
CORPORATION

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S E R V I C E

OFFICE OF THE INSPECTOR GENERAL

Review of

the Home Instruction Program for Preschool Youngsters, USA

Washington, D.C.

CNS Cooperative Agreement Number 95ADNNY002

This report was issued to CNS Management on August 1, 1996. According to OMB Circular A-50, *Audit Followup*, the Corporation must make a final management decision no later than January 27, 1997. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

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

Corporation for National Service
Office of Inspector General
Review of the Home Instruction Program for Preschool Youngsters, USA
CNS Cooperative Agreement Number 95ADNNY002

We performed a limited review of the Home Instruction Program for Preschool Youngsters, USA (HIPPY) financial reporting and accounting systems and management controls to assess the organization's ability to comply with Federal fiscal accounting and Corporation for National Service (CNS) requirements.

Results In Brief

We found that personnel charges for certain staff are charged entirely to program costs even though some of their duties involved administrative tasks. In our view, these staff costs should be allocated between administrative and program activities. However, HIPPY staff does not distinguish between administrative and program activities when completing time sheets, therefore, we were unable to determine the percent of actual time spent performing program activities. If these costs are classified as administrative, HIPPY is at risk of exceeding the five percent administrative limit established in the National and Community Service Act of 1990, as amended, on administrative costs that can be paid with CNS funds.

In addition we found that HIPPY did not adequately monitor living allowances paid to AmeriCorps Members. These matters are discussed in detail in the findings and recommendations section of this report.

We provided a draft of this report to CNS and HIPPY officials for comment. CNS did not respond. HIPPY's comments are presented as Exhibit A (without enclosure). In their response, HIPPY officials disagreed with our finding on the classification of administrative costs. Their response and our assessment are included in finding I. HIPPY officials also stated that they are working with CNS officials on new procedures for paying living allowances.

Background

The Home Instruction Program for Preschool Youngsters, USA is a national network of 110 local nonprofit programs operating in 29 states. HIPPY affiliated organizations operate home-based school readiness programs to help educationally disadvantaged parents provide educational enrichment for their preschool children. The program's AmeriCorps project deals with the national priority of early childhood education, school readiness, and parenting skills. HIPPY's national headquarters in New York City, along with two state offices (Florida and New York), will administer the AmeriCorps program. The day to day supervision of AmeriCorps Members is the responsibility of participating local organizations.

The project is budgeted to field 115 part time AmeriCorps Members (67 in New York and 48 in Florida) who will teach parents how to prepare their children for success in school through the use of structured activities, home visits, and group meetings. Operating costs for local sites, including the living allowances for AmeriCorps Members, are paid by the local affiliated organizations and are not funded by this award. The AmeriCorps award covers the period August 1, 1995 through March 31, 1997. The award provides support for the operating costs of the HIPPY National office, Florida and New York state offices, and AmeriCorps Member education benefits as follows:

Program Support Costs			
Cost Category	CNS Share	Grantee Share*	Total
Living Allowances	\$ 0	\$690,000	\$ 690,000
Staff	90,015	90,694	180,709
Operational	125,832	12,332	138,164
Internal Evaluation	34,450	16,088	50,538
Administration	16,890	7,500	24,390
Other Participant Support Costs	<u>94,760</u>	<u>920</u>	<u>95,680</u>
Total	<u>\$361,947</u>	<u>\$817,534</u>	<u>\$1,179,481</u>
Educational Benefits (paid through National Service Trust Fund)	\$271,745		

* All HIPPY AmeriCorps Members are enrolled on a part-time basis. The living allowances are funded by HIPPY affiliates and were not included in the award budget. Additionally, each HIPPY affiliate funds the salaries for its site supervisors.

Scope and Methodology

We performed our review during the period February 26 through May 22, 1996. We obtained an understanding of HIPPY's accounting system and management controls and performed limited testing to determine whether they were operating as intended. We did not visit any local affiliated organizations participating in the HIPPY program. Our procedures included:

- interviewing key accounting and program personnel for headquarters and the New York state office in New York City;
- documenting and nominally testing key management controls over HIPPY's accounting and reporting systems;

- reviewing the financial audit report on HIPPY's June 30, 1995, financial statements;
- testing a judgmental sample of financial transactions related to the award; and
- reviewing HIPPYs's oversight and monitoring of the award.

We performed our review in accordance with generally accepted *Government Auditing Standards* issued by the Comptroller General of the United States. However, our procedures were substantially less in scope than an audit, and accordingly, did not include elements essential to the expression of an opinion on management controls. Accordingly, we do not express such an opinion. Further, if additional audit procedures had been performed, other matters might have come to our attention that would have been reported. Also, projections of any evaluation of the internal control structure over financial reporting to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This report is intended for the information and use of OIG and CNS management. However, this report is a matter of the public record and its distribution is not limited.

Findings and Recommendations

I. Administrative costs are not properly classified.

We reviewed position descriptions and interviewed staff whose salaries are charged to the award about their job duties to determine whether they performed program or administrative activities. Our review revealed that staff time sheets did not distinguish between time spent on program and administrative activities and that personnel charges for certain staff were charged entirely as program costs even though some of their duties involved administrative tasks. HIPPY did not allocate charges for staff salaries and benefits between administrative and program costs because they believed that these charges were all program costs.

Under the National and Community Service Act of 1990, as amended, not more than five percent of the amount provided by CNS to a grantee may be used to pay for administrative costs of the grantee or its subgrantees (42 U.S.C. 12571(d); 45 C.F.R. 2540.110, *Limitation on use of Corporation funds for administrative costs*). CNS regulations define administrative costs to include "the portion of the salaries and benefits of the director and any other program administrative staff equal to the portion of time that is not spent in support of specific project objectives. Specific project objectives are defined as recruiting, training, placing, or supervising participants." These regulations also provide that "particular costs, such as those associated with staff who perform both administrative and program functions, may be prorated between administrative and program costs if included in the budget and

approved by the Corporation grants officer” (45 C.F.R. 2510.20, *Administrative costs*). Absent any contemporaneous records allocating these costs between administrative and program activities, we believe that the costs should be classified as administrative.

Based on our review of HIPPY’s records, we reclassified certain payroll charges for HIPPY Headquarters and its New York state office (the two offices visited during our review) as administrative costs as illustrated below.

Position Title	Description of Duties	Classification by CNS OIG* (program or administrative)	Charged to CNS as program by HIPPY	Reclassified by CNS OIG as administrative
Assistant Director of Field Operations	Has overall responsibility for the management of the HIPPYCorps program, including communication with CNS and subgrantees. Monitors financial management and reporting requirements. Reviews site training plans, refines program objectives for sites to ensure consistency. Assists in training of corps members.	Mostly administrative (specific program activities must be budgeted, documented, and accounted for to be an allowable program cost).	\$2,525	\$2,525
Administrative Assistant to Field Operations	Assists with the organization of HIPPYCorps training sessions, organizes the HIPPYCorps portion of the National HIPPY Conference. Monitors reporting requirements by sites including corps member service hour reporting.	Both administrative and program (therefore staff must keep a detailed break out of duties).	\$2,109	\$2,109
Program Director-New York	Has overall responsibility for the management of the New York State HIPPYCorps program, including monitoring financial management and reporting requirements. Reviews training plans, refines program objectives for New York to ensure consistency and conducts corps member training.	Both administrative and program (therefore staff must keep a detailed break out of duties).	\$3,461	\$3,461
Total Costs Reclassified as Administrative				<u>\$8,095</u>
*Determination of whether duties are program or administrative is based on CNS regulations 45 C.F.R. 2510.20, <i>Administrative costs</i> . This regulation also requires that staff charged to the award who perform both administrative and program duties maintain a record distributing their time between these activities.				

We estimate that as of December 31, 1995, HIPPY had incurred as much as 57 percent of its allowable administrative charges to the award even though it had 15 months (75 percent) remaining in the award period. Our estimate includes administrative costs reported by HIPPY of \$1,499 and staff salaries and fringe benefits of \$8,095 reclassified by CNS OIG as administrative costs from above.

Although HIPPY estimated that these staff members spent no more than five percent of their time on administrative duties, their time sheets do not distinguish between administrative and

program duties, therefore we were unable to determine the percent of actual time spent performing program duties.

CNS' five percent limitation on administrative costs paid with CNS funds is based on expenses for the entire award period and for all the HIPPIY sites. However, charges to CNS funds for administrative costs as of December 31, 1995 indicate that HIPPIY may be at risk of exceeding the limit.

We recommend that HIPPIY require that staff charged to the award who perform both administrative and program duties maintain a record distributing their time between program and administrative activities as required (45 C.F.R. 2510.20, *Administrative costs*). Furthermore, HIPPIY should base its determination of administrative costs on the definition provided by CNS regulations (45 C.F.R. 2540.110, *Limitation on use of Corporation funds for administrative costs*).

Summary of grantee's comments and auditor's assessment

In their response, HIPPIY officials stated that they consider all costs for these staff to be program costs and that their duties were detailed in the approved grant proposal.

We agree that the staff functions are reasonable and necessary for carrying out HIPPIY's AmeriCorps program. However, we believe these staff perform both administrative and programmatic (operational) functions under the criteria established in CNS regulations for determining whether staff costs are classified as administrative or non-administrative (programmatic) costs. CNS' regulations state that performing the "specific program objectives" of recruiting, training, placing, and supervising AmeriCorps Members are non-administrative, and that performing other functions are administrative (45 C.F.R. 2510.20 *Administrative Costs*). Accordingly, we disagree with HIPPIY.

II. HIPPIY did not adequately monitor living allowances paid to AmeriCorps Members.

All AmeriCorps Members participating in the HIPPIY program funded under this award are part-time members. Under CNS regulations, HIPPIY is not required to pay living allowances to part-time members. However, the regulations require that if a program elects to pay its part-time members a living allowance it must do so in compliance with the AmeriCorps provisions (45 C.F.R. 2522.240 (b)(3)). The living allowance is not a wage and should not fluctuate based on the number of hours members serve in a given time period. Further, program regulations specifically state that programs can not pay a living allowance on an hourly basis (AmeriCorps Provision 12 b).

During our site visit to HIPPIY headquarters we found that HIPPIY did not know the actual amounts paid or the basis used to calculate (i.e. whether paid as a set amount or based on the

number of service hours performed) the living allowances paid to AmeriCorps Members by its affiliated organizations. Documentation subsequently provided by HIPPY indicated that some AmeriCorps Members were paid on an hourly basis contrary to CNS regulations. HIPPY officials stated that they will review the methods used to pay living allowances by its affiliated organizations to ensure that they are paid in accordance with CNS regulations.

We recommend that HIPPY ensure that its affiliated organizations pay living allowances in equal increments throughout the service year in compliance with the award contract.



HOME INSTRUCTION PROGRAM FOR PRESCHOOL YOUNGSTERS

HIPPY USA • Teachers College • Box 113 • 525 West 120th Street • New York, NY 10027
Tel: (212) 678-3500 • Fax: (212) 678-4136

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July 22, 1996

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

Dear Ms. Jordan:

This letter is in response to the report (dated June 25, 1996) from the Inspector General's office, which relates the findings from the "limited review" you performed on HIPPY USA's financial reporting and accounting systems from February 26 to May 22, 1996. The following is HIPPY USA's response to the two particular findings listed in your report:

I. Administrative costs are not properly classified.

HIPPY USA disagrees with the IG's office's interpretation of program costs vs. administrative costs. HIPPY USA considers all staff costs for Maria Diaz, Elisabet Eklind and Dabaram Rampersad to be program costs. Also, these three staff members all perform duties as detailed in the approved grant proposal (see enclosed copies).

Since no staff working under the AmeriCorps grant performs both administrative and program tasks, it is not necessary for HIPPY USA to distinguish between these duties on our time sheets. Finally, since all costs, for the three staff members listed above, should be considered program costs, our allowable administrative charges to the award will be considerably lower (salary and fringe benefits: \$8,095).

II. HIPPY USA did not adequately monitor living allowances paid to AmeriCorps members.

This issue has been dealt with extensively, both in the grant proposal itself as well as during the negotiations for our AmeriCorps grant, as listed in the enclosed documents. At that time, HIPPY USA specified that living allowances would not be the responsibility of HIPPY USA but would be covered by the local agencies (the host sites). HIPPY USA also clarified that living allowances would vary between the agencies and that HIPPY USA has no control over these funds.

At the specific request of the Corporation for National Service, HIPPY USA will now work on adjusting the procedures for paying living allowances. We will forward a new chart of host sites and the respective living allowances they pay their members. However, many of our host sites are currently closed for the summer and, once they are open again, it will take some time to work with the agencies on adjusting these procedures. Consequently, HIPPY USA will require some time to resolve this issue.

At the request of the Corporation for National Service, estimate amounts for the total costs of living allowances in New York and Florida were delivered in one of our follow-up letters to the grant proposal (dated July 10, 1995). These figures were listed in footnotes to each site's budget, since they are not part of the grant, either as a CNS share or a grantee share. In your report, however, you have compiled the two amounts for living allowances in New York and Florida and included them as part of the grantee share. This amount should **not** be considered a part of the "Program Support Costs" for this particular grant.

HIPPY USA has requested technical assistance from our Grants Officer at CNS, Alexandra Rollins, to further clarify both these issues.

If you have any questions regarding this letter of response, please feel free to call Elisabet Eklind, Parent Organization Director for the HIPPYCorps Initiative at (212) 678-3500.

Sincerely,



Miriam Westheimer, Ed.D.
Executive Director

Enc.