

**Office of the Inspector General
Corporation for National Service**

**Commission on National and Community Service
Grant Number 92COSTWA0027
to
State of Washington
(American Conservation and Youth Service Corps)**

**Report Number 98-07
August 5, 1997**

This report was issued to Corporation management on February 26, 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 August 10, 1998, and complete its corrective action by February 26, 1999. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented or the amount of disallowed costs.

Office of the Inspector General
Commission on National and Community Service
Grant Number 92COSTWA0027
to
State of Washington
(American Conservation and Youth Service Corps)

Leonard G. Birnbaum and Company, under contract to the Office of the Inspector General, performed an audit of the costs claimed by the State of Washington to the Corporation for National Service and its predecessor, and the Commission on National and Community Service under the Grant Number 92COSTWA0027. The audit covered the costs (\$3,505,735) incurred during the period July 15, 1992 through November 10, 1994.

The audit was performed to determine whether financial reports prepared by the Employment Security Department (ESD) of the State of Washington presented fairly the financial condition of the award, whether ESD's internal control structure were adequate to safeguard Federal funds, and whether award costs reported to the Corporation by ESD were documented and allowable in accordance with the terms and conditions of the award. Furthermore, the audit assessed whether ESD had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations and award conditions. We have reviewed the report and work papers supporting its conclusions and agree with the findings and recommendations presented.

No costs were questioned as a result of the audit. However, the firm found that ESD lacked adequate controls over the preparation and completion of financial reports. In addition, ESD did not submit the required program and financial reports on a timely basis. These and other matters are discussed in greater detail in the report.

ESD's response to a draft of this report is presented in Appendix A. In its response, ESD concurred with the findings and recommendations and stated that it would implement corrective actions. The Corporation did not respond.

Corporation for National Service
Office of Inspector General
Report Number 98-07

Commission on National and Community Service Grant Number 92COSTWA0027
to
State of Washington (American Conservation and Youth Service Corps)
Olympia, WA 98507-9046

Financial Schedules
and
Independent Auditor's Reports

For the Period
July 15, 1992 to November 10, 1994

Leonard G. Birnbaum and Company
Certified Public Accountants
6285 Franconia Road
Alexandria, Virginia 22310
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Corporation for National Service
Office of Inspector General
Audit of State of Washington
American Conservation and Youth Service Corps

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REPORT SUMMARY AND HIGHLIGHTS

LEONARD G. BIRNBAUM AND COMPANY, LLP

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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 Washington for the American Conservation and Youth Service Corps program under Grant No. 92COSTWA0027. The program was administered by the Employment Security Department (ESD) of the State of Washington. Our audit covered the costs claimed during the period July 15, 1992 through November 10, 1994.

SUMMARY OF AUDIT RESULTS

As presented in Exhibit A, our audit of the costs claimed by the State of Washington for its American Conservation and Youth Service Corps program disclosed the following:

Award Budget	\$3,635,250
Claimed Costs	3,420,615
Incurred Costs	3,505,735
Questioned Costs	-

We have not questioned any of the incurred costs as a result of our audit.

-
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.

COMPLIANCE FINDINGS

Our audit disclosed the following nonmaterial instances of noncompliance:

- The financial reports submitted did not agree with the amount recorded in the accounting records. The amounts claimed were significantly less than the costs incurred. (Independent Auditor's Report on Compliance, Finding No. 1)
- ESD either (a) did not submit the required program reports or (b) did not submit the required program and financial reports on a timely basis. (Independent Auditor's Report on Compliance, Finding No. 2)

INTERNAL CONTROL STRUCTURE

Our audit disclosed the following reportable condition in the internal control structure and its operation.

- ESD lacked adequate controls over the preparation and completion of financial reports. (Independent Auditor's Report on Internal Control Structure, Finding No. 1)

PURPOSE AND SCOPE OF AUDIT

Our audit covered the costs claimed under Grant No. 92COSTWA0027 during the period July 15, 1992 through November 10, 1994, which was the award period. The objectives of our audit were to determine whether:

1. Financial reports prepared by the State of Washington presented fairly the financial condition of the award;
2. The internal control structure was adequate to safeguard Federal funds;
3. The grantee 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.

Inspector General
Corporation for National Service

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 ESD for comments. While the Corporation did not respond, ESD's comments are presented as Appendix A of this report. ESD's comments indicate concurrence with the findings.

MATTERS REQUIRING RESOLUTION

The participants of the program who received a living allowance directly from the ESD did not have FICA withheld from the living allowance. Furthermore, ESD did not remit the employer portion of FICA to the Internal Revenue Service (IRS). Although the Commission's regulations did not specifically address whether FICA must be withheld, the Corporation's regulations currently require that the Grantee pay FICA for any Member receiving a living allowance unless the Grantee obtains a ruling from the IRS that specifically exempts its AmeriCorps Members from FICA requirements. ESD considered the participants of this grant to be exempt from FICA based on a memorandum from the State of Washington's OASI Deputy Administrator dated March 22, 1984. This memorandum stated that the corps members are not considered state employees, thus not eligible to participate in the state's retirement system, and that only those positions eligible for the retirement system are covered for social security purposes. The State of Washington's Office of Financial Management and the U.S. Social Security Administration are researching this issue and will make a determination as to whether or not these individuals' pay is exempt from FICA and whether or not the information previously given to the state agencies regarding these types of individuals was in error. If the Social Security Administration determines that the participants of the program are not exempt from FICA, the State of Washington is potentially liable for the employee and employer portion of FICA in regards to the living allowances paid to the participants of the program by ESD.

Inspector General
Corporation for National Service

The State of Washington acquired equipment, at a cost of \$73,376, during its performance of the grant. The terms of the grant provide that title to the equipment vests with the State of Washington, but that the Corporation (as the successor agency to the Commission) 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, the State of Washington had not received any direction from the Corporation as to the disposition of the equipment. We observe that the State of Washington has been awarded other grants by the Corporation.

BACKGROUND

The Commission on National and Community Service awarded the State of Washington \$3,635,250 under Subtitle C of the National and Community Service Act of 1990 to support the Washington Service Corp (WSC) during the period July 15, 1992 through November 10, 1994. The WSC, created in 1983, is housed within the Employment and Training Division, an operating division of the Employment Security Department (ESD). ESD is responsible for administering Federal and state funded training programs for the State of Washington.

WSC administers its program through Washington Service Teams (WST) and Programs of Local Service (PLS) projects. WSTs are state managed programs that are operated in partnership with community-based agencies and units of local government. PLSs are subgrantee programs that are directly-administered by a local non-profit entity or a local school district with a history of youth service and community involvement.

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 the State of Washington 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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Inspector General
Corporation for National Service

INDEPENDENT AUDITOR'S REPORT

We have audited the costs claimed by the State of Washington to the Corporation for National Service and its predecessor, the Commission on National and Community Service, on the Financial Status Report - Federal Share of Outlays for the award number listed below. 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>
92COSTWA0027	July 15, 1992 to November 10, 1994	July 15, 1992 to November 10, 1994

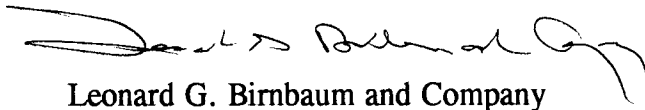
We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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 schedule was prepared for the purpose of complying with the requirements of the award agreement as described in Note 1, and is not intended to be a complete presentation of financial position in conformity with generally accepted accounting principles.

In our opinion, 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 November 10, 1994, 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 the State of Washington 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
August 5, 1997

FINANCIAL SCHEDULES

State of Washington
 Commission on National and Community Service Award No. 92COSTWA0027
 Schedule of Award Costs
 From July 15, 1992 to November 10, 1994
 Final

<u>Cost Category</u>	<u>Award Budget</u>	<u>(A) Claimed Costs</u>	<u>(B) Incurred Costs</u>	<u>Reclassified Costs</u>	<u>Incurred as Reclassified</u>	<u>Questioned Costs</u>
Subgrants to Local Corps	<u>\$ 1,120,267</u>		<u>\$ 1,112,107</u>		<u>\$ 1,112,107</u>	<u>\$ -</u>
State-Run Corps						
Year-Round Corps						
Living Allowances and Benefits	821,089			861,981	861,981	
Staff and Personnel Benefits	386,559			450,285	450,285	
Health Insurance-participants	43,984					
Post-Service Benefits	139,589			51,459	51,459	
Training & Education	306,771		294,532	(32,200)	262,332	
Joint Projects with Seniors	352		351	(243)	108	
Capital Purchases	72,890			73,376	73,376	
Evaluation	113,020		93,227	(64,497)	28,730	
Administration	136,444		109,803	22,526	132,329	
Other	<u>76,340</u>		<u>1,482,918</u>	<u>(1,362,687)</u>	<u>120,231</u>	
Subtotal	<u>2,097,038</u>		<u>1,980,831</u>	<u>-</u>	<u>1,980,831</u>	<u>-</u>
Summer Corps						
Living Allowances and Benefits	239,064			250,366	250,366	
Staff and Personnel Benefits	41,667			60,172	60,172	
Health Insurance-participants	11,302					
Post-Service Benefits	17,680			9,998	9,998	
Training & Education	65,023		34,819	11,523	46,342	
Joint Projects with Seniors						
Capital Purchases						
Evaluation	17,685		17,684	(13,051)	4,633	
Administration	5,799		8,332	7,204	15,536	
Other	<u>19,725</u>		<u>351,962</u>	<u>(326,212)</u>	<u>25,750</u>	
Subtotal	<u>417,945</u>		<u>412,797</u>	<u>-</u>	<u>412,797</u>	<u>-</u>
Total Corporation Funds	<u>3,635,250</u>	<u>3,420,615</u>	<u>3,505,735</u>	<u>-</u>	<u>3,505,735</u>	<u>-</u>
Matching Funds	<u>1,209,332</u>	<u>1,433,784</u>	<u>1,704,614</u>	<u>-</u>	<u>1,704,614</u>	<u>-</u>
Total Funds	<u>\$ 4,844,582</u>	<u>\$ 4,854,399</u>	<u>\$ 5,210,349</u>	<u>\$ -</u>	<u>\$ 5,210,349</u>	<u>\$ -</u>

(A) The total representing costs claimed reflects the amount reported by ESD as Federal outlays on the Financial Status Report for the quarter ended December 31, 1994. This amount does not agree with the amount reported on the Federal Cash Transactions Report for the quarter ended December 31, 1994, which reflects total expenditures using Federal funds of \$3,390,760. Neither of the amounts reported on the financial reports agree with the amount reflected on the books of account. (Refer to the Independent Auditor's Report on Compliance, Finding No. 1)

(B) The total representing costs incurred were taken directly from the books of account.

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

State of Washington
Commission on National and Community Service Award No. 92COSTWA0027
Notes to Financial Schedules

1. Summary of Significant Accounting Policies

Accounting Basis

The accompanying financial schedule, Exhibit A, has been prepared from the reports submitted to the Corporation and the former Commission on National and Community Service. 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 the State of Washington while used in the program for which it is purchased or in other future authorized programs. However, the Corporation has a 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 schedule.

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 State of Washington 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 August 5, 1997.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
92COSTWA0027	July 15, 1992 to November 10, 1994	July 15, 1992 to November 10, 1994

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 State of Washington'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.

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Corporation for National Service

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 nonmaterial instances of noncompliance:

Finding No. 1

The expenditures reported on the Federal financial reports did not agree with the accounting records. The Federal share of expenditures reported on the Financial Status Report (FSR) and the Federal Cash Transactions Report (FCTR) for the quarter ended December 31, 1994 did not agree. Expenditures in the amount of \$3,420,615 were reported on the FSR while the FCTR reported expenditures of \$3,390,760. Neither of the amounts reported on the FSR and FCTR could be traced to the accounting records which reflected expenditures from Federal funds as \$3,505,737, as shown in Exhibit A.

Recommendation

We recommend that ESD establish and implement policies and procedures to reconcile its financial reports with its accounting records prior to submission. We further recommend that a revised FSR and FCTR be submitted as soon as possible.

Finding No. 2

ESD either (a) did not submit the required program reports or (b) did not submit the required program and financial reports on a timely basis. Provision 9 of the Grant General Conditions stipulates that States prepare and submit an annual report concerning the use of Federal funds under the grant and the status of national and community service programs in the State. Section C.40(b)(1) and Section C.41(b)(1) of OMB Circular A-102,² Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, stipulates that grantees are to submit performance reports and a Financial Status Report, respectively. Amendment 1 of the grant stipulated the frequency of these reports, as well as the due dates. Based on these reporting requirements, ESD should have submitted two annual reports, eight quarterly performance reports (the annual report replaces the first quarter performance report) and ten quarterly financial reports. ESD was unable to demonstrate that the second annual report and final performance report were submitted. In addition, a separate performance report was not submitted for the

2. In general, Federal agencies adopt the provisions of OMB Circular A-102 as part of their own regulations. The Commission on National and Community Service did not adopt OMB Circular A-102 as a regulation. However, the terms of the Commission's grant to the State of Washington required compliance with the circular.

Inspector General
Corporation for National Service

quarters ended March 31, 1993 and 1994. We noted, however, that these periods were included in the performance reports submitted for the quarters ended June 30, 1993 and 1994. These performance reports which were submitted for the quarters ended June 30, 1993 and 1994, were not submitted until 60 days after the due dates. Lastly, six of the ten quarterly financial reports were submitted from three to 26 days after the due dates.

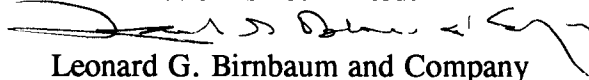
Recommendation

We recommend that ESD establish and implement policies and procedures to submit required reports on a timely basis.

We considered these nonmaterial 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 August 5, 1997, on the financial schedule.

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 the State of Washington 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
August 5, 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 State of Washington 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 August 5, 1997.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
92COSTWA0027	July 15, 1992 to November 10, 1994	July 15, 1992 to November 10, 1994

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 November 10, 1994, 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 grantee'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 structure policies and procedures. The objectives

Inspector General
Corporation for National Service

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 matter 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

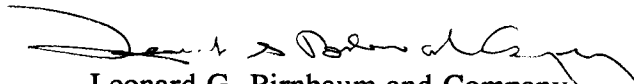
ESD lacked adequate controls over the preparation and completion of financial reports. As detailed in Finding No. 1 of the Independent Auditor's Report on Compliance, the financial reports and the accounting records for the quarter ended December 31, 1994, did not reconcile. Expenditures in the amount of \$3,420,615 were reported on the Financial Status Report (FSR) while the Federal Cash Transactions Report (FCTR) reported expenditures of \$3,390,760. Neither of the amounts reported on the FSR and FCTR could be traced to the accounting records which reflected expenditures from Federal funds as \$3,505,737.

Inspector General
Corporation for National Service

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 believe the reportable condition described above is not a material weakness.

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 the State of Washington 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
August 5, 1997

Appendix A

Response of the State of Washington



STATE OF WASHINGTON
EMPLOYMENT SECURITY DEPARTMENT

PO Box 9046 • Olympia, WA 98507-9046

February 12, 1998

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Dear Sirs:

This letter provides our comments on the two findings identified in the draft report on the audit of Grant Number 92COSTWA0027 which was awarded to the state of Washington by the Commission on National and Community Service. In providing these comments the Employment Security Department neither endorses nor disputes the draft report.

FINDING NO. 1

The expenditures reported on the Federal financial reports did not agree with the accounting records. . . .

RECOMMENDATION NO. 1

We recommend that ESD establish and implement policies and procedures to reconcile its financial reports with its accounting records prior to submission. We further recommend that a revised FSR and FCTR be submitted as soon as possible.

AUDITEE'S COMMENTS:

We reviewed the FSR, FCTR, and ESD's accounting records and acknowledge that the FSR report for December, 1994 is being revised to agree with the accounting records and the FCTR (see attachment). In addition, the report should not have been a final report because the grant is still open through November, 1998, in order to disburse educational awards earned by program participants.

FINDING NO. 2

ESD either (a) did not submit the required program reports or (b) did not submit the required program and financial reports on a timely basis. . . .



A member of the AmeriCorps national service network.



RECOMMENDATION NO. 2

We recommend that ESD establish and implement policies and procedures to submit required reports on a timely basis.

AUDITEE'S COMMENTS:

We agree with the finding. The program was new and it took some time to develop expertise to prepare reports correctly. The expertise is now there and all future reports will be submitted when due.

I thank you for this opportunity to comment on your report. Should you have any questions on this matter, please do not hesitate to contact me or Dave Broom of the WSC staff.

Sincerely,



Nancy Pringle, Director
Washington Service Corps

enclosure

copy: Janet Leach-Ruth

NP:TH:sr