

Office of the Inspector General

**Audit of
Commission on National and Community Service
Award Number 92COSTWV0028
West Virginia Department of Education
(American Youth and Conservation Corps)**

**Report Number 98-06
July 25, 1997**

This report was issued to Corporation management on January 27, 1998. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than July 27, 1998, and complete its corrective action by January 27, 1999. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented or the amount of disallowed costs.

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

CORPORATION

FOR NATIONAL

 SERVICE

Office of the Inspector General

Audit of the
West Virginia Department of Education, American Youth and Conservation Corps
Commission on National and Community Service
Award Number 92COSTWV0028

Leonard G. Birnbaum and Company, under contract to the Office of the Inspector General, performed an audit of the funds awarded by the Commission on National and Community Service to the West Virginia Department of Education to establish the American Youth and Conservation Corps under Grant No. 92COSTWV0028. The audit covered the costs (\$2,070,212) claimed during the grant period from July 15, 1992 through December 30, 1995.

The audit was performed to determine whether financial reports prepared by the auditee presented fairly the financial condition of the award, and whether the award costs reported to the Corporation were documented and allowable in accordance with the terms and conditions of the award. We have reviewed the report and work papers supporting its conclusions and agree with the findings and recommendations presented.

The firm found that

- Costs claimed under the award exceeded the maximum share of federal costs allowed.
- \$152,080 of the claimed costs were not adequately supported by source documentation.
- Two subrecipients, West Virginia Citizens Conservation Corps and McDowell County Citizens Conservation Corps, did not maintain adequate financial management systems in accordance with OMB Circular A-110.
- Most participants were not provided with post service benefits as required.
- The West Virginia Department of Education did not submit all required reports and did not adequately monitor the subrecipients under the grant.

Based on the audit, we are questioning \$919,907 (44 percent) of the costs claimed under the award. These and other matters are discussed in greater detail in the report.

The West Virginia Department of Education's response to a draft of this report is summarized after each finding as appropriate and is included as Appendix A. The Corporation did not provide a response.

Corporation for National Service
Office of Inspector General
Report Number 98-06

Commission on National and Community Service Grant Number 92COSTWV0028
to
West Virginia Department of Education (American Youth and Conservation Corps)
Charleston, WV 25305-0330

Financial Schedules
and
Independent Auditor's Reports

For the Period
July 15, 1992 to December 30, 1995

Leonard G. Birnbaum and Company
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Corporation for National Service
Office of Inspector General
Audit of West Virginia Department of Education
American Youth and Conservation Corps

Table of Contents

	<u>Page</u>
REPORT SUMMARY AND HIGHLIGHTS:	
Summary of Audit Results	1
Purpose and Scope of Audit	5
Matter Requiring Resolution	6
Background	6
INDEPENDENT AUDITOR'S REPORT	8
FINANCIAL SCHEDULES:	
Exhibit A - Schedule of Award Costs	11
Schedule A-1 - Schedule of Incurred Costs by Grantee	12
Notes to Financial Schedules	13
Exhibit B - Explanation of Reclassified and Questioned Costs	14
INDEPENDENT AUDITOR'S REPORTS ON COMPLIANCE AND INTERNAL CONTROL STRUCTURE:	
Independent Auditor's Report on Compliance	29
Independent Auditor's Report on Internal Control Structure	37
AUDITEE'S COMMENTS TO REPORT	Appendix A

REPORT SUMMARY AND HIGHLIGHTS

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Inspector General
Corporation for National Service

We have performed an audit of the funds awarded by the Commission on National and Community Service¹ (Commission) to the State of West Virginia for the American Youth and Conservation Corps program under Grant No. 92COSTWV0028. Our audit covered the costs claimed during the period July 15, 1992 through December 30, 1995. The program was administered by the West Virginia Department of Education (WVDE). WVDE entered into subgrant agreements for the establishment of the West Virginia Citizens Conservation Corps (WVCCC), McDowell County Citizens Conservation Corps (McDowell), Fayette County Citizens Conservation Corps (Fayette), and Tucker County Citizens Conservation Corps (Tucker). Our audit efforts focused primarily on the programs administered by WVCCC and McDowell.

SUMMARY OF AUDIT RESULTS

Our audit of the costs claimed by the WVDE for its American Youth and Conservation Corps program disclosed the following:

Award Budget	\$2,102,000
Claimed Costs	2,070,212
Incurred Costs	2,086,397
Questioned Costs	919,907

As a result of our audit of the aforementioned award, we have questioned costs totaling \$919,907 as summarized below and as explained in detail in Exhibit A to the Independent Auditor's Report.

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

Inspector General
Corporation for National Service

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 the Corporation.

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

<u>Explanation</u>	<u>Amount</u>
• Costs claimed exceeded the maximum Federal share	\$740,084
• Post service benefit was not matched	1,500
• Costs were not adequately supported by source documentation	152,080
• Costs did not benefit the program or were not necessary	14,225
• Cost were incurred prior to the grant period	500
• Funds drawn down exceeded the costs incurred	11,042
• Benefit costs were paid for participants after they had left the program	343
• Duplicate payment	<u>133</u>
Total Questioned Costs	<u>\$919,907</u>

We used a judgmental sampling method to test the costs claimed by the auditee. 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. For a complete discussion of these questioned costs, refer to the Independent Auditor's Report.

COMPLIANCE FINDINGS

Our audit disclosed material and nonmaterial instances of noncompliance. The instances of noncompliance which we considered to be material are as follows:

- McDowell did not maintain an adequate financial management system in accordance with section .21 of OMB Circular A-110. (Independent Auditor's Report on Compliance, Finding No. 1)
- WVCCC did not maintain an adequate financial management system in accordance with section .21 of OMB Circular A-110. (Independent Auditor's Report on Compliance, Finding No. 2)
- Participants, except for seven participants who filed a lawsuit, were not provided with post service benefits as required by Provision No. 17 of the Special Provisions - Corps, States and Indian Tribes. (Independent Auditor's Report on Compliance, Finding No. 3)
- WVDE and WVCCC did not submit all of the reports required by Provision No. 9 of the Grant General Provisions and Provision No. 4 of the Special Provisions - Corps, States and Indian Tribes. (Independent Auditor's Report on Compliance, Finding No. 4)
- WVDE and its subrecipients did not meet the matching requirement stipulated in Provision No. 3 of the Special Provisions - Corps, States and Indian Tribes. (Independent Auditor's Report on Compliance, Finding No. 5)

In addition, our audit disclosed the following nonmaterial instances of noncompliance:

- The total amount of disbursements reported on the Federal Cash Transaction Report submitted by WVDE for the quarter ended March 31, 1997, did not agree with the disbursement amount represented during the audit. (Independent Auditor's Report on Compliance, Finding No. 6)
- WVDE and its subrecipients did not expend the minimum percentage of funds on training and education stipulated in Provision No. 6 of the Special Provisions - Corps, States and Indian Tribes. (Independent Auditor's Report on Compliance, Finding No. 7)

Inspector General
Corporation for National Service

- McDowell did not have an audit performed in accordance with OMB Circular A-133 for fiscal year 1994. (Independent Auditor's Report on Compliance, Finding No. 8)
- McDowell did not maintain an adequate property management system in accordance with section .34 of OMB Circular A-110. (Independent Auditor's Report on Compliance, Finding No. 9)
- WVCCC did not maintain an adequate property management system in accordance with section .34 of OMB Circular A-110. (Independent Auditor's Report on Compliance, Finding No. 10)

INTERNAL CONTROL STRUCTURE

Our audit disclosed material weaknesses and reportable conditions in the internal control structure and its operation. The matters which we considered to be reportable conditions are as follows:

- McDowell lacked an adequate property management system. (Independent Auditor's Report on Internal Control Structure, Finding No. 1)
- WVCCC lacked an adequate property management system. (Independent Auditor's Report on Internal Control Structure, Finding No. 2)

In addition, the following matters are considered material weaknesses:

- WVDE did not adequately monitor subrecipients. (Independent Auditor's Report on Internal Control Structure, Finding No. 3)
- McDowell lacked an adequate financial management system. (Independent Auditor's Report on Internal Control Structure, Finding No. 4)
- WVCCC lacked an adequate financial management system. (Independent Auditor's Report on Internal Control Structure, Finding No. 5)

PURPOSE AND SCOPE OF AUDIT

Our audit covered the costs claimed under Grant No. 92COSTWV0028 during the period July 15, 1992 through December 30, 1995, which was the award period. The objectives of our audit were to determine whether:

1. Financial reports prepared by the West Virginia Department of Education presented fairly the financial condition of the award;
2. The systems of internal control structure were adequate to safeguard Federal funds;
3. The grantees had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations and award conditions; and
4. The award costs reported to the Commission and the Corporation were documented and allowable in accordance with the award terms and conditions.

We performed the 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 required that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed against the grant award, as presented in the schedule of award costs (Exhibit A), are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Exhibit 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.

We provided a draft of this report to the Corporation and to WVDE for comments. While the Corporation did not respond, WVDE's comments (excluding attachments) are presented as Appendix A of this report. The attachments were forwarded to the Corporation's Office of Grants Management for their consideration during the resolution process. Unless noted otherwise after each finding, WVDE concurred with the finding and indicated corrective actions that either have been taken or will be taken. WVDE also stated that it will provide additional information on the findings at a later date. Because this is the final report on the audit, we recommend that the promised follow up information be sent to the Corporation's Office of Grants Management for their use in the audit resolution process.

Inspector General
Corporation for National Service

MATTER REQUIRING RESOLUTION

WVDE acquired equipment, at a cost of \$73,511, during its performance of the grant. The terms of the grant provide that title to the equipment vests with WVDE, but that the Corporation has a reversionary interest in the equipment and the right to direct the disposition upon completion of grant performance. As of the date of our audit, WVDE had not received any direction from the Corporation as to the disposition of the equipment. We observed that WVDE has been awarded other grants by the Corporation.

BACKGROUND

Effective July 15, 1992, the Commission awarded Grant No. 92COSTWV0028 to the State of West Virginia for the American Youth and Conservation Corps program. WVDE was given the responsibility of administering the program. WVDE entered into subgrant agreements for the establishment of the West Virginia Citizens Conservation Corps, McDowell County Citizens Conservation Corps, Fayette County Citizens Conservation Corps and Tucker County Citizens Conservation Corps. Each of these entities are nonprofit organizations.

REPORT RELEASE

This report is intended for the information and use of the Corporation's Office of Inspector General, as well as the management of the Corporation and WVDE and its subrecipients. However, this report is a matter of public record and its distribution is not limited.

INDEPENDENT AUDITOR'S REPORT

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Corporation for National Service

INDEPENDENT AUDITOR'S REPORT

We have audited the costs claimed by the West Virginia Department of Education (WVDE) to the Corporation for National Service (Corporation) and its predecessor, the Commission on National and Community Service, for the grant number listed below. A Financial Status Report for the quarter ended December 31, 1995, which was the final reporting period, was not submitted for this grant. The costs claimed, as presented in the schedule of award costs (Exhibit A), is the responsibility of the Grantee's management. Our responsibility is to express an opinion on Exhibit A based on our audit.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
92COSTWV0028	July 15, 1992 to December 30, 1995	July 15, 1992 to December 30, 1995

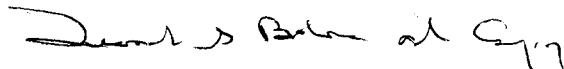
We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial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

Inspector General
Corporation for National Service

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 \$919,907 in questioned costs, the schedule of award costs (Exhibit A) referred to above presents fairly, in all material respects, the costs claimed for the period July 15, 1992 to December 30, 1995, in conformity with the award agreements.

This report is intended for the information and use of the Corporation's Office of Inspector General, as well as the management of the Corporation and WVDE and its subrecipients. However, this report is a matter of public record and its distribution is not limited.



Leonard G. Birnbaum and Company

Alexandria, Virginia
July 25, 1997

FINANCIAL SCHEDULES

West Virginia Department of Education
 Commission on National and Community Service Award No. 92COSTWV0028
 Schedule of Award Costs
 From July 15, 1992 to December 30, 1995
 Final

<u>Cost Category</u>	(A) <u>Claimed Costs</u>	(B) <u>Incurred Costs</u>	<u>Reclassified Costs</u>	<u>Incurred As Reclassified</u>	<u>Questioned Costs</u>	Exhibit B Note Reference
Living allowance & benefits	\$ 657,181	\$ 528,970	\$ 53,511	\$ 582,481		1
Staff personnel & benefits	764,104	976,311	(51,066)	925,245		1
Health insurance-participants	69,020	27,825	(1,895)	25,930	\$ 476	1,2
Post service benefits	3,000	3,000		3,000	1,500	3
Training & education	131,947	69,643	(680)	68,963	6,850	1,4
Joint projects with seniors	18,913	-		-		
Capital expenditures	82,885	72,581	930	73,511	515	1,5
Evaluation	1,007	14		14		
Administration	130,151	86,342	180	86,522		1
Other	212,004	321,711	(980)	320,731	8,905	1,6
Excess funds drawn over incurred costs	-	-	-	-	11,042	7
Costs claimed in excess of maximum Federal share	-	-	-	-	<u>740,084</u>	8
Total CNS funds	<u>2,070,212</u>	<u>2,086,397</u>	<u>-</u>	<u>2,086,397</u>	<u>769,372</u>	
Matching funds	<u>586,724</u>	<u>586,724</u>	<u>-</u>	<u>586,724</u>	<u>150,535</u>	9
Total funds	<u>\$2,656,936</u>	<u>\$ 2,673,121</u>	<u>\$ -</u>	<u>\$ 2,673,121</u>	<u>\$ 919,907</u>	

(A) The total representing costs claimed reflects the amount reported by WVDE in response to our request during the audit for a schedule of claimed costs by the grantee. This amount does not agree with the amount reported on the Federal Cash Transaction Report for the quarter ended March 31, 1997, which reflects total expenditures using Federal funds of \$2,097,439. (Refer to the Independent Auditor's Report on Compliance, Finding No. 6)

(B) The total representing costs incurred is a combination of the amount reported by WVDE in response to our request during the audit for a schedule of claimed costs by the grantee, and costs taken directly from the books of account for WVCCC and McDowell. Based on our audit efforts at WVCCC and McDowell we were able to determine that the schedule provided to us by WVDE was inaccurate not only in terms of the total amount expended, but also in terms of the costs by budget line item. We have, therefore, adjusted the amounts to correct these inaccuracies. (See Schedules B-1 and B-2)

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

West Virginia Department of Education
 Commission on National and Community Service Award No. 92COSTWV0028
 Schedule of Incurred Costs by Grantee
 From July 15, 1992 to December 30, 1995
 Final

<u>Cost Category</u>	<u>WVDE</u>	<u>WVCCC</u>	<u>Fayette</u>	<u>McDowell</u>	<u>Tucker</u>	<u>Total</u>
Living allowance & benefits		\$ 222,157	\$ 117,019	\$ 96,348	\$ 93,446	\$ 528,970
Staff personnel & benefits		554,344	57,412	246,642	117,913	976,311
Health insurance-participants		4,840	5,943		17,042	27,825
Post service benefits	\$ 3,000					3,000
Training & education	3,000	20,799	9,715	30,089	6,040	69,643
Joint projects with seniors						-
Capital expenditures		21,571	10,129	33,552	7,329	72,581
Evaluation		14				14
Administration	76,745		9,098		499	86,342
Other	<u>2,000</u>	<u>187,927</u>	<u>30,501</u>	<u>62,552</u>	<u>38,731</u>	<u>321,711</u>
Total CNS funds	<u>84,745</u>	<u>1,011,652</u>	<u>239,817</u>	<u>469,183</u>	<u>281,000</u>	<u>2,086,397</u>
Matching funds	<u>6,641</u>	<u>276,131</u>	<u>-</u>	<u>167,652</u>	<u>136,300</u>	<u>586,724</u>
Total funds	<u>\$ 91,386</u>	<u>\$1,287,783</u>	<u>\$ 239,817</u>	<u>\$ 636,835</u>	<u>\$417,300</u>	<u>\$2,673,121</u>

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

West Virginia Department of Education
Commission on National and Community Service Award No. 92COSTWV0028
Notes to Financial Schedules

1. Summary of Significant Accounting Policies

Accounting Basis

The accompanying financial schedules, Exhibits A and B, have been prepared from the reports submitted to the Corporation and the Commission. 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 the Corporation. Therefore, the auditee does not maintain any equity in the award and any excess of cash received from the Corporation over final expenditures is due back to the Corporation.

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 WVDE while used in the program for which it is purchased or in other future authorized programs. However, the Corporation 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.

West Virginia Department of Education
Commission on National and Community Service Award No. 92COSTWV0028
Explanation of Reclassified and Questioned Costs
From July 15, 1992 to December 30, 1995
Final

1. Reclassified costs

Our testing of transactions disclosed various costs that had not been posted to the proper budget line item. Schedule B-1 summarizes the costs which we have reclassified by grantee and Schedule B-2 summarizes the costs we have reclassified by budget line item.

2. Health insurance - participants

We have questioned \$476 of the amount incurred by WVCCC for health insurance - participants. Of this amount, \$133 represents a duplicate payment as the insurance premiums were paid for the same participant with check nos. 705 and 752. The remaining balance of \$343 represents insurance premiums paid for participants after they had left the program. In January 1994 a six month policy was taken out for three participants (D. Hylton, K. Smith, and C. Smith), however, after January 1994 these participants were no longer in the program. We have, therefore, questioned the \$343 which represents the insurance premiums for five months.

3. Post service benefits

As discussed in Finding No. 3 in the Independent Auditor's Report on Compliance, post service benefits were not provided to participants, except for seven participants who were awarded a total of \$3,000 as a result of a lawsuit filed. Although Federal funds for post service benefits were not awarded for the first year of the program, \$12,500 was awarded for the second year of the program. The amount of Federal funds awarded represented 50 percent of the expected benefits to be provided. We have questioned \$1,500 (50% of \$3,000) since the entire benefits provided were claimed against Federal funds.

WVDE's Comments

"The \$3,000 costs for post service benefits should be allowed since there were in-kind matching costs amounting to \$18,060 for other post service benefits. These include tuition and fees provided by MIT."

West Virginia Department of Education
Commission on National and Community Service Award No. 92COSTWV0028
Explanation of Reclassified and Questioned Costs
From July 15, 1992 to December 30, 1995
Final

3. Post service benefits - continued

Auditor's Response

Based on the Corporation's correspondence with WVDE, we concluded that it was the Corporation's intent to only allow 50% of the \$3,000 paid for post service benefits to be paid with Federal funds. Furthermore, it is not clear from the documentation provided that the scholarship and benefits from MIT can be attributed to WVDE for purposes of this grant. Lastly, even if it could, WVDE would only be allowed a maximum of \$5,000 as post service benefits to the individual that received part of the \$3,000 settlement and the MIT award.

4. Training & education

We have questioned \$6,850 of the amount incurred by McDowell. The \$6,850 represents the cost of an outside training program that was not attended by the participants. In March 1992 a contract was entered into for the participants to attend 15 weekly training sessions from an academic development center. The participants did not attend all of the sessions, however, full payment was made in order to satisfy the financial terms of the contract. Since the participants did not attend all of the sessions, the program did not obtain the full benefit of the program. We have, therefore, questioned the amount of the cost applicable to the number of sessions that the participants did not attend which was computed as follows:

Total amount paid	\$ 20,547	Cost per session	\$ 1,370
÷ No. of sessions	<u>15</u>	* No. sessions missed	<u>5</u>
Cost per session	<u>\$ 1,370</u>	Questioned cost	<u>\$ 6,850</u>

5. Capital expenditures

We have questioned \$515 (check nos. 1 and 217) of the amount incurred by WVCCC due to a lack of adequate supporting documentation.

West Virginia Department of Education
Commission on National and Community Service Award No. 92COSTWV0028
Explanation of Reclassified and Questioned Costs
From July 15, 1992 to December 30, 1995
Final

6. Other

We have questioned \$8,905 of the amount incurred by WVCCC as the costs either lacked adequate supporting documentation or the costs did not benefit the program or were not necessary.

	<u>Date/ Check No.</u>	<u>Amount</u>	<u>Notes</u>
Inadequate documentation:			
	196	\$ 165	
	247	175	
	354	185	
	1124	295	
	April 94	105	
	1071	<u>105</u>	
Subtotal		<u>\$ 1,030</u>	
Incurred prior to grant:	542	\$ 500	a
No benefit and/or were unnecessary to carry out the program:			
	55	\$ 47	b
	215	4,132	c
	191	450	d
	417	1,364	c
	539	1,005	c
	723	<u>377</u>	e
Subtotal		<u>\$ 7,375</u>	
Total Questioned Cost		<u>\$ 8,905</u>	

Notes:

- a. The invoice indicates office space rental costs of \$500 for the months of April and May 1992. As a result, we have questioned this amount.
- b. We were unable to determine why or how these bakery item purchases of \$47 were necessary for the performance of the program.

West Virginia Department of Education
Commission on National and Community Service Award No. 92COSTWV0028
Explanation of Reclassified and Questioned Costs
From July 15, 1992 to December 30, 1995
Final

6. Other - continued

- c. The acquisition of uniforms, both regular and dress, for administrative staff is considered excessive. Administrative staff uniforms totaling \$6,501 was questioned.
- d. According to the lease agreement, space was rented for one month in the amount of \$450 and a security deposit of \$450 was also paid. We found no indication that this deposit was returned and credited back to the grant. We have, therefore, questioned the deposit amount of \$450.
- e. We were unable to determine why or how the purchase of 13 mag lites and Swiss knives for \$377 was necessary for the performance of the program.

WVDE's Comments

According to WVDE, the questioned amount of \$1,550 was for rent of the WVCCC office in Princeton for the months of April, May, June, July and August 1992 and that the initial grant made provisions that costs could be assigned to the grant even though the costs were prior to the issuance of the grant award. Furthermore, WVDE considers the amount spent on uniforms for employees to be necessary based on a letter from the National Association of Service and Conservation Corps which indicates that it believes that uniforms are essential for building high quality corps programs.

Auditor's Response

The grant allowed expenses incurred beginning June 1 to be charged to the grant. We have reduced the questioned amount to \$500 which represents rent expenses for April and May 1992. Furthermore, while we understand the desire to present the corps in uniforms for the purpose of identification with the program, we consider the acquisition of uniforms for administrative staff to be excessive.

West Virginia Department of Education
Commission on National and Community Service Award No. 92COSTWV0028
Explanation of Reclassified and Questioned Costs
From July 15, 1992 to December 30, 1995
Final

7. Excess costs drawn over incurred costs

The Federal Cash Transactions Report for the period ended March 31, 1997, reflects that cumulative amounts drawn down for this grant were \$2,097,439. Based on the audit, however, we have determined the total incurred costs to be only \$2,086,397. This results in a difference of \$11,042, which we have questioned.

WVDE's Comments

"The subgrantees have submitted reports of expenditures to support an additional \$11,042 of questioned costs. The final reports support the total expenditure of \$2,097,439 as reported on the SF270. This question should be withdrawn."

Auditor's Response

We have not changed our position since we were unable to verify that the amount reported on the SF 272 is valid since we were unable to trace this amount to the books of account of the subgrantees during the audit.

8. Costs claimed in excess of maximum Federal share

We have questioned \$740,084 which represents the cost of community service activities paid with Federal funds which exceeds the maximum Federal share of costs. 45 CFR 2503.20 states that the Federal share of the cost of the community service activities shall not exceed 75 percent. The \$740,084 was calculated as follows:

Matching Claimed	\$	586,724	
Less: Matching Questioned		(144,535)	
Revised Matching Claimed	\$	442,189	A

West Virginia Department of Education
Commission on National and Community Service Award No. 92COSTWV0028
Explanation of Reclassified and Questioned Costs
From July 15, 1992 to December 30, 1995
Final

8. Costs claimed in excess of maximum Federal Share - continued

Total Federal Costs*	\$ 2,083,397	
Less: Program Costs Questioned	(16,746)	
Revised Federal Costs	\$ 2,066,651	B

* Excludes post service benefits paid (\$3,000) which are subject to a separate matching requirement (see note 3)

Maximum Federal Share (A ÷ 25% - A)	\$ 1,326,567	C
Costs in Excess of Matching Ratio	\$ 740,084	B-C

WVDE's Comments

WVDE indicated that additional matching in the amount of \$345,068.90 has been documented in the attachments and that at a 25 percent match, this amount would generate eligible federal costs of \$1,035,206.70. Therefore, the questioned cost of 740,084 should be withdrawn.

Auditor's Response

The documentation of the additional matching was not sufficient to allow us to determine whether it met the matching requirement. For instance, of the \$345,068.90, the attachments indicated that approximately \$275,000 was spent in expenditures using matching contributions, but there was not any documentation to support these expenditures. Furthermore it was unclear in some of the attachments whether or not the estimated labor costs were provided by volunteers or AmeriCorps Members at McDowell.

West Virginia Department of Education
Commission on National and Community Service Award No. 92COSTWV0028
Explanation of Reclassified and Questioned Costs
From July 15, 1992 to December 30, 1995
Final

9. Matching funds

We have questioned \$144,535 of the amount claimed as matching as the costs were not adequately supported. The \$144,535 is comprised of the following:

<u>Source</u>	<u>WVCCC</u>	<u>McDowell</u>	<u>Tucker</u>	<u>Total</u>	<u>Notes</u>
WV Turnpike Authority	\$ 39,000				a
WV Development	50,000				a
Dr. J. Gilbert		\$ 25,000			a
McDowell Co. Economic Authority		10,000			a
(Unknown) 3 vans		9,000			a
Elkhorn Valley Development	(18)				b
Ameribank		(855)			c
City of Gary		22,000			d
City of Thomas			\$ 1,000		e
Best's Furniture Co.		(1,467)			f
YMCA Camp Horseshoe	(5,000)				g
Ohio-West Virginia YMCA			(4,000)		g
Ohio-West Virginia YMCA			(125)		g
	<u>\$ 83,982</u>	<u>\$ 63,678</u>	<u>\$ (3,125)</u>	<u>\$ 144,535</u>	

Notes:

- a. We found no documentation to support this amount.
- b. According to the supporting documentation, the contribution amount was \$564.93, however, the schedule of matching costs provided by WVDE only reflected an amount of \$546.93.

West Virginia Department of Education
Commission on National and Community Service Award No. 92COSTWV0028
Explanation of Reclassified and Questioned Costs
From July 15, 1992 to December 30, 1995
Final

9. Matching funds - Continued

- c. According to our calculations using the supporting documentation, office space was rented at an amount that was \$255 below the market rate for 21 months which equates to a total contribution of \$5,355. The schedule of matching costs provided by WVDE only reflected a contribution of \$4,500.
- d. According to our calculations using the supporting documentation, warehouse space was provided for 28 months and the market value of the space was \$1,000 per month which equates to a total contribution of \$28,000. The schedule of matching costs provided by WVDE reflected a contribution of \$50,000.
- e. According to the supporting documentation, the contribution amount was \$4,940, however, the schedule of matching costs provided by WVDE reflected an amount of \$5,940.
- f. During the audit we found documentation indicating that furniture had been donated, however, this was not included in the schedule of matching costs provided by WVDE.
- g. During the audit we found documentation indicating that an in-kind contribution had been made, however, this was not included in the schedule of matching costs provided by WVDE.

WVDE's Comments

WVDE indicated that although the report listed Mason County that it should have been listed as the WV Turnpike Authority and that supporting documentation was attached to document a minimum of \$6,000 of in-kind costs. In addition, WVDE indicated that it has submitted additional information to justify the \$25,000 in-kind for Dr. Gilbert. Lastly, WVDE stated that McDowell Co. had submitted a detailed report of expenditures of the \$50,000 received from the West Virginia Economic Development Authority.

West Virginia Department of Education
Commission on National and Community Service Award No. 92COSTWV0028
Explanation of Reclassified and Questioned Costs
From July 15, 1992 to December 30, 1995
Final

9. Matching funds - continued

Auditor's Response

We corrected the report to reflect the WV Turnpike Authority instead of Mason County. We also reduced the questioned amount by \$6,000 based on the documentation provided. The additional information provided regarding Dr. Gilbert and the West Virginia Economic Development Authority is not considered adequate support as it is merely a letter from the Executive Director of McDowell and a listing of expenditures, respectively. No documentation was provided to support the amounts included in the listing.

West Virginia Department of Education
 Commission on National and Community Service Award No. 92COSTWV0028
 Schedule of Reclassified Costs by Grantee
 From July 15, 1992 to December 30, 1995
 Final

<u>Grantee</u>	<u>Reclassified from</u>	<u>Amount</u>	<u>Reclassified to</u>	<u>Date/ Check No.</u>	<u>Reason</u>
WVCCC	Staff personnel	\$ 250	Other	16	Liability insurance
	Health insurance	1,196	Staff personnel	611	Employee insurance
	Health insurance	699	Staff personnel	747	Employee insurance
	Other	2,132	Capital expend.	May 94	Computer monitors
	Other	1,259	Capital expend.	1196	Computer upgrade
	Capital expenditures	1,017	Other	2	Supplies for office renovations
	Capital expenditures	120	Training	14	Tape recorders used for self-study
	Capital expenditures	157	Other	302	Supplies for office renovations
	Capital expenditures	987	Other	306	Supplies for office renovations
	Staff personnel	4,986	Living allowance	1846-1868	Member allowances
	Staff personnel	3,143	Living allowance	1875-1895	Member allowances
	Staff personnel	3,051	Living allowance	1903-1919	Member allowances
	Staff personnel	3,035	Living allowance	1921-1924/ 1931-1941	Member allowances
	Staff personnel	1,086	Living allowance		FICA applicable to allowances reclassified to living allowance
	Staff personnel	<u>28,670</u>	Living allowance		Benefits applicable to Member allowances thru Nov. 93
Subtotal		\$ 51,788			
McDowell	Training & education	\$ 800	Staff personnel	Aug 94	Accounting services
	Capital expenditures	180	Administration	May 94	Refrigerator for office
	Staff personnel	350	Living allowance	July 22, 1994	Member allowances
	Staff personnel	27	Living allowance		FICA applicable to allowances reclassified to living allowance
	Staff personnel	<u>9,163</u>	Living allowance		Benefits applicable to Member allowances thru Dec. 94
Subtotal		\$ 10,520			
Total Reclassifications		<u>\$ 62,308</u>			

West Virginia Department of Education
Commission on National and Community Service Award No. 92COSTWV0028
Schedule of Reclassified Costs by Budget Line Item
From July 15, 1992 to December 30, 1995
Final

Adjustments to Living allowance & benefits:

<u>Reclassified To</u>	<u>Reclassified From</u>	<u>Amount</u>	<u>Date/Check No.</u>
Living allowance	Staff personnel	\$ 4,986	1846-1868
Living allowance	Staff personnel	3,143	1875-1895
Living allowance	Staff personnel	3,051	1903-1919
Living allowance	Staff personnel	3,035	1921-1924/1931-1941
Living allowance	Staff personnel	1,086	
Living allowance	Staff personnel	28,670	
Living allowance	Staff personnel	350	July 22, 1994
Living allowance	Staff personnel	27	
Living allowance	Staff personnel	<u>9,163</u>	
Net Adjustment		<u>\$53,511</u>	

West Virginia Department of Education
Commission on National and Community Service Award No. 92COSTWV0028
Schedule of Reclassified Costs by Budget Line Item
From July 15, 1992 to December 30, 1995
Final

Adjustments to Staff personnel & benefits:

<u>Reclassified To</u>	<u>Reclassified From</u>	<u>Amount</u>	<u>Date/Check No.</u>
Staff personnel	Health insurance	\$ 1,196	611
Staff personnel	Health insurance	699	747
Staff personnel	Training & education	800	August 1994
Other	Staff personnel	(250)	16
Living allowance	Staff personnel	(4,986)	1846-1868
Living allowance	Staff personnel	(3,143)	1875-1895
Living allowance	Staff personnel	(3,051)	1903-1919
Living allowance	Staff personnel	(3,035)	1921-1924/1931-1941
Living allowance	Staff personnel	(1,086)	
Living allowance	Staff personnel	(28,670)	
Living allowance	Staff personnel	(350)	July 22, 1994
Living allowance	Staff personnel	(27)	
Living allowance	Staff personnel	<u>(9,163)</u>	
Net Adjustment		<u>\$(51,066)</u>	

West Virginia Department of Education
Commission on National and Community Service Award No. 92COSTWV0028
Schedule of Reclassified Costs by Budget Line Item
From July 15, 1992 to December 30, 1995
Final

Adjustments to Health insurance - participants:

<u>Reclassified To</u>	<u>Reclassified From</u>	<u>Amount</u>	<u>Date/Check No.</u>
Staff personnel	Health insurance	\$(1,196)	611
Staff personnel	Health insurance	_(699)	747
Net Adjustment		<u>\$(1,895)</u>	

Adjustments to Training & education:

<u>Reclassified To</u>	<u>Reclassified From</u>	<u>Amount</u>	<u>Date/Check No.</u>
Training & education	Capital expenditures	\$ 120	14
Staff personnel	Training & education	_(800)	August 1994
Net Adjustment		<u>\$(680)</u>	

Adjustments to Capital expenditures:

<u>Reclassified To</u>	<u>Reclassified From</u>	<u>Amount</u>	<u>Date Check No.</u>
Capital expenditures	Other	\$ 2,132	May 1994
Capital expenditures	Other	1,259	1196
Other	Capital expenditures	(1,017)	14
Training & education	Capital expenditures	(120)	2
Other	Capital expenditures	(157)	302
Other	Capital expenditures	(987)	306
Administration	Capital expenditures	_(180)	May 1994
Net Adjustment		<u>\$ 930</u>	

West Virginia Department of Education
Commission on National and Community Service Award No. 92COSTWV0028
Schedule of Reclassified Costs by Budget Line Item
From July 15, 1992 to December 30, 1995
Final

Adjustments to Administration:

<u>Reclassified To</u>	<u>Reclassified From</u>	<u>Amount</u>	<u>Date/Check No.</u>
Administration	Capital expenditure	<u>\$180</u>	May 1994
Net Adjustment		<u>\$180</u>	

Adjustments to Other:

<u>Reclassified To</u>	<u>Reclassified From</u>	<u>Amount</u>	<u>Date/Check No.</u>
Other	Capital expenditures	\$ 1,017	2
Other	Capital expenditures	157	302
Other	Capital expenditures	987	306
Other	Staff personnel	250	16
Capital expenditures	Other	(2,132)	May 1994
Capital expenditures	Other	<u>(1,259)</u>	1196
Net Adjustment		<u>\$ (980)</u>	

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 Exhibit A, which summarizes the costs claimed by the West Virginia Department of Education (WVDE) to the Corporation for National Service (Corporation) and its predecessor, the Commission on National and Community Service, for the award listed below, and have issued our report thereon dated July 25, 1997.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
92COSTWV0028	July 15, 1992 to December 30, 1995	July 15, 1992 to December 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 the West Virginia Department of Education's management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and the terms and conditions of the 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 conclude that the aggregation of the misstatements resulting from those failures or violations is

Inspector General
Corporation for National Service

material to the financial schedules. The results of our tests of compliance disclosed the following material instances of noncompliance:

Finding No. 1

McDowell County Citizens Conservation Corps (McDowell) did not maintain an adequate financial management system in accordance with section .21 of OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospital, and Other Non-Profit Organizations². The system is inadequate as it does not provide for the following:

- Comparisons of outlays with budget amounts for each award.
- Written procedures to minimize the time elapsing between the receipt of federal funds and the disbursement of the funds.
- Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program.

For complete details, refer to Finding No. 4 in the Independent Auditor's Report on Internal Control Structure.

Recommendation

We recommend that McDowell develop and implement policies and procedures for the establishment of a financial management system which provides for comparisons of outlays with budget amounts, written procedures minimizing the time elapsing between the receipt of federal funds and the disbursement of funds, and accurate, current and complete disclosure of the financial results of each federally-sponsored project or program.

Finding No. 2

West Virginia Citizens Conservation Corps (WVCCC) did not maintain an adequate financial management system in accordance with section .21 of OMB Circular A-110. The system is inadequate as it did not provide for the following:

2. In general, Federal agencies adopt the provisions of OMB Circular A-110 as part of their own regulations. The Commission on National and Community Service did not adopt OMB Circular A-110 as a regulation. However, the terms of the Commission's grant to the State of West Virginia required nonprofit subrecipients of this grant to comply with the circular.

Inspector General
Corporation for National Service

- Comparisons of outlays with budget amounts for each award.
- Written procedures to minimize the time elapsing between the receipt of federal funds and the disbursement of these funds.
- Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program.
- Accounting records including cost accounting records that are supported by source documentation.

For complete details, refer to Finding No. 5 in the Independent Auditor's Report on Internal Control Structure.

Recommendation

We have not proposed any recommendation since WVCCC has dissolved operations.

Finding No. 3

WVDE did not comply with Provision No. 17 of the Special Provisions - Corps, States and Indian Tribes. This provision states that "program agencies shall provide post-service education and training benefits (such as scholarships and grants) for each participant in an amount that is not in excess of \$100 per week, or in excess of \$5,000 per year, whichever is less." With the exception of seven participants, none of the participants of the program were provided with post service benefits as required. During the first year of the program, Corporation funding was not provided for post service benefits as the grant application indicated that the benefits would be provided as a matching contribution. For the second year of the program, however, the Corporation provided funding in the amount of \$12,500 which represented 50 percent of the total costs for post service benefits according to the renewal grant application. Only seven participants of the program received a post service benefit which was the result of a lawsuit brought by the seven participants. The seven received a collective benefit of \$3,000.

Recommendation

We recommend that WVDE, with the cooperation of its subrecipients, attempt to locate those participants who satisfactorily completed the program and provide them with a post service benefit.

Inspector General
Corporation for National Service

WVDE's Comments

For the most part, WVDE concurred with the finding but stated that “in addition to the seven participants who received a post service benefit as the result of a lawsuit, a scholarship was awarded to a completer, providing her with additional education and training at the Massachusetts Institute of Technology (MIT).”

Auditor's Response

Since the participant who received education and training at MIT was one of the seven participants involved in the lawsuit, there were still only seven participants who received a post service benefit.

Finding No. 4

WVDE and WVCCC did not submit all required reports. Provision No. 9 of the Grant General Provisions stipulates that each State shall prepare and submit an annual report concerning the use of Federal Funds and the status of national and community service programs in the State. Furthermore, Provision No. 4 of the Special Provisions-Corps, States and Indian Tribes requires the submission of progress reports and financial reports, specifically the Financial Status Report (FSR), on a quarterly basis. During the award period, July 15, 1992 through December 30, 1995, there were fourteen quarters. We only found evidence that three FSRs had been submitted prior to the start of the audit. Furthermore, we found no evidence that any quarterly progress reports or annual reports were submitted after the second quarter report which was for the period ended December 31, 1993.

Recommendation

We recommend that WVDE submit a final Financial Status Report immediately. We further recommend that WVDE implement policies and procedures to ensure that all required reports are submitted for any future programs.

Finding No. 5

WVDE and its subrecipients did not meet the matching requirement stipulated in 45 CFR 2503.20 which states, in part, that “the Federal share of each grant awarded under this part shall not exceed 75 percent of the cost of the community service activities carried out with each such grant.” Although all of the recipients, except for Fayette County Citizens Conservation Corps (Fayette), contributed matching contributions, collectively, the contributions were not sufficient to meet the matching requirement after taking into effect questioned program costs and questioned matching contributions for inadequate support.

Inspector General
Corporation for National Service

Recommendation

We recommend that the claimed costs be reduced to the maximum allowable share of the Federal costs of this program. We further recommend that WVDE implement policies and procedures to comply with cost matching provisions in future programs.

WVDE's Comments

According to WVDE, subsequent to the audit, it obtained evidence of additional in-kind matching contributions in the amount of \$345,068.90 which should satisfy the matching requirements.

Auditor's Response

Although WVDE provided documentation as attachments to its comments regarding this additional in-kind matching, we were unable to determine whether the contributions met the criteria for matching based on our review of the documentation provided. For instance, of the \$345,068.90, the attachments indicated that approximately \$275,000 was spent in expenditures using matching contributions, but there was not any documentation to support these expenditures. Furthermore, it was unclear in some of the attachments whether or not the estimated labor costs were provided by volunteers or AmeriCorps Members at McDowell. This is a matter that will need to be resolved by the Office of Grants Management.

We considered these material instances of noncompliance in forming our opinion on whether Exhibit 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 July 25, 1997, on the financial schedule.

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

Finding No. 6

The amount reported as total expenditures on the Federal Cash Transactions Report for the quarter ended March 31, 1997, submitted by WVDE does not agree with the amount represented as total expenditures during the audit.

Inspector General
Corporation for National Service

Recommendation

We recommend that WVDE reconcile their accounting records with the expenditures reported by their subrecipients to determine the total expenditures under the grant. We further recommend that a revised Federal Cash Transactions Report be submitted as soon as possible.

WVDE's Comments

According to WVDE, the total expenditures reported on the Federal Cash Transactions Report (FCTR) represent the state's outlays including cash advances to subgrantees, whereas the total expenditures reported on the Financial Status Report (FSR) represent the outlays by the state, excluding cash advances, and subgrantees. Thus, the expenditures reported on the FCTR and FSR will differ on any given quarterly period and will only agree when the final reports are submitted.

Auditor's Response

Given that the grant period ended on December 30, 1995, the final financial reports (FCTR and FSR) should have been submitted long before the start of the audit. Therefore, WVDE should have determined the accuracy of the amount represented as total expenditures and ensured that the total expenditures recorded in the accounting records agreed with the amount reported on each of the financial reports.

Finding No. 7

WVDE and its subrecipients did not meet the minimum requirement regarding the expenditure of funds on training and education as stipulated in Provision No. 6 of the Special Provisions-Corps, States and Indian Tribes. This provision states, in part, that "the maximum (10% for Capital expenditures; 5% for Administration; and 2% for Joint projects with senior citizen organizations) and minimum (10% for Training and education) expenditure limitations contained in the budget attached to the grant are set by legislation and regulation and must be met. Such expenditure limitations also apply to any subgrants to local corps." The amount of funds expended for training and education only represents 3.3 percent of the total expenditures which is 6.7 percent less than the minimum percentage required.

Recommendation

We recommend that WVDE implement policies and procedures to comply with minimum spending requirements of future programs.

Inspector General
Corporation for National Service

WVDE's Comments

"Several of the activities conducted by the crews were educational in nature, but were not correctly reported on the initial reports. Costs associated with education have been reclassified by the subgrantees to reflect expenditures for appropriate education and training. Attachment A is a listing of salaries as reclassified by the subgrantee to identify cost for educational and training expenses."

Auditor's Response

Although WVDE represented that various percentages of employees' salaries should have been classified as education and training expenditures, WVDE was unable to adequately support these percentages.

Finding No. 8

McDowell did not have an audit performed in accordance with OMB Circular A-133 which, during the period covered by the award, stipulated 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. McDowell began receiving Federal funds in fiscal year 1994. Although McDowell had an audit conducted in accordance with OMB Circular A-133 for the fiscal year ended June 30, 1995, the audit did not include fiscal year 1994.

Recommendation

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

Finding No. 9

McDowell did not maintain an adequate property management system in accordance with section .34 of OMB Circular A-110, in that, detailed records are not maintained for equipment purchased with Federal funds and physical inventories of equipment are not taken and reconciled with the equipment records.

Inspector General
Corporation for National Service

Recommendation

We recommend that McDowell develop and implement policies and procedures for the establishment of a property management system providing for the maintenance of detailed records of equipment purchased with Federal funds, the performance of physical inventories, and the reconciliation of such inventories with the detailed records for any future grants from Federal agencies.

Finding No. 10

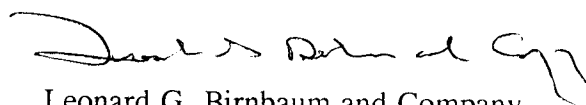
WVCCC did not maintain an adequate property management system in accordance with section .34 of OMB Circular A-110, in that, detailed records were not maintained for equipment purchased with Federal funds and physical inventories of equipment were not taken and reconciled with the equipment records.

Recommendation

We have not proposed any recommendation since WVCCC has dissolved operations.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the grantee has 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 Office of Inspector General, as well as the management of the Corporation and WVDE and its subrecipients. However, this report is a matter of public record and its distribution is not limited.


Leonard G. Birnbaum and Company

Alexandria, Virginia
July 25, 1997

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

We have audited the schedule of award costs, as presented in Exhibit A, which summarizes the costs claimed by the West Virginia Department of Education (WVDE) to the Corporation for National Service (Corporation) and its predecessor, the Commission on National and Community Service, for the grant listed below, and have issued our report thereon dated July 25, 1997.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
92COSTWV0028	July 15, 1992 to December 30, 1995	July 15, 1992 to December 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 Exhibit A for the period July 15, 1992 to December 30, 1995, we considered the grantee's 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 West Virginia Department of Education's management 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 of internal control

Inspector General
Corporation for National Service

structure policies and procedures. The objectives of 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 reportable conditions 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 judgement, 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

McDowell Citizens Conservation Corps (McDowell) lacked an adequate property management system, in that, detailed records are not maintained for equipment purchased with Federal funds and physical inventories of equipment are not taken and reconciled with the equipment records.

Inspector General
Corporation for National Service

Recommendation

We recommend that McDowell develop and implement policies and procedures for the establishment of a property management system providing for the maintenance of detailed records of equipment purchased with Federal funds, the performance of physical inventories, and the reconciliation of such inventories with the detailed records for any future grants from Federal agencies.

Finding No. 2

West Virginia Citizens Conservation Corps (WVCCC) lacked an adequate property management system, in that, detailed records were not maintained for equipment purchased with Federal funds and physical inventories of equipment were not taken and reconciled with the equipment records.

Recommendation

We have not proposed any recommendation since WVCCC has dissolved operations.

A material weakness is a reportable condition in which the design or operation of the specific internal control elements does not reduce to a relatively low level of risk that errors or irregularities in amounts that 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.

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 material weaknesses as defined above. However, we noted the following matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

Finding No. 3

WVDE did not adequately monitor subrecipients. The lack of adequate monitoring and oversight being provided has resulted in noncompliance with various OMB Circulars and Grant Provisions as detailed in Finding Nos. 1 through 10 in the Independent Auditor's Report on Compliance. Furthermore, our discussions with representatives of WVDE and McDowell revealed that WVDE does not have any procedures for reviewing the A-133 audit reports received from its subrecipients (or for that matter, ensuring that the reports have been submitted), nor did WVDE provide a copy

Inspector General
Corporation for National Service

of the grant provisions to the subrecipients of this grant. Lastly, WVDE was unable to readily provide schedules of costs claimed using grant funds and matching funds since it did not ensure that complete and accurate financial data had been submitted by the subrecipients.

Recommendation

We recommend that WVDE develop and implement policies and procedures to adequately monitor subrecipients. We further recommend that as part of these policies, WVDE ensure that personnel responsible for future grants are familiar with applicable laws, regulations, and grant provisions.

Finding No. 4

McDowell lacked an adequate financial management system. As a result of the inadequate system, the following problems exist:

- Comparisons of budget versus actual expenditures were not performed.
- The Financial Procedures Manual does not contain written procedures to minimize the time elapsing between the receipt and disbursement of funds.
- Records are not maintained which disclose accurate, current, and complete financial results nor adequately identify the source and application of funds. Specifically, the records do not identify which expenditures were made using matching funds versus Federal funds. Furthermore, the recordkeeping for in-kind matching contributions was basically nothing more than a file folder containing a partial listing of contributions and documentation to support some of the contributions on the list.

Recommendation

We recommend that McDowell develop and implement policies and procedures for the establishment of a financial management system which provides for comparisons of outlays with budget amounts, written procedures minimizing the time elapsing between the receipt of federal funds and the disbursement of funds, and accurate, current and complete disclosure of the financial results of each federally-sponsored project or program.

Inspector General
Corporation for National Service

Finding No. 5

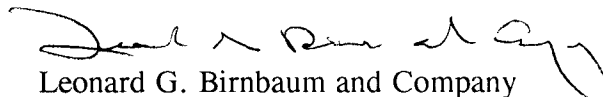
WVCCC lacked an adequate financial management system. As a result of the inadequate system, the following problems existed:

- Comparisons of budget versus actual expenditures were not performed.
- Advances of Federal funds via the State of West Virginia significantly exceeded the immediate cash needs. We found no evidence regarding the existence of written procedures to minimize the time elapsing between the receipt and disbursement of funds.
- Records were not maintained which disclose accurate, current, and complete financial results nor adequately identify the source and application of funds. Specifically, it was not until after the start of the audit that transactions after June 1994 were entered into the general ledger system as opposed to just being recorded in the checkbook. In addition, all documentation supporting the financial transactions could not be located such as timesheets, payroll registers, personnel and participant files. Furthermore, the records did not identify which expenditures were made using matching funds versus Federal funds. Lastly, the records for in-kind matching contributions were basically nothing more than a file folder containing a partial listing of contributions and documentation to support some of the contributions on the list.

Recommendation

We have not proposed any recommendation since WVCCC has dissolved operations.

This report is intended for the information and use of the Corporation's Office of Inspector General, as well as the management of the Corporation and WVDE and its subrecipients. However, this report is a matter of public record and its distribution is not limited.


Leonard G. Birnbaum and Company

Alexandria, Virginia
July 25, 1997

Appendix A

Response of the West Virginia Department of Education

WEST VIRGINIA DEPARTMENT OF EDUCATION

Dr. Henry R. Marockie, State Superintendent of Schools
Building 6/1900 Kanawha Blvd. E./Charleston, West Virginia 25305-0330

Phone: 304-558-2681
Fax: 304-558-0048



West Virginia Board of Education

Sheila M. Hamilton, President
James J. MacCallum, Vice President
Gary G. White, Secretary
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Cleo P. Mathews
Jim L. McKnight
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Charles H. Wagoner

November 20, 1997

Mr. Leslie A. Leiper, Senior Partner
Leonard G. Birnbaum and Company, LLP
Certified Public Accountants
6285 Franconia Road
Alexandria, Virginia 22310-2510

Dear Mr. Leiper:

Enclosed is the response of the West Virginia Department of Education to the draft report on the audit of the American Youth and Conservation Corps program, funded through the Commission on National and Community Service. Additional documentation, referenced in the body of the response, is anticipated and will be forwarded to you immediately upon receipt.

If you need further information or clarification, please call James Slamick (304-558-6316).

Please accept our thanks for the courtesy and professionalism displayed by Regina Dull during her visit to West Virginia.

Sincerely yours,

A handwritten signature in black ink, reading "Adam J. Sponaugle".

Adam J. Sponaugle
Assistant State Superintendent of Schools
Division of Technical and Adult Education

AJS/plb
Enclosures
5jc16

GRANT AUDIT (Number 92COSTWV0028) - November 20, 1997

Finding No. 1

McDowell County Citizens Conservation Corps did not maintain an adequate financial management system in accordance with 45 CFR 2543.21.

Auditee's Comments

The McDowell County Citizens Conservation Corps has developed and implemented policies and procedures for the establishment of a financial management system which provides for comparisons of outlays with budget amounts. Written procedures will minimize the time elapsing between the receipt of federal funds and the disbursement of the funds. The financial management system will ensure accurate, current, and complete disclosure of the financial results of each federally sponsored project or program.

The West Virginia Department of Education (WVDE) will ensure that all future subgrantees maintain and implement a financial management system which meets the requirements of 45 CFR 2543.21.

Finding No. 2

West Virginia Citizens Conservation Corps did not maintain an adequate financial management system in accordance with 45 CFR 2543.21.

Auditee's Comments

The West Virginia Citizens Conservation Corps (WVCCC) has been dissolved and no longer is in operation.

WVDE will ensure that all future subgrantees maintain and implement a financial management system which meets the requirements of 45 CFR 2543.21.

Finding No. 3

The Grantee did not comply with Provision No. 17 of the Special Provisions - Corps, States, and Indian Tribes. This provision states that "program agencies shall provide post service education and training benefits (such as scholarships and grants) for each participant in an amount that is not in excess of \$100 per week, or in excess of \$5,000 per year, whichever is less.

Auditee's Comments

In addition to the seven completers who received a post service benefit as the result of a lawsuit, a scholarship was awarded to a completer, providing her with additional education and training at the Massachusetts Institute of Technology (MIT). Documentation from MIT will be provided as soon as possible.

WVDE will attempt to contact all participants who satisfactorily completed the program and offer them, at no cost to the completer, appropriate education and technical training at the vocational-technical centers in the area of their residence in West Virginia.

Finding No. 4

WVDE and WVCCC did not submit all required reports.

Auditee's Comments

Quarterly financial status reports have been completed and submitted for the other eleven quarters of the grant. A final FSR has been prepared and a copy is attached. Attachment I. The WVDE will establish policies and procedures to ensure that all required reports are submitted for future programs.

Finding No. 5

WVDE and its subrecipients did not meet the matching requirement stipulated in 45 CFR 2503.20.

Auditee's Comments

WVDE will ensure that appropriate policies and procedures will be implemented in all future programs to ensure the proper accounting of matching requirements.

Subsequent to the audit, WVDE has obtained evidence of \$345,068.90 in additional in-kind matching contributions which should satisfy the requirements of 45 CFR 2503.20. Supporting documentation is included as attachments to this report.

Finding No. 6

Federal cash report was not in agreement with the expenditure report.

Auditee's Comments

A final FSR has been prepared to report expenses on a modified cash basis. At the time of the audit, written confirmation of the extension of the grant was not provided from the Corporation, thus the quarterly reports were not submitted. In regard to the reconciliation of the SF 270 and FSR 269, only at the closeout will the two reports agree as to expenditures. Cash advances to subgrantees are listed as distributions on the SR 270, whereas outlays by the state and subgrantees are reported on the FSR 269. Some subgrantees reported outlays, which were reported on the FSR 269, yet they had not drawn down funds from the state. Thus the reports of outlays are different on any given quarterly period.

Finding No. 7

Ten percent minimum requirement regarding expenditure of funds for training and education was not met. The two percent required for joint projects with senior citizen organizations was not met.

Auditee's Comments

Several of the activities conducted by the crews were educational in nature, but were not correctly reported on the initial reports. Costs associated with education have been reclassified by the subgrantees to reflect expenditures for appropriate education and training. Attachment A is a listing of the salaries as reclassified by the subgrantee to identify cost for educational and training expenses. The WV Citizens Conservation Corps has listed \$34,319.45 for FY1992 and FY1993. The McDowell Citizens Conservation Corps has listed \$38,743.99 for FY1993, FY1994 and FY1995. The Fayette County Citizens Conservation Corps has listed \$395.06 for FY 92-93 and \$21,877.39 for FY1994 and FY1995.

Costs associated with senior citizen organizations have been reclassified by the subgrantees to reflect expenditures under the appropriate category. The WVCCC had hired Dean R. Kenny and Kathy M. Jackson to work on these projects. Staff personnel costs have been reclassified as costs for Senior Citizens Projects. FY92-93 - \$9,250.36, FY93-94 - \$16,612.44.

Finding No. 8

McDowell did not have an audit performed in accordance with OMB Circular A-133 for fiscal year 1994.

Auditee's Comments

The McDowell County Citizens Conservation Corps will ensure that future audits will be performed in compliance with the requirements of OMB Circular A-133.

WVDE will ensure that all future subgrantees have audits conducted in accordance with OMB Circular A-133. This requirement will be included in the written Scope and Conditions of future grant awards as a condition for funding.

Finding No. 9

McDowell did not maintain an adequate property management system in accordance with 45 CFR 2543.34.

Auditee's Comments

The McDowell County Citizens Conservation Corps has developed and implemented policies and procedures for the establishment of a property management system which will provide for the maintenance of detailed records of equipment purchased with federal funds, the performance of physical inventories, and the reconciliation of such inventories with the detailed records for any future grants from federal agencies.

WVDE will ensure that all future subgrantees maintain appropriate property management systems in accordance with 45 CFR 2543.34.

Finding No. 10

WVCCC did not maintain an adequate property management system in accordance with 45 CFR 2543.34.

Auditee's Comments

The West Virginia Citizens Conservation Corps (WVCCC) has been dissolved and no longer is in operation.

WVDE will ensure that all future subgrantees maintain appropriate property management systems in accordance with 45 CFR 2543.34.

INTERNAL CONTROL STRUCTURE

Finding No. 1

McDowell Citizens Conservation Corps lacked an adequate property management system, in that, detailed records were not maintained for equipment purchased with federal funds and physical inventories of equipment were not taken and reconciled with the equipment records.

Auditee's Comments

The McDowell County Citizens Conservation Corps has developed and implemented policies and procedures for the establishment of a property management system which will provide for the maintenance of detailed records of equipment purchased with federal funds, the performance of physical inventories, and the reconciliation of such inventories with the detailed records for any future grants from federal agencies.

Finding No. 2

West Virginia Citizens Conservation Corps lacked an adequate property management system, in that, detailed records were not maintained for equipment purchased with federal funds and physical inventories of equipment were not taken and reconciled with the equipment records.

Auditee's Comments

The West Virginia Citizens Conservation Corps (WVCCC) has been dissolved and no longer is in operation.

WVDE will ensure that all future subgrantees maintain appropriate property management systems in accordance with 45 CFR 2543.34.

Finding No. 3

WVDE lacked adequate controls for monitoring subrecipients.

Auditee's Comments

WVDE will increase its efforts to monitor subrecipients regarding compliance with OMB Circulars and Grant Provisions. Currently, a copy of the Grant Provisions are being sent to subgrantees of funds from the Corporation for National Community Service. A

procedure has been established to contact subgrantees that receive more than \$25,000 to request that an audit be done in compliance with the OMB Circulars. A copy of the survey and an audit review form are enclosed as Attachment B.

Finding No. 4

McDowell County Citizens Conservation Corps lacked an adequate financial management system.

Auditee's Comments

The McDowell County Citizens Conservation Corps has developed and implemented policies and procedures for the establishment of a financial management system which provides for comparisons of outlays with budget amounts. Written procedures will minimize the time elapsing between the receipt of federal funds and the disbursement of the funds. The financial management system will ensure accurate, current, and complete disclosure of the financial results of each federally sponsored project or program.

The West Virginia Department of Education (WVDE) will ensure that all future subgrantees maintain and implement a financial management system which meets the requirements of 45 CFR 2543.21.

Finding No. 5

WVCCC lacked an adequate financial management system.

Auditee's Comments

The West Virginia Citizens Conservation Corps (WVCCC) has been dissolved and no longer is in operation.

WVDE will ensure that all future subgrantees maintain and implement a financial management system which meets the requirements of 45 CFR 2543.21.

QUESTIONED COSTS

Additional matching has been documented for \$345,068.90 as listed on Attachment C. At a 25% match, this amount would generate eligible federal costs of \$1,035,206.70. Therefore, the questioned cost of \$757,034 should be withdrawn.

The \$3,000 costs for post service benefits should be allowed since there were in-kind matching costs amounting to \$18,060 for other post service benefits. These include tuition and fees provided by MIT. Attachment J.

Of the \$152,080 in questioned costs due to the lack of adequate supporting source documentation, \$150,535 was regarding matching. Since the subgrantees have documented \$345,068.90 of other matching costs, this part should be withdrawn.

Although Mason County was listed as a questioned item, it is believed this item referred to the WV Turnpike Authority for \$45,000. Supporting rationale has been submitted to document a minimum of \$6,000 of in-kind costs. Attachment D.

The amount of \$1,550 questioned was for rent as explained in the attached letter from Elwood Vaughn, a former director of the WVCCC. The initial grant made provisions that costs could be assigned to the grant even though the costs were prior to the issuance of the grant award. Attachment E.

Additional supporting records are being requested from the subgrantees and their vendors, suppliers and contractors. These will be forwarded upon receipt.

Questioned costs of \$15,775 being necessary. Of this amount \$6,501 for uniforms for employees is felt to be necessary. The National Association of Service and Conservation Corps strongly believes that uniforms are essential for building high quality corps programs. Attachment F.

The subgrantees have submitted reports of expenditures to support an additional \$11,042 of questioned costs. The final reports support the total expenditure of \$2,097,439 as reported on the SF 270. This question should be withdrawn.

Additional information is submitted to justify the \$25,000 in-kind for Dr. Gilbert. Attachment G.

McDowell County has submitted a detailed report of expenditures of the \$50,000 received from the West Virginia Economic Development Authority. Attachment H.