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CORPORATION

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OFFICE OF THE INSPECTOR GENERAL

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Audit of

Public Allies

Washington, DC

Grant Number 94ADNDC038

This report is issued to CNS Management. According to OMB Circular A-50, *Audit Followup*, the Corporation must make a final management decision no later than September 23, 1996. Consequently, the reported 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 this report.

**Office of Inspector General  
Audit of  
Corporation For National and Community Service  
Grant Number 94ADNDC038  
to  
Public Allies**

CORPORATION  
FOR NATIONAL  
 SERVICE

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Leonard G. Birnbaum and Company, under contract to the Office of Inspector General, audited funds awarded by the Corporation for National Service (CNS) to Public Allies (PA) under grant number 94ADNDC038. We have reviewed the Birnbaum and Company report and the workpapers supporting its conclusions and agree with the findings and recommendations presented in the report.

The audit covered CNS' initial award to Public Allies, awarded as a \$689,000 grant for the period July 1, 1994 through September 30, 1995. CNS budgeted an additional \$359,100 for future educational awards that may be earned by eligible AmeriCorps members at the completion of their service period. PA agreed to provide \$734,260 as its non-Federal share.

The grant's purpose is to provide support for the conduct of an AmeriCorps program to establish a pre-professional service corps that will inspire and develop a new generation of community leaders to solve community problems. The program's principal goals are "getting things done" in communities, strengthening the ties that bind communities together, and developing the citizenship and job skills of the grant's 76 AmeriCorps members.

The audit report questions total costs in the amount of \$105,383. The report also identifies several compliance findings and reportable conditions related to the Public Allies internal control structure and its operation. A draft of the report was provided to PA and CNS management for their comments. CNS did not respond. The PA response is included as an Appendix to the report.

In response to the draft report, PA did not comment on the questioned costs. Moreover, PA concurred with the Non-Compliance and Internal Control findings. We recommend that CNS resolve the questioned costs and follow up to determine that reported corrective actions have been implemented by the grantee.

1201 New York Avenue, NW  
Washington, DC 20525  
Telephone 202-606-5000

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

Public Allies  
1511 K Street, NW, Suite 330  
Washington, DC 20005

Corporation for National Service  
Grant Number 94ADNDC038

Financial Schedules  
and  
Independent Auditor's Reports

For the Period  
July 1, 1994 to September 30, 1995

Leonard G. Birnbaum and Company  
Certified Public Accountants  
6285 Franconia Road  
Alexandria, Virginia 22310  
(703) 922-7622

Public Allies

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**REPORT SUMMARY AND HIGHLIGHTS**

**LEONARD G. BIRNBAUM AND COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS

WASHINGTON OFFICE  
6285 FRANCONIA ROAD  
ALEXANDRIA, VA. 22310

(703) 922-7622

FAX: (703) 922-8256

LEONARD G. BIRNBAUM  
LESLIE A. LEIPER  
DAVID SAKOFS  
CAROL A. SCHNEIDER

WASHINGTON, D.C.  
SUMMIT, NEW JERSEY  
LOS ALTOS, CALIFORNIA  
SAN DIEGO, CALIFORNIA

MEMBERS OF THE  
AMERICAN INSTITUTE  
OF CPAs

**Inspector General  
Corporation for National Service  
1201 New York Avenue, NW  
Washington, DC 20525**

**PURPOSE AND SCOPE OF AUDIT**

We have performed an audit of the funds awarded by the Corporation for National Service (CNS) to Public Allies (PA) as follows:

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
94ADNDC038	July 1, 1994 to September 30, 1995	July 1, 1994 to September 30, 1995

The objectives of our audit were to determine whether:

1. Financial reports prepared by the auditee presented fairly the financial condition of the award;
2. The system of internal control structure was adequate to safeguard Federal funds;
3. The auditee had adequate procedures and controls to ensure compliance with Federal laws, CNS regulations and award conditions; and
4. The award costs reported to CNS were documented and allowable in accordance with the award terms and conditions.

Our audit was made in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States.

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Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed to the CNS as presented in the Schedule of Award Costs (Schedule A), are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Schedule A. An audit also includes assessing the accounting principles used and significant estimates made by the auditee, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion and accompanying reports on compliance and internal control structure.

SUMMARY OF AUDIT RESULTS

An audit was performed on the financial reports submitted by PA to the CNS. These reports are summarized in Schedule A as follows:

<u>Award Number</u>	<u>Award Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>
94ADNDC038	<u>\$ 689,000</u>	<u>\$ 667,249</u>	<u>\$ 105,383</u>

As a result of our audit of the aforementioned award, we are questioning costs totalling \$105,383. Questioned costs are costs for which there is documentation that the recorded costs were expended in violation of the law, regulations or specific conditions of the award, or costs requiring additional support by the grantee or interpretation of allowability by the CNS.

The following summarizes the costs questioned on the above award by reason:

<u>Explanation</u>	<u>Amount</u>
• Supporting documentation indicated that the expenses were other than expenditures from grant funds	\$ 6,627
• Lack of supporting documentation	12,039
• Credits erroneously recorded against the grant	(5,860)
• Failure to demonstrate incurrence of required matching costs	<u>92,577</u>
Total Questioned Costs	<u>\$105,383</u>

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We used a combination of statistical and judgmental sampling to test the costs claimed by the auditee to CNS. Based upon this sampling plan, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been tested. In addition, we have made no attempt to project such costs to total expenditures claimed, based on the relationship of costs tested to total costs.

The following is a brief description of the various findings which resulted from our audit. For a complete discussion of each finding, refer to the appropriate Independent Auditor's Report on Compliance or Independent Auditor's Report on Internal Control Structure.

### COMPLIANCE FINDINGS

Our audit disclosed the following instances of non-compliance:

- The grantee does not maintain adequate cost-sharing records
- The grantee does not maintain an adequate financial management system.
- The grantee has not had an audit performed in accordance with OMB Circular A-133.
- The grantee did not obtain written permission from CNS to permit participants to spend more than 20 percent of a participant's required service hours in education and training activities.

### INTERNAL CONTROL STRUCTURE

Our audit disclosed the following matters which we consider to be reportable conditions in the internal control structure and its operation:

- Lack of a system for allocating interest earned on Federal funds.
- Lack of segregation of duties and controls in the cash disbursement cycle.
- Lack of adequate controls over the financial management system.



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BACKGROUND

Public Allies, (PA), officially incorporated in the District of Columbia as The National Center for Careers in Public Life, is a nonprofit corporation. PA is a pre-professional corps that leverages human capital and financial resources to meet local community needs by directly impacting the community in all national and local priority need areas; developing young people as long-term, indigenous leaders for their communities; strengthening and rebuilding communities through cross-fertilization, collaboration and hope engendered by the program; and working as a national organization to replicate the model according to community need. The project under the direction of PA is described as follows:

<u>Award Number</u>	<u>Award Description</u>
94ADNDC038	Provides support for the conduct of an AmeriCorps program with the principal goals of "getting things done" in communities, strengthening the ties that bind communities together, and developing the citizenship and skill of participants

REPORT RELEASE

This report is intended for the information and use of the Corporation's and AMC's management. However, this report is a matter of public record and its distribution is not limited.

**INDEPENDENT AUDITOR'S REPORT**

**LEONARD G. BIRNBAUM AND COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS

WASHINGTON OFFICE  
6285 FRANCONIA ROAD  
ALEXANDRIA, VA. 22310

(703) 922-7622

FAX: (703) 922-8256

LEONARD G. BIRNBAUM  
LESLIE A. LEIPER  
DAVID SAKOFS  
CAROL A. SCHNEIDER

WASHINGTON, D.C.  
SUMMIT, NEW JERSEY  
LOS ALTOS, CALIFORNIA  
SAN DIEGO, CALIFORNIA

MEMBERS OF THE  
AMERICAN INSTITUTE  
OF CPAs

**Inspector General  
Corporation for National Service  
1201 New York Avenue, NW  
Washington, DC 20525**

**INDEPENDENT AUDITOR'S REPORT**

We have audited the costs claimed by Public Allies to the Corporation for National Service on the Financial Status Report - Total Federal Share for the Grant Number listed below. These Financial Status Reports, as presented in the schedule of award costs (Schedule A), are the responsibility of the Grantee's management. Our responsibility is to express an opinion on Schedule A based on our audit.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
94ADNDC038	July 1, 1994 to September 30, 1995	July 1, 1994 to September 30, 1995

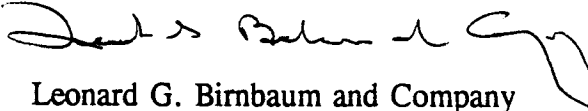
We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

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Corporation for National Service  
Washington, DC 20525

The accompanying financial schedules were prepared for the purpose of complying with the requirements of the award agreement as described in Note 1, and are not intended to be a complete presentation of financial position in conformity with generally accepted accounting principles.

In our opinion, except for \$105,383 questioned costs (see Schedule A), the financial schedules referred to above present fairly, in all material respects, the costs claimed in the Financial Status Report - Total Federal Share as presented in the schedule of award costs (Schedule A), for the period July 1, 1994 to September 30, 1995 in conformity with the award agreements and on the basis of accounting described in Note 1.

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

  
Leonard G. Birnbaum and Company

Alexandria, Virginia  
December 22, 1995

**FINANCIAL SCHEDULES**

Public Allies  
 Corporation for National Service Award Number 94ADNDC038  
 Schedule of Award Costs  
 From July 1, 1994 to September 30, 1995  
 Final

<u>Cost Category</u>	<u>Approved Budget</u>	(A) <u>Claimed Costs</u>	<u>Reclassified Costs</u>	<u>Claimed As Reclassified</u>	<u>Questioned Costs</u>	<u>Schedule Reference</u>
<b>Participant Support Costs:</b>						
Training and education	\$ 73,318	\$ 63,607	\$ (3,629)	\$ 59,978	\$ 7,693	Schedule B
Uniforms	-	-	-	-	-	
Other	<u>2,100</u>	<u>3,199</u>	-	<u>3,199</u>	-	
Subtotal	75,418	66,806	(3,629)	63,177	7,693	
<b>Staff:</b>						
Salaries	241,541	248,536	-	248,536	4,035	Schedule B
Benefits	23,581	15,874	208	16,082	-	
Training	-	-	-	-	-	
Other	-	-	-	-	-	
Subtotal	<u>265,122</u>	<u>264,410</u>	<u>208</u>	<u>264,618</u>	<u>4,035</u>	
<b>Operational:</b>						
Travel	2,300	1,744	739	2,483	-	
Transportation	-	-	-	-	-	
Supplies	1,560	4,322	-	4,322	-	
Equipment	-	-	-	-	-	
Other	-	-	<u>2,682</u>	<u>2,682</u>	-	
Subtotal	<u>3,860</u>	<u>6,066</u>	<u>3,421</u>	<u>9,487</u>	-	
<b>Internal Evaluation:</b>						
	-	-	-	-	-	
	-	-	-	-	-	
<b>Administration:</b>						
Subtotal	<u>41,800</u>	<u>44,755</u>	-	<u>44,755</u>	-	
	41,800	44,755	-	44,755	-	
<b>Other Participant Support:</b>						
Living allowance	238,000	288,297	(300)	287,997	4,163	Schedule B
FICA & comp	-	-	-	-	-	
Health care	-	-	-	-	-	
Alternate health care	<u>64,800</u>	<u>(3,085)</u>	<u>300</u>	<u>(2,785)</u>	<u>(3,085)</u>	Schedule B
Subtotal	302,800	285,212	-	285,212	1,078	
<b>SUBTOTAL</b>	<u>\$ 689,000</u>	<u>\$ 667,249</u>	<u>\$ -</u>	<u>\$ 667,249</u>	<u>\$ 12,806</u>	
<b>MATCH COST</b>	<u>734,260</u>	-	-	-	<u>92,577</u>	Schedule B
<b>GRAND TOTAL</b>	<u>\$1,423,260</u>	<u>\$ 667,249</u>	<u>\$ -</u>	<u>\$ 667,249</u>	<u>\$ 105,383</u>	

(A) The total representing costs claimed agrees with the expenditures reported on the Financial Status Report - Total Federal Share as of the quarter ended September 30, 1995. Claimed costs reported above are taken directly from the auditee's books of account.

The accompanying notes are an integral part of this financial schedule.

Public Allies  
Corporation for National Service Award Number 94ADNDC038  
Schedule of Reclassified and Questioned Costs  
From July 1, 1994 to September 30, 1995  
Final

1. Training and Education

Based on the supporting documentation, we have reclassified \$3,629 of the amount claimed for training and education to the cost categories of staff-benefits, operational-travel and operational-other as summarized below.

<u>Account</u>	<u>Site</u>	<u>Cost Code</u>	<u>Reference Number</u>	(A) <u>Reclassified Amount</u>	<u>Cost Category</u>
5007	01	100	07022	\$ 208	Benefits
6035	05	100	623	319	Travel
6155	05	310	540	420	Travel
6035	01	100	07039	26	Other
6035	01	310	0952	2,368	Other
6035	01	510	07039	31	Other
6035	08	100	566	25	Other
6035	08	310	321	20	Other
6125	05	310	507	150	Other
6035	08	310	642	<u>62</u>	Other
				<u>\$3,629</u>	

We have questioned \$7,693 of the amount claimed for training and education which is comprised of the following amounts as explained below:

\$ 2,371  
8,097  
(2,775)  
  
\$ 7,693

Public Allies  
Corporation for National Service Award Number 94ADNDC038  
Schedule of Reclassified and Questioned Costs  
From July 1, 1994 to September 30, 1995  
Final

1. Training and Education - continued

\$2,371 was questioned because the supporting documentation indicated that the expenses were to have been considered as cost matching as opposed to grant expenses. The following schedule provides a summary of the questioned cost for this reason.

<u>Account</u>	<u>Site</u>	<u>Cost Code</u>	(A) <u>Reference Number</u>	<u>Questioned Amount</u>
6035	05	310	507	\$ 550
6035	05	310	772	1,036
6035	08	200	619	20
6045	05	310	617	469
6045	05	310	822	<u>296</u>
				<u>\$2,371</u>

\$8,097 was questioned because there was no supporting documentation to validate the expenditure in that we were unable to locate neither a check request nor a canceled check. The expenditures are summarized in the schedule below.

<u>Account</u>	<u>Site</u>	<u>Cost Code</u>	(A) <u>Reference Number</u>	<u>Questioned Amount</u>
6035	01	312	1297	\$1,749
6125	08	312	08053	2,800
6125	08	312	4333	2,800
6035	01	310	641	500
6035	02	310	000286	<u>248</u>
				<u>\$8,097</u>



Public Allies  
Corporation for National Service Award Number 94ADNDC038  
Schedule of Reclassified and Questioned Costs  
From July 1, 1994 to September 30, 1995  
Final

1. Training and Education - continued

(\$2,775) was questioned because the audit disclosed that when an entry was entered into the accounting system to record a voided check, the entry was posted to the wrong account.

<u>Account</u>	<u>Site</u>	<u>Cost Code</u>	<u>Reference Number</u>	(A) <u>Questioned Amount</u>
6035	06	312	1298	\$(3,675)
6040	06	310	1298	<u>900</u>
				<u>\$(2,775)</u>

Note A: The amounts have been rounded for presentation purposes.

2. Salaries

We have questioned \$4,035 of the amount claimed for salaries. Of this amount \$493 was questioned as the supporting documentation indicated that the expenses were to have been considered as cost matching as opposed to grant expenses. The remaining amount of \$3,542 was questioned because we were unable to locate timesheets and labor distribution reports to support the expenditures. The following schedule provides a summary of the questioned costs.

<u>Account</u>	<u>Site</u>	<u>Cost Code</u>	<u>Reference Number</u>	(A) <u>Questioned Amount</u>
5005	01	310	6402	\$1,542
5005	02	310	6633	1,042
5005	05	310	6417	958
5005	05	100	6415	81
5005	05	310	6768	<u>412</u>
				<u>\$4,035</u>

Note A: The amounts have been rounded for presentation purposes.

Public Allies  
Corporation for National Service Award Number 94ADNDC038  
Schedule of Reclassified and Questioned Costs  
From July 1, 1994 to September 30, 1995  
Final

3. Living Allowance

Based on the supporting documentation, we have reclassified \$300 of the amount claimed for living allowance to the cost category of alternate health care as summarized below.

<u>Account</u>	<u>Site</u>	<u>Cost Code</u>	<u>Reference Number</u>	(A) <u>Reclassified Amount</u>	<u>Cost Category</u>
6025	05	310	726	<u>\$ 300</u>	Alt. health

We have questioned \$4,163 of the amount claimed for living allowances for participants. During the course of the grant several participants were terminated from the program for various reasons. As a result of these terminations, the grantee should have had funds in the amount of \$21,751 that were not expended for living allowances. A comparison between the approved budget for participant support (\$302,800) and the claimed amount (\$285,212) reveals that unexpended funds only equates to \$17,588. We have, therefore, questioned the difference of \$4,163. Of this amount, \$1,262 was questioned because the support documentation indicated that the expenditures should have been charged as cost matching as opposed to an expense of the grant. Questioned cost of \$400 represents expenses for which we were unable to locate either a check request or a canceled check and the amount of the expense did not coincide with the bi-weekly payment amount stipulated in the agreements between the grantee and the partner organization. The remaining questioned cost of \$2,501 represents the balance of the amount questioned (\$4,163 - \$1,262 - \$400 = \$2,501), as explained above, which we were not able to specifically identify based on our sample of transactions tested. The following schedule provides a summary of the amount questioned.

Public Allies  
Corporation for National Service Award Number 94ADNDC038  
Schedule of Reclassified and Questioned Costs  
From July 1, 1994 to September 30, 1995  
Final

3. Living Allowance - continued

<u>Account</u>	<u>Site</u>	<u>Cost Code</u>	<u>Reference Number</u>	(A) <u>Questioned Amount</u>
6025	05	310	742	\$ 625
6025	08	310	602	159
6025	06	310	1411	478
6025	05	310	546	200
6025	05	310	550	<u>200</u>
				<u>\$1,662</u>

Note A: The amounts have been rounded for presentation purposes.

4. Alternate Health Care

During the course of the audit it came to our attention that an entry posted to account 6027-05-4-310 in the amount of (\$3,085) was posted in error. This entry should have been posted to account 6027-05-0-310 which represents a cost matching expense, therefore, we have questioned this amount.

5. Cost Matching

As noted in the Independent Auditor's Report on Compliance, the grantee does not maintain adequate records with respect to matching. The grantee simply records expenditures against non-Federal funds in a single account without identifying the government project for which such expenditures are intended to be a match. An examination of detailed transactions resulted in the identification of transactions charged to this account which we are satisfied are matches to the other participant support costs category in an amount sufficient to meet both the statutorily mandated match and the match set forth in the approved budget. We were, however, unable to identify matching costs of a program operating cost nature. Accordingly, we can only conclude that the

Public Allies  
Corporation for National Service Award Number 94ADNDC038  
Schedule of Reclassified and Questioned Costs  
From July 1, 1994 to September 30, 1995  
Final

5. Cost Matching - continued

amounts charged to the grant for program operating costs represent the total. This amount, net of questioned cost, is \$370,309. Consequently, we have questioned 25 percent of these costs or \$92,577, which was computed as follows.

	<u>Claimed as Reclassified</u>	<u>Questioned Costs</u>	<u>Net Cost</u>
Participant support	\$ 63,177	\$ 7,693	
Staff	264,618	4,035	
Operational	9,487	-	
Administration	<u>44,755</u>	<u>-</u>	
	<u>\$ 382,037</u>	<u>\$ 11,728</u>	<u>\$ 370,309</u>
Cost Match Percentage			<u>25%</u>
Questioned Cost			<u>\$ 92,577</u>

Public Allies  
Notes to Financial Schedules  
From July 1, 1994 to September 30, 1995

1. Summary of Significant Accounting Policies:

Accounting Basis

The accompanying financial schedules have been prepared in conformity with Corporation for National Service (CNS) instructions. Schedules A and B have been prepared from the reports submitted to CNS. The basis of accounting utilized in preparation of these reports differs from generally accepted accounting principles. The following information summarizes these differences:

A. Equity

Under the terms of the award, all funds not expended according to the award agreement and budget at the end of the award period are to be returned to CNS. Therefore, the auditee does not maintain any equity in the award and any excess of cash received from CNS over final expenditures is due back to CNS.

B. Equipment

Equipment is charged to expense in the period during which it is purchased instead of being recognized as an asset and depreciated over its useful life. As a result, the expenses reflected in the statement of award costs include the cost of equipment purchased during the period rather than a provision for depreciation.

The equipment acquired is owned by Public Allies while used in the program for which it is purchased or in other future authorized programs. However, CNS has the reversionary interest in the equipment. Its disposition, as well as the ownership of any proceeds therefrom, is subject to Federal regulations.

C. Inventory

Minor materials and supplies are charged to expense during the period of purchase. As a result, no inventory is recognized for these items in the financial schedules.

2. Income Taxes

Public Allies is a private nonprofit corporation, officially incorporated in the District of Columbia as The National Center for Careers in Public Life. Public Allies is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

INDEPENDENT AUDITOR'S REPORTS  
ON  
COMPLIANCE AND INTERNAL CONTROL STRUCTURE

**LEONARD G. BIRNBAUM AND COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS

WASHINGTON OFFICE  
6285 FRANCONIA ROAD  
ALEXANDRIA, VA. 22310

(703) 922-7622

FAX: (703) 922-8256

LEONARD G. BIRNBAUM  
LESLIE A. LEIPER  
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WASHINGTON, D.C.  
SUMMIT, NEW JERSEY  
LOS ALTOS, CALIFORNIA  
SAN DIEGO, CALIFORNIA

MEMBERS OF THE  
AMERICAN INSTITUTE  
OF CPAs

**Inspector General  
Corporation for National Service  
1201 New York Avenue, NW  
Washington, DC 20525**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE**

We have audited the schedule of award costs, as presented in Schedule A which summarizes the financial reports submitted by Public Allies (PA) to the Corporation for National Service (CNS) for the award listed below, and have issued our report thereon dated December 22, 1995.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
94ADNDC038	July 1, 1994 to September 30, 1995	July 1, 1994 to September 30, 1995

We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement.

Compliance with laws, regulations, and the provisions of the award is the responsibility of PA's management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of PA's compliance with certain provisions of laws, regulations, and the provisions of the award. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, and the provisions of the award that cause us to

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conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial schedules. The results of our tests of compliance disclosed the following material instances of noncompliance, and the questioned costs as reflected in Schedule B, the effects of which have not been not been corrected in the amounts as reflected in the claimed costs column in Schedule A.

#### Finding No. 1

The grantee did not maintain adequate cost-sharing records. The AmeriCorps \*USA-Direct Grant Provisions, section 18, states, in part, that "the grantee must maintain adequate supporting documents for every expenditure (Federal and non-Federal) made under this grant." Section 21 of these provisions further states, in part, "The grantee must provide and account for the matching funds agreed upon under this grant." The grantee did not specifically track and identify the expenses paid from other sources that were for the project funded by the grant.

#### Recommendation

We recommend that the grantee establish and maintain adequate cost-sharing records. We further recommend that the grantee becomes familiar with Section .23 of OMB Circular A-110 which establishes criteria for acceptable forms of cost-sharing contributions and the AmeriCorps \*USA-Direct Grant Provisions to ensure adequate records are maintained.

#### Auditee's Comments

The auditee concurs with our finding by stating "the match requirements were commingled with the general operating budget." The auditee furthers states that corrective action has been taken in that the "accounting software now enables us to establish a cost center in order to accurately track our AmeriCorps match."

#### Auditor's Response

The auditee's corrective action appears to be in compliance with our recommendation.

#### Finding No. 2

The grantee does not maintain an adequate financial management system. Section 18, Financial Management Provisions, of AmeriCorps \*USA-Direct Grant Provisions states, in part, that "the grantee must maintain a financial management system which includes standard accounting practices, sufficient internal controls, a clear audit trail, and written cost allocation procedures..."



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The grantee must maintain adequate supporting documents for every expenditure (Federal and non-Federal) made under this grant. Costs must be shown in books or records, e.g., a disbursement ledger or ledger, and must be supported by a source document, such as a receipt, travel voucher, invoice, bill, affidavit, or similar document...Salaries, wages, and living allowances charged directly to this grant or charged to matching funds must be supported by signed time and attendance records for each individual employee and participant..."

The grantee's financial management system does not maintain supporting documentation in a complete or cohesive manner. Information requested during the audit could not be easily obtained or else could not be located. In addition, some of the supporting documentation was nothing more than check requests without receipts, invoices, etc. being attached and not all supporting documentation, including time and attendance records, were approved.

#### Recommendation

We recommend that the grantee develop and implement policies and procedures for the establishment of an adequate financial management system.

#### Auditee's Comments

The auditee concurred with our finding and has (1) "implemented new policies and procedures to separate incompatible duties", (2) established an accounting system which will "track our general and AmeriCorps revenues and expenditures", and (3) instituted "disbursement and record keeping process/standards."

#### Auditor's Response

The auditee's corrective action appears to be in compliance with our recommendation.

We considered these material instances of noncompliance in forming our opinion on whether Schedule A is presented fairly in all material respects, in conformity with Corporation for National Service policies and procedures, and this report does not affect our report dated December 22, 1995 on those financial schedules.

In addition to the above mentioned material instances of noncompliance, we noted certain nonmaterial instances of noncompliance as described below.

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Finding No. 3

The grantee has not had audits conducted in accordance with OMB Circular A-133 which stipulates that recipients of Federal grant awards of at least \$25,000 must have an audit conducted at least every two years by an independent auditor. Although the grantee has been receiving Federal funds since fiscal year (FY) 1993, an A-133 audit has not been completed. Currently the grantee is in the process of having an A-133 audit conducted. We were told, however, that this audit covers FY95 only and so far no effort has been made to include FY94 in the audit presently being conducted.

Recommendation

We recommend that the grantee have audits conducted in accordance with OMB Circular A-133.

Auditee's Comments

The auditee concurs with our finding. The auditee further stated that an A-133 audit report for the fiscal year ended May 31, 1994 will be issued in the near future and upon issuance a copy will be forwarded to the Corporation for National Service.

Auditor's Response

We can only infer from the auditee's comments that the A-133 audit report to be issued will include fiscal years 1994 and 1995 even though reference was only made to fiscal year 1994 since we were aware of the audit effort that was being expended on fiscal year 1995 during our audit.

Finding No. 4

The grantee did not obtain written permission from CNS to permit participants to spend more than 20 percent of a participant's required service hours in education and training activities as required by Section 7, paragraph e of the AmeriCorps \*USA-Direct Grant Provisions.

Recommendation

We recommend that the grantee establish procedures to track the hours spent by the participants in education and training activities. We further recommend, with respect to the second year funding, that written permission be obtained from CNS if participants will exceed the limit on education and training activities.

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Auditee's Comments

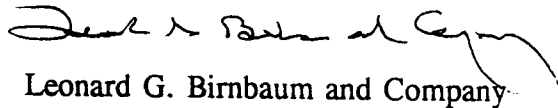
The auditee concurs with our finding and has stated that the National Program staff maintains a database which records the AmeriCorps members hours and service activities.

Auditor's Response

We can only infer from the auditee's comments that this database will be monitored to ensure that participants hours do not exceed 20 percent in education and training activities and, if the participants will exceed this 20 percent threshold, then permission will be obtained from CNS before doing so.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, PA complied in all material respects, with the provisions referred to in the third paragraph of this report.

This report is intended for the information and use of the Corporation's and AMC's management. However, this report is a matter of public record and its distribution is not limited.

  
Leonard G. Birnbaum and Company

Alexandria, Virginia  
December 22, 1995

**LEONARD G. BIRNBAUM AND COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS

WASHINGTON OFFICE  
6285 FRANCONIA ROAD  
ALEXANDRIA, VA. 22310

(703) 922-7622

FAX: (703) 922-8256

LEONARD G. BIRNBAUM  
LESLIE A. LEIPER  
DAVID SAKOFS  
CAROL A. SCHNEIDER

WASHINGTON, D.C.  
SUMMIT, NEW JERSEY  
LOS ALTOS, CALIFORNIA  
SAN DIEGO, CALIFORNIA

MEMBERS OF THE  
AMERICAN INSTITUTE  
OF CPAs

Inspector General  
Corporation for National Service  
1201 New York Avenue, NW  
Washington, DC 20525

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE**

We have audited the schedule of award costs, as presented in Schedule A which summarizes the financial reports submitted by Public Allies (PA) to the Corporation for National Service (CNS) for the grant listed below, and have issued our report thereon dated December 22, 1995.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
94ADNDC038	July 1, 1994 to September 30, 1995	July 1, 1994 to September 30, 1995

We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement.

In planning and performing our audit of Schedule A for the period July 1, 1994 to September 30, 1995, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control structure.

The management of PA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs on internal control structure policies and

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procedures. The objectives on an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Cash Disbursements
- Cash Receipts
- Payroll/Timekeeping
- Recordkeeping

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we have assessed control risk.

We noted the following matters involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure, that, in our judgment, could adversely affect the entity's ability to record, possess, summarize and report financial data consistent with the assertions of management in the financial schedules.

Finding No. 1

Although the grantee maintained an interest bearing account for all funds (Federal and non-Federal) for the grant period July 1, 1994 to September 30, 1995, it did not have a system in place for allocating interest earned on Federal funds. We have been informed that a separate interest bearing account is currently being maintained for Federal funds.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial schedules being

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audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe the reportable condition described above is not a material weakness. However, our study and evaluation and our audit disclosed the following conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material to the CNS grant may occur and not be detected within a timely period.

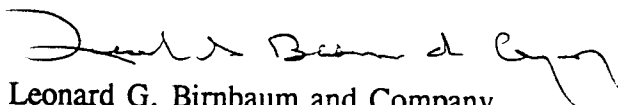
Finding No. 2

The grantee lacks adequate segregation of duties and controls in the cash disbursement cycle as follows. The person who is the primary signer of checks for payment is also responsible for approving expenditures. Also the grantee does not have a policy requiring two signatures on checks in excess of a specified dollar amount. Lastly, required approval signatures of department heads are not consistently provided on check request forms. We were informed that these inadequacies would be remedied now that the grantee has recently hired a Controller.

Finding No. 3

The grantee lacks adequate controls over their financial management system. For complete details refer to finding no. 2 in the Independent Auditor's Report on Compliance.

This report is intended for the information and use of the Corporation's and AMC's management. However, this report is a matter of public record and its distribution is not limited.

  
Leonard G. Birnbaum and Company

Alexandria, Virginia  
December 22, 1995

## FOLLOW-UP OF PRIOR AUDIT FINDINGS

In August 1994, the Corporation for National Service performed a survey at Public Allies' national office in Washington, DC of the Public Allies' accounting system, system of internal controls, and recordkeeping procedures. As a result of the survey, the Corporation for National Service issued Systems Survey Report No. 94-HQ-59. The objective of the survey was to determine whether the systems and procedures were adequate to (1) substantiate grant expenditures, (2) safeguard grant funds and other assets under its control, and (3) provide required documentation.

The survey report referred to above contained seven findings and recommendations, of which three have been satisfactorily resolved. The following findings have not been adequately resolved.

### Finding No. 1

The grantee's internal controls do not achieve the separation of duties necessary for the authorization and payment of expenditures for Federal grants. The Vice President/Operations who is the primary signer of checks for payment is also responsible for approving expenditures and coding activity for posting to the general ledger. (Refer to finding no. 2 in the Independent Auditor's Report on Internal Control Structure.)

### Finding No. 3

The Executive Director and Vice President/Operations can sign a check for any amount without a second signature. (Refer to finding no. 2 in the Independent Auditor's Report on Internal Control Structure.)

### Finding No. 4

Required approval signatures of department heads at site offices are not consistently provided on check request forms. (Refer to finding no. 2 in the Independent Auditor's Report on Internal Control Structure.)

### Finding No. 5

The grantee does not have a system established for allocating interest earned on Federal funds. (Refer to finding no. 1 in the Independent Auditor's Report on Internal Control Structure.)



March 13, 1996

Leslie A. Leiper  
 Senior Partner  
 Leonard G. Birnbaum and Company  
 Certified Public Accountants  
 6285 Franconia Road  
 Alexandria, VA 22310

Dear Ms. Leiper:

We have reviewed the draft audit report for AmeriCorps Grant No. 94ADNDC038 awarded by the Corporation for National Service (CNS) to Public Allies (PA). We concur with the findings cited in the report and offer the following explanations.

**Finding No. 1: The grantee does not maintain adequate cost-sharing records.**

During July 1, 1994 to September 30, 1994, Public Allies did not maintain separate accounting records to document its AmeriCorps program match for Member stipends, health care, and program operating costs. In fact, the match requirements were commingled with the general operating budget. Our accounting software now enables us to establish a cost center in order to accurately track our AmeriCorps match.

**Finding No. 2: The grantee does not maintain an adequate financial management system.**

Public Allies has implemented new policies and procedures to separate incompatible duties. In 1995, the National Board of Directors authorized the Public Allies National staff to establish an internal accounting department with systems. To date, Public Allies National has hired a Controller and staff accountant. An accounting software is in place to track our general and AmeriCorps revenues and expenditures. In addition, the following disbursement and record keeping process/standards have been instituted and communicated throughout the organization:

**Disbursement process/standards**

- 1) Invoices with appropriate reference to the cost center must be approved and signed by the Site Director.





- 2) Invoices are then submitted to the National Accounting Department for approval and processing.
  - a) Disbursements are entered into our accounting system by the staff accountant and submitted to the Controller for approval and signature. Any disbursements exceeding \$2,500 must be authorized by the President and CEO.
  - b) The National office retains vouchers, invoices, bank statements and canceled checks on file for 3 years.

**Record keeping and policy implementation**

- 1) Bi-weekly timesheets (ink or computer generated) must be signed by the employee and his/her immediate supervisor. A copy of the payroll check is attached to the timesheet and placed in the employee's file.
- 2) The National office maintains vendor files for the local sites.
- 3) A safe has been purchased to store blank checks and valuable documents.
- 4) A Drug Free Workplace policy was approved by the National Board of Directors and communicated throughout the organization.

**Finding No. 3:        The grantee has not had an audit performed in accordance with OMB Circular A-133.**

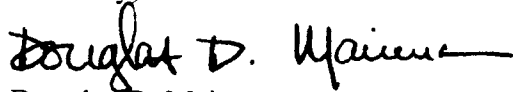
Gelman, Rosenberg & Freedman, our accounting firm will issue a A-133 Audit Report for the Fiscal Year ending May 31, 1994 within a month. We will forward a copy of the report to the Corporation for National Service.

**Finding No. 4:        The grantee did not obtain written permission from CNS to permit participants to spend more than 20 percent of a participant's required service hours in education and training activities.**

AmeriCorps Members must fill out a service documentation form on a weekly basis which is approved by the partner organization supervisor. This form indicates the number of hours and describes their service activities. The National Program staff collects the hard copy and maintains a database.

In conclusion, Public Allies is striving to comply with its AmeriCorps provisions and establish a financial infrastructure to provide solid and reliable financial information.

Sincerely,



Douglas D. Mairena  
Controller

cc:     Michael Kenefick, Corporation for National Service