance \$1.1 million in benefits and a \$247 thousand excess due to less than anticipated enrollment and attrition. Under Corporation policy, this \$247 thousand could presently be submitted for reprogramming

¹³ See also Section II, Exhibit A.

¹⁴ as estimated by City Year

STATUS OF CITY YEAR
EDUCATION AWARD FUNDS

	<u>1993</u>	<u>1994</u>	<u>Total</u>
Amount Awarded ¹⁵	\$550,616	\$821,250	\$1,371,866
Amount Drawn Down	550,616	821,250	1,371,866
Federal Portion of Post Service Education Benefits Earned by City Corps Members	\$452,500	\$672,500	\$1,125,000
Education Benefits Funds Paid to Schools on behalf of Corps Members through January 1995	<u>2,500</u>	<u>218,355</u>	<u>220,855</u>
Estimated Liability for Education Benefits Remaining as of January 1995	<u>\$450,000</u>	<u>\$454,145</u>	<u>\$ 904,145</u>
Amount Awarded	\$550,616	\$821,250	\$1,371,866
Education Benefits Earned	<u>452,500</u>	<u>672,500</u>	<u>1,125,000</u>
Excess ¹⁶	<u>\$ 98,116</u>	<u>\$148,750</u>	<u>\$ 246,866</u>

¹⁵ City Year was expected to budget for 100% of its anticipated enrollment.

¹⁶ This excess is due to the attrition of corps members who enrolled as well as not achieving the budgeted enrollment level.

The 450 corps members who earned post service benefits¹⁷, however, have two and one half years from the date they completed the program to use their education benefits. As illustrated above, City Year's records indicate that, as of January 1995, about \$221 thousand of the Federal funds have been disbursed to pay for such benefits. (Of that amount, only \$2,500 relates to the 1993 program - quite probably because the State's matching financing required enrollment at Northeastern University.) Under the terms of the grant award and Corporation policy, City Year cannot use or request reprogramming for any portion of the remaining earned benefits liability until the respective eligibility periods have expired. Nonetheless, considering the current disbursement statistics, particularly those related to 1993, it is probable that significant balances of the earned education awards may not be used.

Although all three parties commented on this issue, their responses indicate final resolution of this issue is still pending.

We recommend that the issues related to the use of, and reprogramming of education benefits be resolved.

¹⁷ City Year provided (and paid from non-Federal funds) a \$5,000 unrestricted post-service benefit to all of its corps members, 113 of whom used that award for higher education. For 1993 corps members to receive the Federal education award, they had to attend Northeastern University. City Year and the State lifted the restriction for the 1994 programs.



Massachusetts
NATIONAL & COMMUNITY
Service Commission

August 21, 1995

Ms. Luise S. Jordan
Office of the Inspector General
Corporation for National Service
1201 New York Avenue, NW
Washington, D.C. 20525

Dear Ms. Jordan,

Enclosed please the Massachusetts National and Community Service Commission's reponse to the draft report of the Office of the Inspector General on the program and financial compliance audit of City Year Boston.

If you have any questions regarding this response, please do not hesitate to contact me. Once again, thank you for your diligent attention to this matter.

Most sincerely,

Kate J. Mehr
Executive Director



C/O MYSA

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**MA National & Community Service Commission Response to City Year Audit
Office of the Inspector General
Draft Report No. 95-02**

REPOSE TO FINDING I

A. Fiscal Oversight by State (pg. 5, paragraph 6): As noted in the OIG report, the original funding for the Commission on National and Community Service provided limited technical staff. This was also true for the Massachusetts Commission and Department of Education who dedicated 1.5 staff to the original grantees. Given the limited staff to oversee Massachusetts' grant #92NMSTMA00004 and grant #92COSTMA0013 for 7 youth service corps, the state concentrated on program development and oversight. During the 1994-1995 program year, the MNCSC emphasized fiscal oversight, provided training on financial management of state and federal funds, has provided ongoing technical assistance by phone, and utilized the expertise of the Department of Education's fiscal staff to conduct fiscal audits of each state-funded AmeriCorps program during the spring and summer of 1995.

B. Massachusetts Department of Education Fiscal Oversight (pg. 6, paragraph 3): As noted in the OIG report, the MA Department of Education has oversight responsibilities for over 6,000 grants. Utilizing established procedures, subgrantees for grants 92NMSTMA004 National Demonstration Models (i.e.: City Year) and 92COSTMA0013 for Youth Service Corps - as well as current AmeriCorps grantees - signed a "Master Agreement -Standard Terms and Conditions." During the 1994-1995 program year, each subrecipients also completed a "Certification Certificate" ensuring that the AmeriCorps grant provisions had been received and reviewed. All grantees are required to comply with the terms and conditions of the Agreement, Contract, and Certificate. Finally, in 1995, each subgrantee was required to submit their A-133 or A-128 as part of their 1995-96 renewal application. Each new subgrantee must submit their audit reports as part of the 1995-96 contracting process.

C. Report on Schedule of Federal Financial Assistance (pg. 6, paragraph 4): Massachusetts did not omit Commission funding from its' Report on Schedule of Federal Financial Assistance. The determination of criteria for selecting and testing financial records in the single audit is done by the single auditor. If City Year was not selected for test by the single auditors for FY94, it is unclear how this translates to a "lack of fiscal oversight" by the state.

D. Quarterly Draw Downs by MA Subgrantees (p. 7, paragraph 1): City Year requested grant funds according to a quarterly allotment schedule which has been long established and reviewed annually in the single audit. The resulting excess funds represented unused post-service benefit funds. In 1992-93, City Year drew down \$550,616 in funds for educational awards. It was the understanding of the Department of Education and the Massachusetts Commission at that time that post service education benefits were to be held and disbursed by City Year and subtitle C programs at the local level for the period of eligibility. A policy by the CNS regarding the use and treatment of post-service benefits in the 1992-1993 and 1993-1994 program years for grants #92NMSTMA0004 (National Demonstration Models) and #92COSTMA0013 (Youth Service Corps) was never issued despite repeated requests from the state.

E. Pre-award Surveys (pg. 7, item (2)): Currently, the MNCSC requests an A-133 or A-128 from all subgrantees during the application and contracting process. In addition, subrecipients' ability to adequately account for Federal funds are discussed and negotiated during the state and Corporation for National Service's budget and contract negotiations.

F. Financial Status Reports (pg. 8, item (3)): The MNCSC and the MA Department of Education currently request and submit quarterly Financial Status Reports for its subrecipients based on actual expenditures for both Federal and non-Federal funds. However, in FY94, the MA Department of Education submitted one FSR., SF269A. Given the information available, the DOE assumed that the grant followed the standard federal reporting requirements which require only one annual report from the DOE. There was no communication from the Corporation during FY94 indicating that this was not the correct procedure.

Upon learning of the quarterly reporting requirement, in January of 1995, the Department of Education immediately took steps to insure that the FSRs were completed in accordance with federal requirements. In addition, the final FSR for FY94 was submitted on March 1, 1995. The final FSR was delayed due to the need to revise reporting requirements to comply with the federal requirements for AmeriCorps.

G. Follow-up to OIG and KPMG Peat Marwick Audits (pg. 8, item (4)): The CNS and the MNCSC plan to follow-up on the OIG and KPMG Peat Marwick reports with a site visit in the fall of 1995. This joint review will cover progress made in City Year's financial management systems, accounting systems, and federal reporting mechanisms.

RESPONSE TO FINDING II

CNS & MNCSC Review of City Year's Corrective Actions: See Response to Finding I, item G.

RESPONSE TO FINDING III

Finding III deals with the issue of post service educational awards for City Year. On this issue, Massachusetts differs with the Corporation regarding our understanding on: 1) how these funds are to be held and allocated; and 2) how these funds can be used under the grant agreement. In addition, the state is currently waiting for a formal response from the CNS on the reprogramming of post-service education benefits funding for City Year for the 1992-93 and 1993-94 program years and a policy regarding post-service benefits for the seven subrecipients under grant #92COSTMA0013.

As noted in Finding I, item D, the MA Community Service Commission and the MA Department of Education believed that City Year and subrecipients under grant #92COSTMA0013 were to draw down, hold, and disburse funding for post-service education benefits. This was outlined in Massachusetts grant application and discussed in all subsequent contract and budget negotiations with the federal Commission. As stated above, a policy by the CNS regarding the use and treatment of post-service benefits in the 1992-93 and 1993-94 program years was never issued by the CNS despite repeated requests from the state to

the former Commission. (It is important to note that this issue does not apply to education awards for 1994-95 AmeriCorps grantees. All educational awards will be held by the educational trust established by the National and Community Service Trust Act of 1993.)

It was the understanding of the state and City Year that funds "held in escrow that (were) not claimed within the eligible time period revert to City Year and can be used for any purposes related to City Year program approved by the NCSC (memo from City Year to the NCSC, date 12/18/95)." This understanding was discussed in a meeting with former Commission staff (Dick Staufenberg, Terry Russell, Mike Kennifick), Michael Brown (co-director of City Year), and Joe Madison (former Executive Director of the MA Community Service Commission) in December of 1992. This understanding was outlined in the subsequent memo to the federal Commission from City Year, dated December 18, 1992, and City Year's revised budget narrative dated December 19, 1992.. Based on these discussions and correspondence, the Commission issued two letters, dated December 24, 1992, which stated that the CNCS "hereby award the State of Massachusetts the amount of \$7,000,000 for support of the National and Community Service Project of your State consolidated application as revised by letters dated July 1992 and December 18, 1992." In addition, the second letter stated that "the City Year proposal is now in compliance with the post-service educational benefit requirements."

Finally, the CNS requested information from the MNCSC and City Year on March 3, 1995 and April 17, 1995. In this correspondence, the CNS requested that City Year, in conjunction with the MNCSC, the legal grantee, submit a request for the rebudgeting of funds related to the post-service benefits. As noted above, in response to this correspondence, the MNCSC requested a "clear and consistent policy" regarding post-service benefits for all of the subgrantees under grants #92NMSTMA004 and 92COSTMA0013 which "ensures the timely payment of post-service education benefits to corps members who have earned them as well as meeting the statutory requirements of the National and Community Service Act of 1990." This correspondence was dated May 24, 1995.

This letter also included a proposal for the resolution of the 1992-93 and 1993-94 post service benefit obligations for City Year (grant #92NMSTMA004). The MNCSC believes that this proposal fulfills City Year's obligation to pay post-service educational benefits to corps members, and provides an option for reprogramming expenses under the grant for allowable programmatic purposes under the grant award.

To date, the MNCSC has not received a formal written response from the Corporation regarding the issues stated above.



August 21, 1995

Luise S. Jordan
Inspector General
Corporation for National Service
1201 New York Avenue, NW
Washington, DC 20525

Dear Inspector Jordan:

Enclosed please find our response to the draft report resulting from your audit of the Commission on National and Community Service's grant #92NMSTMA00004 to the State of Massachusetts and City Year. As per your request, we have forwarded a copy of your report to KPMG Peat Marwick and, in addition, a copy of our response.

City Year greatly appreciates the opportunity to provide detailed comments regarding the report before publication. Please call me at (617) 350-0777 if you would like to discuss our response further or if there are other issues.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Brown", written over a horizontal line.

Michael Brown
President

Enclosure

**Response to Draft Report of the Office of the Inspector General,
Corporation for National Service
Program and Financial Compliance Audit
prepared by City Year**

(Commission on National and Community Service Grant)
#92NMSTMA0004

Introduction

In 1992, under the Bush administration, City Year received its first federal funds from the Commission for National and Community Service. This National Demonstration grant represented City Year's first experience with management of federal funds, which allowed City Year to dramatically increase its service, civic engagement and youth development as a National Demonstration Project under Subtitle D of the National and Community Service Act of 1990.

City Year has learned a great deal through this audit process — and it has already made City Year a stronger and better-managed organization. We look forward to building on these lessons as we continue our efforts to strengthen communities through service, train young people from diverse backgrounds as leaders, and develop national service as a vehicle for civic renewal. We appreciate the partnership of the Corporation for National and Community Service, the Massachusetts National and Community Service Commission, and the Massachusetts Department of Education in all of these efforts.

As City Year enters its second year of partnership with AmeriCorps, City Year greatly appreciates the strong support of the Corporation for National and Community Service. City Year is grateful for the diligence with which the Office of the Inspector General conducted its Program and Financial Audit and prepared its audit report, and for the opportunity to respond to the draft report of the Inspector General. City Year is proud of the programmatic achievements noted in the program audit, and of the improvements in financial management and reporting made as an AmeriCorps program in fiscal year 1995. While much progress is left to be made — there is no higher priority in the organization than ensuring that it meets the obligations that accompany federal funding — City Year is eager to work together with the Corporation and the Massachusetts National and Community Service Commission to ensure the strongest possible financial accountability and reporting.

Specific responses to findings of the audit report are presented below:

I. Response to Finding I — Fiscal Oversight

City Year, the Corporation for National Service, and the Massachusetts Commission enjoy an excellent, professional working relationship. As business processes have matured and improved, City Year more fully understands its respective roles and responsibilities. The State Commission has provided guidance and training in fiscal matters which has greatly aided City Year. City Year looks forward to working closely with the Corporation and the Massachusetts Commission to jointly review City Year's progress.

II. Response to Finding II — Accounting Systems, Financial Controls and Related Recommendations

Founded in 1988 entirely through private funding, City Year is a young organization which has grown rapidly. During its first four years of operation, City Year received leadership support from private sector corporations such as Bank of Boston, Reebok and The Timberland Company.

The audit period, FY93, marked the first period during which City Year — entirely privately funded for its first four years — received federal funds. These funds were awarded by the Commission for National and Community Service ("The Commission"), established under the Bush Administration, which named City Year a National Demonstration Program under Subtitle D of the National and Community Service Act of 1990. Funds from the Commission enabled City Year to reach and exceed its programmatic goals and objectives as a successful demonstration model for national youth service.

1a. City Year has made dramatic improvements in its fiscal accountability, financial systems, and documentation.

During the fiscal year 1995, City Year's first year as an AmeriCorps program, City Year took dramatic action to address the weaknesses identified in the Inspector General's audit report, including limitations of the automated accounting system, undocumented procedures, staff turnover, and difficulty in compiling available materials in a timely fashion. Prior to fiscal 1994, City Year's automated general ledger software system was designed for small, for-profit businesses and could not support grant and fund accounting without significant modification. Now, as noted by the Inspector General, City Year has implemented new automated general ledger and accounts payable systems designed to support fund accounting in non-profits; developed and implemented a new manual of accounting policies and procedures; revised coding structures and the chart of accounts to facilitate grant and project based

accounting; and hired additional and experienced staff to meet the needs of a growing organization.

In fiscal year 1995, City Year has taken strong action to address many issues identified in the 1993 audit including the following:

1. Hired a Chief Financial Officer with over 25 years experience in finance, operations and accounting, most recently with the Bank of Boston; and a Director of Finance with over 15 years accounting, operations and systems experience, most recently with Charles River Associates Incorporated;
2. Conducted monthly Finance Committee meetings with members of the City Year Board of Trustees to ensure timely board review of financial policies and monthly reporting, and held weekly conference calls with participation by the Chairman of the finance committee, the Director of Finance and the Chief Financial Officer;
3. Developed a weekly time sheet reporting system implemented retroactively to July 1, 1994 and maintained on an ongoing basis.
4. Installed a general ledger software package that supports proper fund accounting and now conducts prompt monthly closings resulting in monthly consolidated and site financial statement reporting.
5. Worked closing with the Development department, developed a system to track all commitments, collect pledged donations and forecast cash flow weekly.
6. Utilized our cash flow forecasts and prompt financial expense data to closely match funds drawn down to costs incurred and allocated to the federal grant.
7. Developed an effort reporting system which now charges salary and stipend expenditures directly to the correct grant, department, or project as costs are incurred.
8. Revised the chart of accounts and the coding structure to ensure the proper and timely allocation of revenues and costs to the appropriate grants, departments, and projects;
9. Improved the system of retention of documentation for invoices, journal entries, detail and other areas of evidential matter and support;

10. Addressed and improved reconciliations and related documentation in critical accounts such as payroll, stipend, post service award and cash accounts. These accounts are now reconciled monthly and then reviewed and approved by the Director of Finance. Adjusting entries are processed in a timely manner;
11. Reviewed all prior accounting and control policies and prepared a new manual of accounting policies and procedures, with all appropriate staff trained during the first quarter of fiscal year 1996.

City Year is committed to maintaining and continuously improving strong systems for finance administration, controls and management.

1b. City Year followed the Commonwealth of Massachusetts' quarterly allotment schedule for the draw down of Federal funds.

During the audit period, City Year followed the Commonwealth's quarterly allotment schedule which required projections of costs with regard to federal funds. City Year was not permitted to draw down funds on a daily or weekly basis — and was therefore unable to match cash draw downs to actual expenses.

The quarterly allotment schedule, as stated in the Massachusetts Department of Education Standard Application for Program Grants Form RF1 (Request for Funds) requires that:

All sections of this form must be completed and the request submitted, four to six weeks prior to the need for additional funds to allow sufficient time for processing. . .

The allotment schedule below must be utilized when requesting funds.

Allotment Schedule,
Grant Amount over \$25,000 — payments distributed in quarterly allotments upon request.

City Year could not follow a strict reimbursement approach because it needed to access federal funds earlier than the end of each quarter. In addition, it was City Year's understanding that there was no facility at the state level that could enable City Year to access funds outside the grant period. For example, towards the close of the grant year, the Department of Education contacted City Year to ensure that City Year claimed all of its grant funds before the grant year ended. In its year-end report for the 1992-93 grant, City Year listed all funds expended with the understanding that the amount for post-service

benefits had been earned and there was no other way to record the educational stipend figures and complete the required year-end report.

1.c City Year has not routinely received funds in advance of expenditures.

Since it began receiving federal funds in 1992, City Year has often received federal funds well after expenditures have been made, including:

- In the 1993-94 grant year under the Commission for National and Community Service, City Year did not receive 50 percent of its grant funds until the final two months of the grant year.
- For the Summer of Service program under the Commission, which City Year operated in the summer of 1993, City Year did not receive any federal funds until several months after the entire program was completed.
- City Year did not receive any funds on its National Direct AmeriCorps grant *until October 1994*, even though its programs in four sites were up and running as of July 1994. Thus City Year was effectively using non-AmeriCorps funds to operate its programs during that time.

These examples demonstrate that while City Year was required to draw down funds on a quarterly basis, it often received federal funds late rather than early, making systems to account for this process difficult to maintain. Note: Cash draw downs related to post-service educational benefits for the period audited are discussed in Part III of this response.

Following the visit of the Inspector General in January 1995, City Year instituted a system of forecasting cash requirements with weekly updates. This forecast attempts to match expenses with draw downs and City Year has followed that cash draw down schedule accordingly for its National Direct Grant. In its most recently completed Federal Cash Transaction Report for the periods ended March 31, 1995 and June 30, 1995, City Year reported no federal cash on hand.

2. City Year has adopted an effort reporting system; alternative procedures were performed without exception by independent auditors KPMG Peat Marwick.

During fiscal year 1995, City Year's first year as an AmeriCorps program under the Corporation for National and Community Service, City Year adopted a formal effort reporting system which requires all staff to complete bi-weekly timesheets.

As described, the federal audit report City Year presented and KPMG Peat Marwick audited, presents alternative documentation to support charges of staff salaries and benefits to the federal grant as part of its A-133 audit for 1993-94. In its A-133 audit KPMG Peat Marwick states:

As agreed by the Office of the Inspector General and City Year, KPMG performed certain alternative procedures to determine appropriate personnel costs relative to federal funds. These procedures consisted primarily of reviewing various forms of documentation (e.g. payroll records, staff lists, and internal memorandum, third party vendor invoices, etc.) to verify existence and purpose of these individuals relative to the grant's purposes. No exceptions were noted. (emphasis added)

These audit procedures for FY94 are applicable for FY93 as well. Based on this documentation, City Year submits that the \$1,821,000 in question for salary and benefits represents 100 percent allowable expenses.

3a. Unsupported vendor payments should be repaid.

As City Year is unable to locate sufficient documentation for \$1,390 in vendor payments, City Year concurs that this amount should be repaid.

3b. Interest earned on federal funds should be repaid.

City Year concurs that the estimated amount of \$15,154 in interest earned on federal funds should be repaid.

3c. Unallowable fundraising activities were overstated; City Year's FY93 financial information has been restated by KPMG Peat Marwick.

With regards to the \$92,905 assessed as unallowable funding, detailed review of audit work papers and schedules resulted in unallowable fundraising expenses of \$33,944.98, rather than \$92,905. Specifically, errors were found in both the original materials audited by KPMG Peat Marwick (and presented in City Year's audited financial statements for FY93), and in the work papers of the federal auditors. KPMG Peat Marwick, LLP has reviewed the relevant materials, concurs with this amount, and has accordingly restated City Year's financial statements. Documentation of this item is included with this response. (See City Year Exhibit A). The City Year schedules have been revised and re-stated. The re-statement of restricted funds (both federal and non-federal) is presented in the comparative financial statements in City Year's Fiscal Year 1994 independently audited financial statements.

Accordingly, the amount of \$33,944.98 was erroneously charged to the grant and should be repaid.

No fundraising costs were charged to the Commission in FY94 and City Year does not charge fundraising costs in FY 95 to the grant received under the Corporation for National and Community Service.

Finding II - Conclusion

During Fiscal 1995, City Year has addressed many of the issues brought to the Organization's attention during the audit process. Many of these improvements were underway and reviewed by the Office of the Inspector General during the follow-up visit in January 1995. Since that time City Year has continued to make progress as detailed in the above response.

Exhibit B of the Inspector General's audit reports questioned costs of \$1.9 million in the areas of staff salaries and benefits, certain fundraising activities and vendor payments. City Year has provided independently audited alternative documentation to support all salaries and benefits and has provided evidence that only \$33,138 of fundraising expenses were charged to the grant and should be repaid to the Commission. Undocumented vendor payments of \$1,390 and \$15,254 of interest earned should also be remitted to the Commission. These items sum to a total of less than fifty thousand dollars out of a total grant in excess of \$8.3 million and represents well under one-percent of federal moneys received under the Commission.

III. Related to Finding III — Post-Service Educational Benefits.

City Year believes the subject of reprogramming of educational benefits is close to favorable resolution with the Massachusetts Commission, the Corporation for National Service and City Year. City Year appreciates the opportunity to clarify history, systems, policies and practices regarding the post-service benefit at this time.

Since its inception in 1988, City Year has been committed to bringing together diverse groups of young people for service. The City Year post-service award, pre-dating federal Post Service Benefits by four years, was designed to attract a diverse population of corps members by offering both an educational benefit and an alternative monetary award. Specifically, at this time City Year offered a weekly stipend of \$100 a week as well as a \$5,000 post-service award. These awards could be used either towards education or for other purposes. In addition, corps members in need of a living stipend higher than \$100 could receive a portion of their post-service award in advance, or during their corps year; this meant some corps members had less than \$5,000 available to them upon graduation.

For the four years prior to being named a Title D program by the Commission, City Year offered this method of compensation to all corps members. This compensation policy was detailed in City Year's application to the Commission and under this system City Year was awarded a grant as a National Demonstration Program. City Year began its first year as a Title D program with the understanding that only federal funds would go towards educational awards and only private funds towards the cash benefit.

However, after the FY93 program year had begun, and corps members recruited under these service benefit terms were already at work, the Commission alerted the MCSC and City Year of a potential compliance problem with City Year's post-service awards structure. Specifically, the Commission sought to ensure that all corps members participating in City Year had an opportunity to access \$5,000 in *educational awards* upon completion of the program.

City Year leadership and MCSC leadership traveled to Washington, D.C. to work closely with the Commission on developing a revised structure that would, (1) ensure that a minimum educational benefit of \$5,000 would be available upon graduation to all corps members; (2) maintain City Year's long-standing post-service award structure designed to attract diverse corps members; (3) ensure that City Year would keep its commitment to its currently enrolled corps members regarding the type of post-service benefit that the organization had promised them; *and* (4) ensure that a major portion of the Commission's grant to City Year would not permanently be diverted from funding important community service activities in favor of a post-service benefit that — given City Year's privately funded, unrestricted Public Service Award — few corps members, in fact, were expected to draw on. The details of this revised structure are as follows:

- (A) City Year would continue to offer its Public Service Award of \$5,000 to all corps members — unrestricted in use and funded entirely through private sector contributions to City Year.
- (B) In addition to the Public Service Award, City Year would offer a minimum educational benefit of \$5,000 available to all corps members graduating from City Year who attend Northeastern University. This minimum education benefit consists of \$2,500 in federal funds and \$2,500 provided by City Year through a tuition contribution from Northeastern University. As directed by the Commission, City Year would allocate funds from the Commission's grant to cover the federal amount of a minimum educational benefit for each City Year corps member — that is, City Year was required to assume no attrition.

- (C) This minimum educational benefit would be available to every City Year corps member for up to a period of 2.5 years following their graduation from the program. Following this 2.5 year period, minimum education benefit funds not used by City Year graduates would become available to City Year for allowable program expenses under the terms of the grant award.
- (D) City Year would put into escrow unclaimed federal funds budgeted for corps members minimum educational benefits.

This resolution was described in a detailed letter from the Massachusetts Department of Education to officials of CNCS on December 18, 1992 and again in City Year's revised budget narrative dated December 19, 1992. This budget states:

The \$5,000 minimum educational benefit will be made available for two and one-half years after a corps member's graduation from City Year and will then revert to City Year if a graduate does not access the benefit during this time.

Funds that are not claimed by a City Year graduate within the eligible time period revert to City Year and can be used for any purposes related to the City Year program as outlined in City Year' proposal to the Commission in July, 1992.

The Commission responded to this documentation with two letters to the Massachusetts Department of Education dated December 24, 1992. The first letter is a revised award letter which states:

The Commission on National and Community Service hereby awards the State of Massachusetts the amount of \$7,000,000 for support of the National and Community Service Project of your State consolidated application as revised by letters dated July 1992 and December 18, 1992.

The second letter states:

the City Year proposal is now in compliance with the post-service educational benefit requirements.

These letters document clearly the agreement regarding post-service educational benefits in FY93. (For the 1993-94 program year, City Year revised the post-service benefit award. Specifically, City Year no longer restricted the \$2,500 federal education benefit to Northeastern University and corps members could use the funds at any college of their choosing.)

City Year regrets that it did not establish an escrow fund for unawarded minimum educational benefits as required. However, at no time has City Year failed to uphold its obligations to its corps members. All graduating corps members who have met eligibility requirements and requested their post-service education benefit have been paid promptly.

As discussed above, the fact that unclaimed minimum-education-benefit funds would revert to City Year after a period of time was the critical element of the Minimum Education Benefit structure. City Year has relied on the agreement reached with the Commission on National and Community Service and conducted our 1992-93 and 1993-94 programs accordingly. City Year used funds raised exclusively from the private sector to pay for Public Service Awards for 1992-93 graduating corps members pursuing higher education. Had the minimum educational benefit not been in place, City Year would have used federal funds rather than its private funding for these educational benefits, totaling an estimated \$240,558.

City Year looks forward to working with the Corporation and the Massachusetts Commission to resolve outstanding program issues regarding the minimum educational benefit.

General clarification to the audit report.

1. The program design and corps member compensation system described on page 2 of the background section relates to the City Year program in the years 1992-93 and 1993-94. Now that City Year is a member of the AmeriCorps National Service network, key changes have been made in the schedule and compensation system.
2. As stated, the typical post-service benefit for a corps members in FY93 and FY94 was \$5,000, rather than the \$10,000 and \$7,500 reported on page 3. This is an important clarification as a general description of the City Year program should state the \$5,000 amount. We recommend including the highly remote possibility of collecting larger amounts in a footnote, if at all.
3. In the first paragraph of page 6, the audit report refers to late submission of Financial Status Reports. City Year was not required to complete Financial Status Reports in 1992-93 or 1993-94, only the reports required by the State of Massachusetts.

4. The second paragraph of Note 1 found on page 12 (exhibit B) overstates the amount of City Year's excess draw downs in FY95. Until the Inspector General's visit in late January, 1995, City Year's draw downs were based on budgeted rather than actual amounts. However, review of City Year's Financial Status Reports shows that through December 31, 1994, City Year had received on its national direct grant funds totaling \$1,399,999 and had expenses totaling \$1,347,897, a difference of \$52,102 (please see attached Exhibit B). City Year also did not receive any national direct funds until October 20, 1994, almost four months into the grant period. On January 6, 1995 City Year made its next draw down of \$233,333. Estimating that City Year incurred one-fourth of its January expenses by this date, the excess funds as of January 6 were \$224,371. While the difference as of December 31, 1994 and January 6, 1995 was in City Year's error, the amounts were both significantly less than the \$358,711 included in the draft audit report. As reported on its Federal Cash Transaction reports for the quarters ended March 31, 1995 and June 30, 1995, City Year had expenses exceeding cash draw downs of the national direct funds. As of March 31, 1995, we had incurred expenses of \$2,127,396 and had received funds totaling \$2,049,633. As of June 30, 1995, City Year had incurred expenses of \$2,800,000 and had received only \$2,750,513.
5. Footnote 17 on page 17 should be amended to say that City Year estimates 100 corps members used the award for higher education. Because funds were paid directly to graduates, we cannot document exactly the number who used their Public Service Award for higher education. As stated above, the federal share of these awards (capped at \$2,500) would have totaled approximately \$240,000.

EXHIBIT B

City Year, Inc.
National Direct
Draw downs
FY '95

As of Month Ending Date	Week ending Date of Draw down	National Direct Cash Draw down	National Direct Cumulative Cash Draw down	City Year Expense	City Year Cumulative Expense	City Year Expense Greater/(less) than Funds Rec'd
7/31/95				22,631	90,525	90,525
8/31/95				150,026	240,551	240,551
9/30/95				184,279	424,830	424,830
10/31/95	10/14/95	700,000	700,000	293,276	718,106	18,106
11/30/95	11/11/95	233,333	933,333	261,313	979,419	46,086
	12/2/95	233,333				
	12/16/95	233,333				
12/31/95			1,399,999	368,478	1,347,897	(52,102)
1/31/95	1/6/96	233,333	1,633,332	244,258	1,592,155	(41,177)

MEMORANDUM

August 22, 1995

CORPORATION
FOR NATIONAL
★ SERVICE

To: Luise Jordan, Inspector General
From: Michael Kenefick, Director of Grants *M. Kenefick*
Subject: City Year Draft Audit

We are providing the following preliminary comments on the draft report for consideration before you issue the final report. Additional comments may be provided in the agency's formal response to the final audit report.

1. In the Background section on page 3, the report discusses a post-service benefit and public service award of up to \$10,000. We recommend clarifying this by noting that anything in addition to the \$5,000 educational award was not funded under nor part of the scope of the Federally supported project.

2. In Section I, on page 5, under Findings, the report states that adequate oversight over the *programmatic* elements of the grant was provided by Federal and State officials. While no significant program issues are addressed in the audit report, this does not logically lead to the conclusion that program oversight was adequate.

3. While the report notes that certain corrective actions have been taken by City Year, we feel that the Corporation's changes likewise should be acknowledged, such as the system implemented for review and analysis of grantee and subgrantee drawdowns, expenditures and budgets.

4. On page 14, the report recommends that the Corporation determine the acceptability of the alternative methodology for supporting staff salaries and wages. Your office agreed to

1100 Vermont Avenue, NW
Washington, DC 20525
Telephone 202-606-5000
Fax 202-606-4928

Getting Things Done.
AmeriCorps, National Service
Learn and Serve America
National Senior Service Corps

consider an alternative methodology developed by KPMG Peat Marwick and City Year. We believe that you are in the best position to provide final verification and support your review and acceptance.

5. On page 15, under section III., the second paragraph addressing the use of education funds and limitations on reprogramming needs some clarification. The Corporation, but more precisely, the previous Commission on National and Community Service did not restrict reprogramming of education funds. The Special Provisions of the Commission's Subtitle D, National Service Programs states that for budget revisions, the grantee must adhere to Subpart C.30, Changes, of the Uniform Administrative Requirements. Essentially, this provides for agency approval, unless waived, for cumulative budget transfers among direct cost categories which exceed or are expected to exceed 10% of the total approved budget.

Thus, Massachusetts or City Year could rebudget education funds within the cumulative 10% guidance without Commission on National and Community Service or subsequently the Corporation's approval. Thus, in the paragraph at the bottom of page 15, the \$247,000 could be reprogrammed for other expenses.

Overall, we believe the audit addresses significant concerns related to the previous Commission's grant to City Year and oversight issues which both the present Corporation and current Massachusetts State Commission need to emphasize. Further, we have begun to follow up on issues discussed in your draft report and will respond to all issues cited in the final report.

cc: Gary Kowalczyk, CFO
Shirley Sagawa, Executive Director
Diana Algra, Director, AmeriCorps