

Audit Report No. 96-34

Date: April 26, 1996

CORPORATION

FOR NATIONAL

 SERVICE

OFFICE OF THE INSPECTOR GENERAL

Audit of

Georgia Department of Community Affairs

Atlanta, Georgia

COMMISSION ON NATIONAL AND COMMUNITY SERVICE
GRANT AWARD NUMBER 92NMSTGA0002

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.

Office of the Inspector General
Audit of
Commission on National and Community Service
Grant Award Number 92NMSTGA0002
to
Georgia Department of Community Affairs



Leonard G. Birnbaum and Company, under contract to the Office of the Inspector General, audited funds awarded by the Commission on National and Community Service¹ (the Commission) to the Georgia Department of Community Affairs (GDCA) under grant number 92NMSTGA0002. We have reviewed the Birnbaum and Company report and the supporting workpapers and agree with the report's findings and recommendations.

The \$4,824,949 grant was awarded for the period August 1, 1992 through September 30, 1995. Costs claimed for the period by the GDCA were \$3,858,506. Birnbaum and Company questioned \$47,789 of the claimed costs, primarily because GDCA's reported administrative costs exceed the CNS' five percent limitation for Federal funding of administrative costs by \$47,187. GDCA contends that the \$47 thousand should be allowed because it is within five percent of the approved grant contract.

The report also reports other instances of non-compliance related to travel records and polices, and GDCA's failure to submit final technical and financial reports as required by the grant conditions.

GDCA's responses to a draft of this report have been incorporated into the report's findings and recommendations. GDCA's letter, in its entirety, follows the Leonard G. Birnbaum and Company Report.

¹ The Commission was merged into the Corporation for National Service at the start of Fiscal Year 1994; in December 1993, CNS established the audit responsibility for Commission grants in the CNS Office of Inspector General.

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**Commission on National and Community Service
Award Number 92NMSTGA0002**

to

**Georgia Department of Community Affairs
100 Peachtree Street
Atlanta, Georgia 30303**

**Financial Schedules
and
Independent Auditor's Reports**

**For the Period
August 1, 1992 to September 30, 1995**

**Leonard G. Birnbaum and Company
Certified Public Accountants
6285 Franconia Road
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Georgia Department of Community Affairs

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REPORT SUMMARY AND HIGHLIGHTS

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PURPOSE AND SCOPE OF AUDIT

We have performed an audit of the funds awarded by the Commission on National and Community Service¹ (CNS) to Georgia Department of Community Affairs (GDCA) as follows:

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
92NMSTGA0002	August 1, 1992 to September 30, 1995	August 1, 1992 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

¹ 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 Service.

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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. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed to 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.

SUMMARY OF AUDIT RESULTS

An audit was performed on the financial reports submitted by GDCA to CNS. The results of the audit, which are detailed in Schedule A, are summarized as follows:

<u>Award Number</u>	<u>Award Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>
92NMSTGA0002	<u>\$4,824,949</u>	<u>\$3,858,506</u>	<u>\$47,789</u>

As a result of our audit of the aforementioned award, we are questioning costs totalling \$47,789. 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 those costs which require additional support by the grantee or which require interpretation of allowability by CNS.

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

<u>Explanation</u>	<u>Amount</u>
<ul style="list-style-type: none"> • The grantee claimed travel costs which exceeded the Federal daily hotel rate 	\$ 338
<ul style="list-style-type: none"> • The grantee claimed travel costs for which there was no documentation 	264

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- The grantee claimed administrative costs in excess of grant terms and conditions 47,187
- Total Questioned Costs \$47,789

We used a judgmental sampling method 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, please 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 auditee claimed administrative costs at a rate which exceeded the limit imposed by the terms and conditions of the grant award.(Finding No. 1)
- The auditee claimed costs which exceeded the daily allowable rate for lodging. (Finding No. 2)
- The auditee has not submitted final technical and financial reports as required by the grant conditions. (Finding No. 3)

INTERNAL CONTROL STRUCTURE

We noted no matters involving the internal control structure that we consider to be material weaknesses.

MATTER REQUIRING RESOLUTION

GDCA acquired equipment, at a cost of \$116,443, during its performance of the grant. The terms of the grant provide that title to the equipment vests with GDCA, but that CNS has a reversionary interest in the equipment and the right to direct its disposition upon completion of grant performance. As of the date of our audit, GDCA had not received any direction from

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CNS as to disposition of the equipment. We observe that, subsequent to the completion of this grant, GDCA was awarded an AmeriCorps grant by CNS.

BACKGROUND

The Department of Community Affairs, an organizational unit of the State of Georgia, is part of the executive branch of the government of the State of Georgia. The Department is empowered to promote and protect the institution of general purpose local government in the State and serves as the Governor's representative to local governments in matters affecting social, economic, human or intergovernmental relations and, in such capacity, provides mediation, consultation and technical assistance to local governments.

Award Number

Award Description

92NMSTGA0002

The Georgia Department Community Affairs received a \$2,300,000 grant in 1992 under Subtitle D of the National Community Service Act of 1990. The then existing local service and conservation corps in the nation were almost exclusively in large, urban communities. So the grant was made to create a "Georgia Peach Corps" to demonstrate the feasibility of operating local service and conservation corps in rural areas with small populations. The grant was for a three year period and was amended on September 28, 1993 to a new total of \$4,824,949.

REPORT RELEASE

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

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INDEPENDENT AUDITOR'S REPORT

We have audited the costs claimed by Georgia Department of Community Affairs to the Corporation for National Service on the Federal Cash Transactions Report - Federal Share of Net Disbursements for the Peach Corps Grant Number listed below.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
92NMSTGA0002	August 1, 1992 to September 30, 1995	August 1, 1992 to September 30, 1995

These Federal Cash Transactions 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.

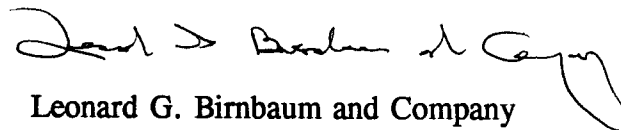
We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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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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 \$47,789 questioned costs (see Schedule A), the financial schedules referred to above present fairly, in all material respects, the costs claimed in the Federal Cash Transactions Report - Federal Share of Net Disbursements as presented in the schedule of award costs (Schedule A), for the period August 1, 1992 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 and GDCA's management. However, this report is a matter of public record and its distribution is not limited.


Leonard G. Birnbaum and Company

Alexandria, Virginia
January 19, 1996

FINANCIAL SCHEDULES

Georgia Department of Community Affairs
 Commission on National and Community Service Award No. 92NMSTGA0002
 Schedule of Award Costs
 From August 1, 1992 to September 30, 1995
 Final

<u>Cost Category</u>	<u>Approved Budget</u>	(A) <u>Claimed Costs</u>	<u>Reclassified Costs</u>	<u>Adjusted Costs</u>	<u>Questioned Costs</u>	<u>Schedule Reference</u>
Participant Support	\$ 3,941,703	\$3,008,882	\$(105,342)	\$2,903,540	\$ 552	Schedule B
Training	125,900	111,652	1,597	113,249	50	Schedule B
Evaluation	168,120	164,240	-	164,240	-	Schedule B
Operating	59,150	40,778	16,677	57,455	-	Schedule B
Capital	76,486	62,564	53,879	116,443	-	Schedule B
Administrative	240,082	240,082	-	240,082	47,187	Schedule B
Other	<u>213,508</u>	<u>230,308</u>	<u>33,189</u>	<u>263,497</u>	<u>-</u>	Schedule B
Total CNCS Funds	4,824,949	3,858,506	-	3,858,506	47,789	
Matching Funds	<u>1,105,275</u>	<u>779,777</u>	<u>-</u>	<u>779,777</u>	<u>-</u>	
Total Funds	<u>\$ 5,930,224</u>	<u>\$4,638,283</u>	<u>\$ -</u>	<u>\$4,638,283</u>	<u>\$ 47,789</u>	

- A) The total representing costs claimed agrees with the expenditures reported on the Federal Cash Transactions Report 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.

Georgia Department of Community Affairs
Commission on National and Community Service Award No. 92NMSTGA0002
Schedule of Reclassified and Questioned Costs
From August 1, 1992 to September 30, 1995
Final

1. Participant Support

Based on accounting nomenclature, we have reclassified \$105,342 of the amount claimed for participant support to the cost categories of training, operating, capital and other as summarized below.

<u>Object Code</u>	<u>Title</u>	<u>Reclassified Amount</u>	<u>Cost Category</u>
612	Vehicle Expense	\$ 2,312	Operating
615	Repairs	8,031	Operating
618.1	DOAS Printing	3,025	Operating
618.2	Outside Printing	1,653	Operating
619	Rents	1,597	Training
620	Insurance	1,656	Operating
627.1	Dues	2,625	Other
627.2	Subscriptions	232	Other
627.3	Registration	4,656	Other
627.4	Publications	272	Other
627.5	Other	23,898	Other
633	Software	558	Capital
641	Vehicle Purchase	32,372	Capital
643	Equipment Purchase	4,203	Capital
643	Computers	16,746	Capital
670	Telecommunications	<u>1,506</u>	Other
		<u>\$ 105,342</u>	

The amounts above are reclassified to agree with the original budget narrative.

Georgia Department of Community Affairs
Commission on National and Community Service Award No. 92NMSTGA0002
Schedule of Reclassified and Questioned Costs
From August 1, 1992 to September 30, 1995
Final

1. Participant Support - continued

We have questioned \$552 of the amount claimed for participant support which is comprised of the following amounts as explained below:

\$ 288
<u>264</u>
<u>\$ 552</u>

\$288 was questioned because the participant, Donald Tim Simpson was reimbursed by check #10971 on June 24, 1994, for an amount greater than the daily lodging rate permitted by Federal and Georgia travel regulations. The trip was from June 6 to 9, 1994 at Milwaukee, Wisconsin. The participant was reimbursed for his hotel stay at a daily rate of \$163 for three days. The allowed daily hotel rate was \$67.

Reimbursed	\$163 x 3 =	\$ 489
Allowed	67 x 3 =	<u>201</u>
Questioned		<u>\$ 288</u>

\$264 was questioned for two reasons. First, because the staff employee who was reimbursed for this expense, Hope Manual, did not provide supporting documentation for a Georgia Peach Corps field trip to Savannah, Georgia on November 1-2, 1994 or prepare and certify a travel claim. Second, because the expenditure, for an historical city and boat tour by program participants, is considered to be beyond the scope of the educational segment of this grant.

2. Training

We have questioned \$50 of the amount claimed for training. Pamela Wilson, a Georgia Peach Corps' consultant was reimbursed by check #12825 on November 10, 1994, for travel from Oxon Hill, Maryland to Augusta, Georgia and the related lodging expense. The consultant stayed in Augusta, Georgia on October 21, 1994, and claimed \$94 for hotel accommodations. The daily Federal hotel rate for Augusta was \$44. We have questioned \$50.

Georgia Department of Community Affairs
Commission on National and Community Service Award No. 92NMSTGA0002
Schedule of Reclassified and Questioned Costs
From August 1, 1992 to September 30, 1995
Final

3. Administrative

We have questioned \$47,187 of the amount claimed for administrative expense. The grant special provisions item 8, Reservation of Funds and Budget Revisions, states "not more than 5% of the Funds received under this grant shall be used for administrative costs." GDCA applied the 5 percent to the approved budget, not the required 5 percent of funds received under this grant.

Approved budget	\$4,824,949 x 5% =	\$ 241,247
Claimed by GDCA		240,082
Allowed based on funds received	3,857,904* x 5% =	<u>192,895</u>
Amount Questioned		<u>\$ 47,187</u>

* \$3,858,506 less \$602 questioned costs

Georgia Department of Community Affairs
Commission on National and Community Service Award No. 92NMSTGA0002
Notes to Financial Schedules

1. Summary of Significant Accounting Policies:

Accounting Basis

The accompanying financial schedules, 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 Georgia Department of Community Affairs 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

Georgia Department of Community Affairs is a component of a state government and is exempt from income taxes.

INDEPENDENT AUDITOR'S REPORTS
ON
COMPLIANCE AND INTERNAL CONTROL STRUCTURE

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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 Georgia Department of Community Affairs (GDCA) to the Corporation for National Service and its predecessor, the Commission on National and Community Service, for the award listed below, and have issued our report thereon dated January 19, 1996.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
92NMSTGA0002	August 1, 1992 to September 30, 1995	August 1, 1992 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, the provisions of the award is the responsibility of GDCA's management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of GDCA's compliance with certain provisions of laws, regulations, the provisions of the award. However, our objective was not to provide an opinion on overall compliance with such provisions.

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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 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 auditee claimed administrative costs at a rate of 5 percent of the grant budget. The grant provisions limit administrative costs to 5 percent of funds received.

Recommendation

We recommend that the auditee's claimed cost for administrative costs be limited to the rate specified in the grant award.

Auditee's Comments

The auditee disagrees this finding stating that it believes it is entitled to reimbursement of budgeted administrative costs irrespective of the fact that other costs incurred were below the amounts budgeted.

Auditor's Response

While this is an interesting interpretation, the grant language restricts administrative costs to 5 percent of funds received. The grantee will not receive funds, i.e., cash, for that portion of the budget which was not spent. Accordingly, our original position remains unchanged.

Finding No. 2

The auditee claimed travel costs at a rate greater than the daily lodging rate specified in the Federal travel regulations.

Recommendation

We recommend that the grantee's costs for participant support and training be limited to those expenses which are within Federal travel regulations.

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Auditee's Comments

The auditee did not address this finding per se, but rather, explained why the excess travel costs which had been questioned were considered to involve extenuating circumstances.

Auditor's Response

As noted above, the auditee did not address this finding from a general perspective.

Finding No. 3

Final technical and financial reports for the grant, as required by amendment No. 1, were due on December 31, 1995. As of the date of our audit, these reports had not been submitted.

Recommendation

We recommend that the grantee prepare and submit final technical and financial reports grant.

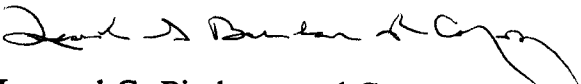
Auditee's Comments

The auditee did not respond to this finding.

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 January 19, 1996, on those financial schedules.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, GDCA 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 GDCA's management. However, this report is a matter of public record and its distribution is not limited.


Leonard G. Birnbaum and Company

Alexandria, Virginia
January 19, 1996

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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 Georgia Department of Community Affairs (GDCA) to the Corporation for National Service and its predecessor, the Commission on National and Community Service, for the grant listed below, and have issued our report thereon dated January 19, 1996.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
92NMSTGA0002	August 1, 1992 to September 30, 1995	August 1, 1992 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 August 1, 1992 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.

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The management of GDCA 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 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:

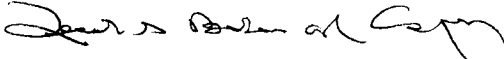
- Cash disbursements
- Cash receipts
- Recordkeeping

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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is reportable conditions in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

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