

**Office of Inspector General
Corporation for National and
Community Service**

**AUDIT OF CORPORATION FOR NATIONAL
AND COMMUNITY SERVICE GRANT AWARDED
TO EDUCATIONWORKS**

OIG REPORT NUMBER 06-12



Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

Prepared by:

Kearney & Company
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This report was issued to Corporation management on April 3, 2006. Under the laws and regulations governing audit follow-up, the Corporation is to make final management decisions on the report's findings and recommendations no later than October 3, 2006 and complete its corrective actions by April 3, 2007. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



OFFICE OF INSPECTOR GENERAL

Corporation for National and Community Service
Audit Report 06-12

Audit of Corporation for National and Community Service Grants Awarded
to EducationWorks

OIG Summary

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), retained Kearney & Company (Kearney) to perform an incurred-cost audit of the grants awarded to EducationWorks.

The grantee claimed costs of \$5,266,112, of which the auditors questioned \$100,600 as unallowable grant costs and a \$2,195 education award. Overall, the auditors questioned approximately 1.91 percent of claimed grant costs. A questioned cost is an alleged violation or provision of law, regulation, contract, grant, or cooperative agreement, or other agreement or document governing the expenditure of funds; a finding that, at the time of the audit, such cost is not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. Costs questioned include \$87,250 of costs for the New Jersey Substitute Teacher Corps, which provided substitute teachers to the Trenton School District, and duplicated the District's own paid substitute teacher program. Other questioned costs include improper salary allocations. The auditors also noted instances of noncompliance with provisions of Federal laws, regulations and grant award provisions.

EducationWorks disagrees with most of the audit findings. Regarding the Substitute Teacher Corps, EducationWorks believes that the services provided by the members were not available to the school system and therefore duplication did not take place.

In accordance with our statutory responsibilities, we reviewed Kearney's report and related audit documentation, interviewed their representatives, and performed other procedures, as we deemed appropriate in the circumstances to provide reasonable assurance that the audit was performed in accordance with generally accepted government auditing standards. Our review was not intended to enable us to express, and we do not express, opinions on the Grantee's Schedule of Award Costs, or conclusions on internal controls and on compliance with laws and regulations. Kearney is responsible for the attached reports dated October 14, 2005, and the conclusions expressed therein. However, our review disclosed no instances where Kearney did not comply, in all material respects, with generally accepted government auditing standards.

The Office of Inspector General provided officials of EducationWorks and the Corporation with a draft of this report for their review and comment. Their responses are included as Appendices A and B, respectively.

This report is a matter of public record, and its distribution is not limited.



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**Audit of the Corporation for National and Community Service
AmeriCorps National Direct Grants Awarded to
EducationWorks
Lawrenceville, New Jersey**

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SUMMARY AND HIGHLIGHTS

Office of Inspector General
Corporation for National and Community Service
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This report is issued by Kearney & Company under an engagement with the Office of Inspector General (OIG) to audit the costs claimed by EducationWorks and its subrecipients from June 1, 2002 through June 30, 2005, under the grants awarded by the Corporation for National and Community Service (Corporation). We conducted our audit fieldwork from August 30 through October 14, 2005, in accordance with generally accepted government auditing standards, and included such tests of internal controls as were considered necessary. This report summarizes the results of the audit and identifies instances of noncompliance with laws, regulations, and grant terms. In addition, it discloses weaknesses in internal controls that are intended to ensure that grant funds were used for the purposes, and in the amounts, intended by the grants.

Executive Summary

As a result of our audit, we are questioning costs totaling \$102,795 (\$100,600 of grant costs and \$2,195 of education awards). The grant costs questioned are approximately 1.91 percent of the total \$5,266,112 in costs claimed by EducationWorks. A questioned cost is an alleged violation of a provision, law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; a finding that, at the time of the audit, a cost was not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose was unnecessary or unreasonable. The following is a summary of EducationWorks' most significant questioned cost:

- \$87,250 of costs charged to the Corporation are questioned for the New Jersey Substitute Teacher Corps which provided substitute teachers to the Trenton School District, a duplicate of the District's own substitute teacher program (see Finding Number 2).

Other costs questioned include living allowances and education awards. Details on the costs cited above and additional questioned costs appear in Schedule B-1.

Background

The Corporation awards grants and cooperative agreements to State and national organizations such as EducationWorks and other entities to assist in the creation of full-time and part-time national and community service programs.



EducationWorks describes itself as a non-profit organization incorporated in the state of New Jersey, and is exempted from Federal income taxes under Section 501(c) (3) of the Internal Revenue Code. EducationWorks' mission is to provide educational programs, particularly in areas characterized by high rates of poverty and low levels of educational achievement. EducationWorks was established in 2002 to create a new home for its primary program, the National School and Community Corps (NSCC).

Since its inception, NSCC has been an AmeriCorps national service program that links national service with urban school reform. EducationWorks performs the majority of service in Philadelphia, Pennsylvania, with a smaller program operating in Trenton, New Jersey.

As of June 30, 2005, EducationWorks had received \$6,834,974 in funding from the Corporation for various programs within the scope of this engagement. The majority of this funding has been retained by EducationWorks to carry out education and safety related service programs. A brief synopsis of the programs follows:

EducationWorks Grant Awards and Direct Funding

	Funding Authorized	Claimed within Audit Period	Drawdowns During Audit Period
02ADNNJ018 – AmeriCorps – National Direct	\$2,697,837	\$2,697,837	\$2,697,800
03NDHJ001 – AmeriCorps – National Direct	<u>4,137,137</u>	<u>2,568,275</u>	<u>2,539,107</u>
Total AmeriCorps Funds	<u>\$6,834,974</u>	<u>\$5,266,112</u>	<u>\$5,236,907</u>
TOTALS – EducationWorks Grants Subject to Testing	<u>\$6,834,974</u>	<u>\$5,266,112</u>	<u>\$5,236,907</u>

Grant Programs Audited

<u>Program</u>	<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
AmeriCorps	02ADNNJ018	5/1/02 to 5/31/03	6/1/02 to 5/31/03
AmeriCorps	03NDHJ001	8/15/03 to 8/14/06	8/15/03 to 6/30/05

Our audit of the costs claimed by EducationWorks under these awards disclosed the following:

	Amount	Percentage of Budget/Claimed
Award Budget	\$ 6,834,974	-
Claimed Costs	5,266,112	77.05%
Questioned Grant Costs	100,600	1.91%
Questioned Education Awards	2,195	-



Costs Questioned

AmeriCorps Grant

• AmeriCorps Member Compliance Issues	\$ 2,825
• Costs Associated with Duplication (including Administrative)	87,250
• Improperly Charged Salary Expenses	9,858
• Administrative Costs Related to Costs Questioned	<u>667</u>
Subtotal Costs Questioned	<u>\$ 100,600</u>
Education Awards	<u>\$ 2,195</u>
Total Costs Questioned	<u><u>\$ 102,795</u></u>

We utilized audit sampling techniques to test the costs claimed by EducationWorks. Based upon our sampling methodology, questioned costs in this report may not represent the total costs questioned had all expenditures been tested. In addition, we made no attempt to project such costs to total expenditures incurred based on the relationship of costs tested to total costs.

Member Eligibility and Cost Allowability

Our audit disclosed the following member eligibility and cost allowability issues:

1. One member did not have proper proof of citizenship or legal residency for his full term. As a result, we questioned \$2,825 for the amount of living allowance, \$148 for administrative costs charged to Corporation grants, and an additional \$2,195 for the partial education award awarded to this member.
2. Members of the New Jersey Substitute Teacher Corp held positions that were considered to be duplicating services already provided by the Trenton School District. As a result, we questioned \$87,250 of direct charges to Corporation grants.
3. The grants were charged for the salaries of two staff positions that were not included in the Corporation’s approved budget. As a result, we questioned \$9,858 for salaries and fringe benefits and an additional \$519 for administrative costs charged to Corporation grants.

Compliance

Our audit disclosed the following instances of noncompliance with Federal laws, applicable regulations, and award conditions:

4. Accommodations provided by EducationWorks did not fully comply with the requirements of the Americans with Disabilities Act. EducationWorks was unable to document the “undue burden requirement” provided for by applicable regulations.

Other Internal Control Matters

Our audit disclosed the following internal control deficiencies:

5. Inadequate segregation of duties was noted in several areas, including accounting records, cash receipts, payroll, and bank reconciliations.
6. Vendor invoices were not routinely marked as paid or canceled upon issuance of related disbursements.

Purpose and Scope of Audit

Our audit covered the costs claimed under the Corporation AmeriCorps grant numbers, 02ADNNJ018 and 03NDH NJ001, for the period June 1, 2002 through June 30, 2005. The principal objectives of our audit were to determine whether:

- Financial management systems used by EducationWorks presented accurate financial results of the sponsored programs
- Internal controls for financial and project systems complied with Corporation and Office of Management and Budget (OMB) requirements for administering grant funds
- EducationWorks and its subrecipients had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations, and award conditions, and that member services were appropriate to the programs
- Award costs reported to the Corporation were adequately documented and allowable in accordance with the award terms and conditions.

We performed the audit in accordance with auditing standards generally accepted in the United States of America and generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance regarding whether amounts claimed against the awards, as presented in the Consolidated Schedule of Awards and Claimed Costs, are free of material misstatement. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Schedule of Awards and Claimed Costs. 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. Our audit included reviews of audit reports and working papers prepared by the independent public accountants for EducationWorks in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



The contents of this report were disclosed to, and discussed with, EducationWorks at an exit conference on October 14, 2005, and updated on December 16, 2005. In addition, we provided a draft of this report to EducationWorks and to the Corporation for comment. The EducationWorks and Corporation responses are included as Appendices A and B, respectively.

A handwritten signature in blue ink, appearing to read "E. F. Kearney". The signature is stylized and includes a large, sweeping flourish at the end.

Edward F. Kearney
October 14, 2005



Certified Public Accountants
and Consultants

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INDEPENDENT AUDITOR’S REPORT

We have audited the accompanying Consolidated Schedule of Awards and Claimed Costs of EducationWorks for the award numbers listed below under the terms of the respective grant agreements between the Corporation for National and Community Service (Corporation) and EducationWorks. The costs, as presented in this schedule, are the responsibility of EducationWorks’ management. Our responsibility is to express an opinion on this schedule based on our audit.

<u>Program</u>	<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
AmeriCorps	02ADNNJ018	5/1/02 to 5/31/03	6/1/02 to 5/31/03
AmeriCorps	03NDH NJ001	8/15/03 to 8/14/06	8/15/03 to 6/30/05

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedule. 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.

In our opinion, except for the omission of the supporting source documentation related to the \$100,600 in questioned costs discussed in the Supplemental Financial Schedules, the Consolidated Schedule of Awards and Claimed Costs presents fairly, in all material respects, the costs claimed for the period June 1, 2002 through June 30, 2005, in conformity with the terms of EducationWorks’ grant agreements with the Corporation.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 14, 2005, on compliance and internal controls over financial reporting.



This report is intended for the information and use of the Office of Inspector General, management of the Corporation for National and Community Service, Education Works, and the United States Congress.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

October 14, 2005
Alexandria, Virginia

EducationWorks and Subrecipients
Consolidated Schedule of Awards and Claimed Costs

Corporation for National and Community Service Awards

Award Number	Program	Approved Budget	Claimed Costs
02ADNNJ018	AmeriCorps	\$ 2,697,837	\$ 2,697,837
03NDH NJ001	AmeriCorps	<u>4,137,137</u>	<u>2,568,275</u>
Total AmeriCorps		<u>\$ 6,834,974</u>	<u>\$ 5,266,112</u>

Summary of Significant Accounting Policies

Reporting Entity

The accompanying Consolidated Schedule of Awards and Claimed Costs includes amounts budgeted and claimed under the AmeriCorps National Direct grant awarded to EducationWorks by the Corporation for the period June 1, 2002 through June 30, 2005.

EducationWorks subgranted its AmeriCorps National Direct grant to a limited number of subrecipients that carry out AmeriCorps programs and report financial and programmatic results to EducationWorks.

Basis of Accounting

The accompanying Consolidated Schedule of Awards and Claimed Costs was prepared in accordance with the provisions of grant agreements issued by the Corporation.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

We have audited the Consolidated Schedule of Awards and Claimed Costs for EducationWorks and have issued our report thereon, dated October 14, 2005, covering the awards listed below.

<u>Program</u>	<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
AmeriCorps	02ADNNJ018	5/1/02 to 5/31/03	6/1/02 to 5/31/03
AmeriCorps	03NDH NJ001	8/15/03 to 8/14/06	8/15/03 to 6/30/05

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and generally accepted government auditing standards. 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 award costs as presented in the Consolidated Schedule of Awards and Claimed Costs for the period June 1, 2002 through June 30, 2005, we considered EducationWorks' internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedule, and not to provide assurance on the internal controls over financial reporting. Consequently, we do not provide an opinion on internal controls.

Our consideration of internal controls would not necessarily disclose all matters of internal control over financial reporting that might 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 controls that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts, which 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. The following paragraphs present reportable conditions identified during our audit.

Member Eligibility and Cost Allowability

Finding Number 1 – Member Eligibility

Condition

EducationWorks was unable to demonstrate that a member was eligible to serve for his entire term of service. The member was a foreign citizen with an I-551 stamp on his passport, granting him residence through November 29, 2002. The stamp date expired on November 29, 2002, which was before the end of his service term. The member file contained no documents permitting legal U.S. residence or the right to work throughout his entire term of service.

We questioned \$2,825 for the amount of living allowance, \$148 for administrative costs charged to the grant, and \$2,195 for a partial education award for this member.

AmeriCorps Provisions (2003), B. AmeriCorps Special Provisions, 6. Eligibility, Recruitment, and Selection, a. Eligibility to Enroll, states:

The Grantee may select as AmeriCorps members only those individuals who are eligible to enroll in AmeriCorps. In order to be eligible, an individual must meet the statutory requirements of the definition of a member (see Definitions). The Grantee is responsible for obtaining and maintaining adequate documentation to demonstrate the eligibility of members.

AmeriCorps Provisions (2003), A. Definitions, 14. Member, b. states:

Member means an individual . . . Who is a U.S. citizen, U.S. national or lawful permanent resident alien of the United States.

Recommendation

The Corporation should require EducationWorks to ensure that member files contain the proper citizenship/residency documentation and that valid documentation is on record for the entire service period. We recommend that the Corporation determine the allowability of the costs questioned and recover costs that are not allowable or allocable to the grant, including administrative costs applied to the disallowed cost.

EducationWorks' Response

EducationWorks disagrees with the finding while noting that the auditor is correct in asserting that documentation of the member's eligibility was not available for the entire period of the member's service. EducationWorks' understanding is that this is not the requirement for grantees. The requirement is that grantees determine eligibility of individuals at the time they are enrolled. They are not obligated to determine eligibility for the entire service period prior to enrolling an individual. In particular, note that C.F.R. § 2522.200 (d) (3) specifically identifies

as “acceptable forms of certifying status ... [a] passport indicating that the INS has approved it as **temporary evidence** (emphasis added) of lawful admission for permanent residence” without any further requirement upon programs to respond in any way to the fact that it is only temporary.

Auditor’s Comment

“Member means an individual... Who is a U.S. citizen, U.S. national, or lawful permanent resident alien of the United States.” While the provisions do not specifically state that evidence must be valid for the member’s entire term of service, if the evidence is not valid for the entirety of the service term, the member will not meet the requirements of being a member after expiration. The provisions make no distinction that evidence is only required for the initial enrollment, nor do the provisions state that the member requirements change during the term of service to exclude previous requirements. Since the member’s evidence of lawful permanent residence expired, the eligibility was only valid up to the date of expiration. Accordingly, the finding and recommendation remain unchanged.

Finding Number 2 – Duplication – Substitute Teacher Corps

Condition

The Substitute Teacher Corps serving the Trenton School District (District) duplicated services provided by substitute teachers hired by the District. Each AmeriCorps member was licensed, in accordance with all requirements set forth by the state of New Jersey, to serve as a substitute teacher. Members also attended any in-service and other teacher training set by the District.

Due to the nature of the program, members served in schools with school staff and substitute teachers. Eight members in budget year 2004-2005 served in a school as a permanent staff of substitute teachers. The services that were provided by these members duplicated services provided by substitute teachers hired by the District. The total amount questioned is \$87,250. This includes all costs associated with the Substitute Teacher Corps.

AmeriCorps Provisions (2003), B. General Provisions, 33. Supplementation, Non-Duplication, and Non-Displacement, b. Non-Duplication, states:

Grant funds may not be used to duplicate services that are available in the locality of a Program or project. The Grantee may not conduct activities that are the same or substantially equivalent to activities provided by a state or local government agency in which the Grantee entity resides.

Recommendation

The Corporation should direct EducationWorks to review its program structure to ensure that members do not duplicate services offered by a local or state agency. We recommend that the Corporation determine the allowability of costs questioned and recover costs that are not

allowable or allocable to the grant, including administrative costs applied to the disallowed cost. We also recommend that the Corporation review EducationWorks' grant budgets to ensure its' AmeriCorps members are providing services for unmet needs.

EducationWorks' Response

EducationWorks disagrees with the finding and notes that the relevant provision states, "Grant funds may not be used to duplicate services that are available in the locality of a Program or project." EducationWorks believes that the auditor did not take into account the words "that are available" in issuing this finding.

The auditor was provided a copy of a letter written by the superintendent of schools attesting to a shortage of substitute teachers. This letter was written in response to an EducationWorks' request, because the Corporation Program Officer said she would not recommend approval of the grant until the shortage was documented. Once the superintendent sent the letter to the Program Officer, the award was approved.

Furthermore, EducationWorks believes that a shortage means that services are not available.

In addition, even though the AmeriCorps members did the same things as other substitute teachers, this was not all that they did and the additional service they provided constituted a material difference in the nature of their assignment from that of other substitute teachers. Specifically, EducationWorks notes:

1. Substitute teachers are called to teach classes when teachers are absent and are otherwise not called to work in schools. The AmeriCorps members served as teacher assistants on days when there were no teachers absent in the schools to which they were assigned. This constituted approximately 20 percent of their days during the school year.
2. Substitute teachers start their work at the beginning of the school day and leave at the end of the school day. The AmeriCorps members served in before and/or after school programs. The before and after school service our members provided constituted approximately 25-30 percent of their time during the school year.
3. Substitute teachers work only during the school year. The AmeriCorps members also served in summer camps. This constituted approximately 15 percent of their service hours.
4. Taking all of the above into consideration, the amount of service hours dedicated to substitute teaching constituted approximately 50 percent of their total service, on average.
5. There are other salient differences between substitute teachers and AmeriCorps members:
 - a) The Trenton School District (District) included AmeriCorps members in a number of its professional development activities, which they do not do for substitutes.
 - b) The AmeriCorps members provided service, involving District students, on the Martin Luther King Day of Service; other substitutes did not provide service.
 - c) Most substitute teachers follow the "sub plans" provided by teachers. The AmeriCorps members followed the lesson plans the teachers would have used had they not been absent.

Auditor's Comment

We believe that a blanket statement by a school official that indicates a shortage of substitute teachers is an assertion that lacks substantiation and does not convincingly show that services for substitute teachers are not available. The unavailability of services could have been established by comparing the need for these teachers with the available pool on a daily basis.

EducationWorks, however, did not provide this level of support. According to information obtained by the Office of Inspector General (OIG) in a conversation with the Trenton Superintendent's Office, there are nearly 300 substitute teachers available in the substitute teacher pool to serve 25 schools on a daily basis. The Superintendent's Office indicated that it was only occasionally that the District was short of substitute teachers for the District on a given day. District statistics obtained by OIG also show that the four schools in which EducationWorks members provided services had low student to teacher ratios which ranged from 8.7 to 12.5, well below maximum levels for the District. The response also indicates that the EducationWorks members serve as substitute teachers 50 percent of the time, teacher's assistants 20 to 30 percent of the time (when no teachers are absent), and the remainder of their time engaging in other after school tasks such as being after school monitors. It is worth noting that a teacher's assistant is also a position in the District and performance of this function by members also appears to be an instance of duplication. Moreover, while the members may have provided additional services, this does not change the fact that the primary purpose of the project was for members to serve as substitute teachers and the grant provisions prohibit even "partial displacement" of positions.

In addition, the substitute teacher, teacher's assistant, and school monitor functions appear to constitute a supplementation of state or local funds.

AmeriCorps Provisions (2004, B. General Provisions, 33. Supplementation, Non-Duplication, and Non-Displacement, a. Supplementation, states:

Grant funds may not be used to replace state or local public funds that have been used to support Programs or projects of the type eligible to receive Corporation Grant funds. For any given Program, this condition will be satisfied if the aggregate non-federal public expenditure for that Program or project in the fiscal year that support is to be provided is not less than the previous fiscal year.

Accordingly, the finding and the recommendations remain unchanged.

Finding Number 3 – Improper Salary Allocation*Condition*

We noted that EducationWorks charged the grant for the salaries of two staff positions that were not included in the grant's approved budget. The employees worked for the program funded by the other Federal grants as YouthWorks coordinators. The employees previously held positions under the AmeriCorps National Direct grant. During their employment with EducationWorks,

the employees changed positions. The position change transferred them from the AmeriCorps National Direct grant to the YouthWorks grant, a separately funded Federal program. We questioned \$9,858 for salaries and fringe benefits and an additional \$519 for administrative costs charged to the Corporation.

OMB Circular A-122, Attachment A - General Principles, Subpart A - Basic Considerations, 2. Factors Affecting Allowability of Costs, states:

To be allowable under an award, costs must meet the following general criteria:

- a. Be reasonable for the performance of the award and be allocable thereto under these principles.
- b. Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.
- c. Be consistent with policies and procedures that apply uniformly to both Federally-financed and other activities of the organization.
- d. Be accorded consistent treatment.
- e. Be determined in accordance with generally accepted accounting principles.
- f. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federally-financed program in either the current or a prior period.
- g. Be adequately documented.

Recommendation

The Corporation should direct EducationWorks to claim staff salaries in accordance with the approved budget and AmeriCorps provisions. We recommend that the Corporation determine the allowability of the costs questioned and recover costs that are not allowable or allocable to the grant, including administrative costs applied to the disallowed cost.

EducationWorks' Response

EducationWorks disagrees with the finding while noting that the auditor correctly asserts: "During their employment with EducationWorks, the employees changed positions."

However, the auditor incorrectly asserts that "The position change transferred them from the AmeriCorps National Direct grant to the YouthWorks grant..." This is incorrect because YouthWorks is a program of EducationWorks in which AmeriCorps members were deployed under the National Direct Grant and the employees whose compensation is questioned continued to supervise AmeriCorps members in their new positions. Thus, EducationWorks was entitled to allocate a portion of the compensation to the National Direct grant.

In addition to the finding, Note 3 of Schedule B-1 adds that "the employee... was not included in the approved budget." EducationWorks believes this is not a reason that supports the finding because programs have the ability to make staffing changes from what was in their approved

budgets, subject to the Corporation requirements for program and budget modifications. Under these requirements grantees are not required to indicate a shift in position for staff unless these staff hold “key” positions or if the change leads to a budgetary modification of such magnitude as to require agency approval. Neither condition is true of this situation.

EducationWorks also notes the auditor’s statement that YouthWorks is a Federal program and the auditor’s inclusion of a section of OMB Circular A-122. EducationWorks made no response to these elements because EducationWorks does not understand their relevance to the finding.

Auditor’s Comment

This finding focuses on the interpretation of allowable “staffing change;” our definition allows changes within approved budgetary positions while EducationWorks advocates a more liberal definition that does not incorporate approved positions. Our interpretation is consistent with the Corporation’s OIG who maintained that transferring personnel costs from an approved budgetary position to a position that was not included in the budgetary approval process is an unallowable cost. We recommend that the Corporation determine the allowability of the costs questioned. In addition, we recommend that the Corporation clearly define positions that require approval by the Corporation when a staffing change is required.

Compliance with Grant Provisions

Finding Number 4 – Lack of Documentation Supporting Compliance with the Reasonable Accommodations Requirements of the Americans with Disabilities Act

Condition

We noted that school facilities in which AmeriCorps members served were not always in compliance with the accessibility requirements of the Americans with Disabilities Act (ADA). In addition, documentation showing that compliance with the requirements would impose an undue financial or administrative burden on the program was not available. EducationWorks was unable to locate any documentation supporting an undue burden.

Establishing programs in facilities that do not meet the ADA’s accessibility requirements, coupled with a failure to justify the noncompliance (e.g., documenting undue burden) represents a noncompliance with laws and regulations and a breach in grant contractual requirements. In addition, noncompliance also limits the opportunities of persons with disabilities to participate in AmeriCorps programs.

AmeriCorps Provisions (2003), B. AmeriCorps Special Provisions, 6. Eligibility, Recruitment, and Selection, d. Reasonable Accommodations, states:

Programs and activities must be accessible to persons with disabilities, and the Grantee must provide reasonable accommodation to the known mental or physical disabilities of otherwise qualified members, service recipients, applicants, and

program staff. All selections and project assignments must be made without regard to the need to provide reasonable accommodation.

Accommodations that impose an undue financial or administrative burden on the operation of the program or fundamentally alter its nature are not reasonable accommodations. However, the Grantee must document and prove any undue burden. Similarly, a person who poses a direct threat to the health or safety to himself or herself or to others, where the threat cannot be eliminated by reasonable accommodation, is not a qualified individual with a disability. In such instances, the Grantee must document and prove the direct threat.

Recommendation

The Corporation should encourage EducationWorks to pursue programs at locations where the reasonable accommodations requirement can be met. Where the requirement cannot be met, EducationWorks should formally justify noncompliance (e.g., demonstrating undue burden) in accordance with regulations.

EducationWorks' Response

EducationWorks disagrees with the finding while noting that while the school buildings in which members served during the period of the audit were not accessible to individuals with certain disabilities, ADA specifically exempts buildings constructed prior to ADA's passage, unless they undergo significant renovation, which these buildings had not. Therefore, while it is correct to assert that these buildings are not considered "accessible," it is not correct to assert that these buildings are noncompliant with ADA.

Furthermore, since EducationWorks neither owns nor leases the school buildings in which members served, they were in no position to consider whether or not their renovation would constitute an undue financial burden because they could not undertake renovations to these facilities.

EducationWorks notes that the audit did not document a single case in which an individual with a disability was denied the opportunity to serve, nor any written policy or document that would communicate such a message to any potential applicant. EducationWorks has enrolled AmeriCorps members with disabilities, including members who used wheelchairs.

Auditor's Comment

We agree that it was incorrect to assert that these buildings were noncompliant with ADA; however, EducationWorks still has not met the requirements set forth by the provisions which state, "Programs and activities must be accessible to persons with disabilities... [if this is not possible the] Grantee must document and prove any undue burden." EducationWorks did not provide any documentation which evidenced an undue burden. Accordingly, the finding and recommendation remain unchanged.

Other Internal Control Matters**Finding Number 5 – Inadequate Segregation of Duties****Condition**

Our assessment and evaluation of internal controls disclosed a number of key accounting processes that were not supported by adequate segregation of duties. Examples included:

- Authorized check signers had access to accounting records, entries, and cash receipts
- Bank reconciliations were prepared by an employee that also handled cash receipts and signed checks
- Payroll checks were distributed by the person who prepared the payroll.

Segregation of duties is a standard and essential characteristic of any accounting system. Lack of segregation of duties often arises within organizations that do not periodically conduct self-assessments of the effectiveness of internal controls. Examples and best practices for such self-assessments can be found in the guidance recently issued by the OMB in connection with revised Federal Managers' Financial Integrity Act compliance requirements (revised Circular A-123), and guidance contained in the Sarbanes-Oxley Act, which affects publicly traded companies subject to Securities and Exchange Commission requirements, among others.

Lack of segregation of duties is a condition which effectively allows an employee to carry out high-risk accounting activities (e.g., check writing) without his/her work being subject to review by a second employee. A lack of segregation of duties increases the risk that fraud, waste, and abuse can take place without being detected.

AmeriCorps Provisions (2003), C. AmeriCorps General Provisions, 22. Financial Management Provisions, a. Source Documentation, states:

The Grantee must maintain financial management systems that include standard accounting practices, sufficient internal controls, a clear audit trail, and written cost allocation procedures as necessary.

Recommendation

The Corporation should work with EducationWorks and recommend that management conduct an assessment and evaluation of current internal control practices to identify additional procedures that improve segregation of duties and other internal controls.

EducationWorks' Response

EducationWorks concurs with this finding and changed policies and procedures.

Auditor's Comment

The procedures described in EducationWorks' response, subject to implementation and validation, should be sufficient to prevent reoccurrence of this finding in future audits.

Finding Number 6 – Lack of Invoice Cancellation Procedure

Condition

Our review and evaluation of internal controls indicated that there was no requirement to mark paid invoices as "paid" or "canceled" as the related disbursement was issued. Marking invoices is a standard internal control practice designed to reduce the possibility of duplicate payments.

The practice in place at EducationWorks was to attach documentation to the invoice indicating that it had been paid. However, this practice does not prevent the invoice from becoming detached (accidentally or otherwise) and being paid a second time. Not canceling, defacing, or directly marking invoices as paid increases the probability of duplicate payments.

AmeriCorps Provisions (2003), C. General Provisions, 22. Financial Management Provisions, a. General, states:

The Grantee must maintain financial management systems that include standard accounting practices, sufficient internal controls, a clear audit trail, and written cost allocation procedures as necessary. Financial management systems must be capable of distinguishing expenditures attributable to this Grant from expenditures not attributable to this Grant. This system must be able to identify costs by programmatic year and by budget category and to differentiate between direct and indirect costs or administrative costs.

Recommendation

The Corporation should direct EducationWorks to establish an accounting policy that requires paid invoices to be directly marked as "canceled" or "paid."

EducationWorks' Response

EducationWorks concurs with this finding and has made the recommended change. All invoices, receipts, or packing slips are now stamped.



Auditor's Comment

The procedures described in EducationWorks' response, subject to implementation and validation, should be sufficient to prevent reoccurrence of this finding in future audits.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

October 14, 2005
Alexandria, Virginia

EducationWorks
Consolidated Schedule of Awards and Claimed Costs

Corporation for National and Community Service Awards

Award Number	Program	Approved Budget	Claimed Costs	Questioned Costs*	Questioned Education Costs
02ADNNJ018	AmeriCorps	\$ 2,697,837	\$ 2,697,837	\$ 6,602	\$ 2,195
03NDH NJ001	AmeriCorps	<u>4,137,137</u>	<u>2,568,275</u>	<u>93,998</u>	<u>0</u>
	Totals	<u>\$ 6,834,974</u>	<u>\$ 5,266,112</u>	<u>\$ 100,600</u>	<u>\$ 2,195</u>

* These questioned cost figures include the related unallowable administrative costs based on calculating 5.26 percent of other direct costs.

The cost details provided above are explained in Schedule B-1 following this report.

EducationWorks
Schedule of Audited Costs by Grantee
Corporation for National and Community Service
Award Numbers 02ADNNJ018 and 03NDHNJ001 (AmeriCorps)
June 1, 2002 to June 30, 2005

Detailed Audits of the AmeriCorps Grant	Claimed Costs	Questioned Claimed Costs	Questioned Education Awards	Reference
	Note 1			
<u>Grantee</u> EducationWorks	\$ 5,104,160	\$ 100,600	\$ 2,195	Schedule B-1
Total – Detailed Audit	<u>\$ 5,104,160</u>	<u>\$ 100,600</u>	<u>\$ 2,195</u>	
Total Questioned Costs			<u>\$102,795</u>	

Note

1. The total claimed costs reported do not include costs claimed by subrecipients that were not selected as part of this audit. During the period covered by our audit, EducationWorks had three AmeriCorps program subrecipients. Based on our Risk Assessment and Audit Approach Memorandum dated July 26, 2005, there were no subrecipients selected for field site visits.

EducationWorks
Schedule of Audited Costs by Grantee
Corporation for National and Community Service
Award Numbers 02ADNNJ018 and 03NDH NJ001 (AmeriCorps)
June 1, 2002 to June 30, 2005

EducationWorks (all sites)

		<u>Reference</u>
Approved Budget (Federal Funds)		
02ADNNJ018	\$ 2,697,837	
03NDH NJ001	<u>4,137,137</u>	
Total Budget	<u>\$ 6,834,974</u>	Note 1
Claimed Costs		
02ADNNJ018	\$ 2,682,898	
03NDH NJ001	<u>2,421,262</u>	
Total Claimed Costs	<u>\$ 5,104,160</u>	Note 2
Questioned Costs		
02ADNNJ018	\$ 6,272	Note 3
03NDH NJ001	93,661	Note 4
Administrative Cost	<u>667</u>	Note 5
Total Questioned Costs	<u>\$ 100,600</u>	
Questioned Education Award		
02ADNNJ018	<u>\$ 2,195</u>	Note 3
Total Questioned Education Award	<u>\$ 2,195</u>	
Total All Questioned Costs	<u>\$ 102,795</u>	

Notes

1. The approved budget represents the total funding to EducationWorks for the administration and management of AmeriCorps programs for program years tested (program years 2002 through 2005) according to the budget schedules for EducationWorks grants.
2. Claimed costs represent EducationWorks reported expenditures for the program years tested (program years 2002 through 2005).
3. Compliance testing of member records disclosed questioned costs related to the ineligibility of one member. These costs amounted to \$2,825 of direct costs and \$2,195 for an education award that was questioned due to member ineligibility. We also discovered an unallowable direct charge of \$3,447 for salary and fringe benefits that was questioned because the employee was working in a non-AmeriCorps program and was not included in the approved budget.
4. Direct costs testing resulted in \$6,411 of charged salary and fringe benefits that were questioned because two employees were working in a non-AmeriCorps program and were not approved in the budget. An additional \$87,250 was questioned because eight members participated as substitute teachers and were duplicating services offered elsewhere in the community. This \$87,250 included all costs associated with the members, including administrative costs.
5. Based on the following questioned cost amounts, \$2,825, \$3,447, and \$6,411, as discussed above, we questioned 5.26 percent or \$667 of the total as administrative costs charged to Corporation grants.

APPENDIX A

EducationWorks' Response to Report



EducationWorks

Home of the *National School and Community Corps*

February 6, 2006

Ms. Carol Bates
Acting Inspector General
Corporation for National and Community Service
Suite 830
1201 New York Avenue, NW
Washington, DC 20525

Dear Ms. Bates:

Enclosed is the response of EducationWorks to the draft report of the incurred-cost audit of grants awarded to EducationWorks, which you sent me on January 4, 2006.

The draft report contains six findings. We concur with two of these and disagree with four.

We found the audit helpful in identifying ways to improve our internal controls, for which we are grateful.

I am emailing this to Stuart Axenfeld and sending you a hard copy today.

Sincerely,

Martin S. Friedman
Executive Director

C: Doug Gerry, CNCS (email only)
Hector Maysonet, Kearney and Company (email only)

Finding 1

We disagree with the auditor's finding.

The auditor is correct in asserting that we did not have documentation of the member's eligibility for the entire period of time of the member's service. However, as sensible as this requirement appears, it is our understanding that this is not the requirement for grantees. The requirement is that we determine eligibility of individuals at the time we enroll them. We are not obligated to determine eligibility for the entire service period prior to enrolling an individual.

In particular, note that Code section §2522.200 (c) (3) specifically identifies as "acceptable forms of certifying status" "A passport indicating that the INS has approved it as **temporary evidence** (emphasis added) of lawful admission for permanent residence" without any further requirement upon programs to respond in any way to the fact that it is only "temporary".

Finding 2

We disagree with the auditor's finding.

As the auditor notes, the relevant Provision states: "Grant funds may not be used to duplicate services that are available in the locality of a Program or project." In our opinion the auditor did not take into account the words "that are available" in issuing this finding.

We provided the auditor with a copy of a letter written by the superintendent of schools attesting to a shortage of substitute teachers. This letter was written in response to our request, because our CNCS Program Officer informed us she would not recommend approval of our award until we obtained documentation of a shortage. Once the superintendent sent the letter to our Program Officer, our award was approved.

We believe that a shortage means that services are not available.

While we believe our response above is a sufficient reply to the finding, there is another consideration that applies.

Even though our AmeriCorps members did the same things as ordinary substitute teachers, this was not all that they did and the additional service they provided constituted a material difference in the nature of their assignment from that of ordinary substitute teachers. Specifically:

1. Ordinary substitute teachers are called to teach classes when teachers are absent and are otherwise not called to work in schools. Our AmeriCorps members served as teacher assistants on days when there were no teachers absent in the schools to which they were assigned. This constituted approximately 20% of their days during the school year.

2. Ordinary substitute teachers start their work at the beginning of the school day and leave at the end of the school day. Our AmeriCorps members served in before and/or after school programs. The before and after school service our members provided constituted approximately 25-30% of their time during the school year.

3. Ordinary substitute teachers work only during the school year. Our AmeriCorps members served in summer camps. This constituted approximately 15% of their service hours.

4. Taking all of the above into consideration, the amount of service hours dedicated to substitute teaching constituted approximately 50% of their total service, on average.

5. There are other salient differences between ordinary substitute teachers and our AmeriCorps members:

- a) The District included our AmeriCorps members in a number of its professional development activities, which they don't do for ordinary substitutes.
- b) Our AmeriCorps members provided service, involving District students, on the Martin Luther King Day of Service; ordinary substitutes did not.
- c) Most ordinary substitute teachers follow the "sub plans" provided teachers. Our AmeriCorps members followed the lesson plans the teachers themselves would have used had they not been absent.

Finding 3

We disagree with the auditor's finding.

The auditor correctly asserts: "During their employment with EducationWorks, the employees changed positions."

However, the auditor incorrectly asserts that "The position change transferred them from the AmeriCorps National Direct grant to the YouthWorks grant..." It is incorrect because YouthWorks is a program of EducationWorks in which we deploy AmeriCorps members under the National Direct Grant and the employees whose compensation is being questioned continued to supervise AmeriCorps members in their new positions. We were entitled to allocate a portion of their compensation to the National Direct grant.

In addition to the finding on pages three and four, Note 3 on page 19 adds that "the employee... was not included in the approved budget." We believe this is not a reason that supports this finding since programs have the ability to make staffing changes from what was in their approved budgets, subject to the CNCS requirements for program and budget modifications. Under these requirements we are not required to indicate a shift in position for staff unless these staff hold "key" positions or if the change leads to a budgetary modification of such magnitude as to require CNCS approval. Neither condition is true of this situation.

We also noted the auditor's statement that YouthWorks is a Federal program and the auditor's inclusion of a section of OMB Circular A-122. We here make no response to these, perhaps related, elements because we do not understand their relevance to the finding.

Finding 4

We disagree with the auditor's finding.

While the school buildings in which members served during the period of the audit were not accessible to individuals with certain disabilities, ADA specifically exempts buildings constructed prior to ADA's passage, unless they undergo significant renovation, which these buildings had not. Therefore, while it is correct to assert these buildings are not considered "accessible", it is not correct to assert that these buildings are noncompliant with ADA.

Furthermore, since we neither own nor lease the school buildings in which our members served, we were in no position even to consider whether or not their renovation would constitute an undue financial burden on us since we could not undertake any renovations to these facilities. Therefore, we do not believe we have any obligation to document an undue burden.

The auditor did not document a single case in which we denied an individual with a disability the opportunity to serve, nor any written policy or document that we have that would communicate such a message to any potential applicant; there are no such cases, policies, or documents. In fact, we have enrolled AmeriCorps members with disabilities, including members who had to use wheelchairs.

Finding 5

We concur with this finding. We changed our policies and procedures between the time this was pointed out during the auditor's July field work and the exit conference and have given the auditor a copy of the documentation of the new policies and procedures.

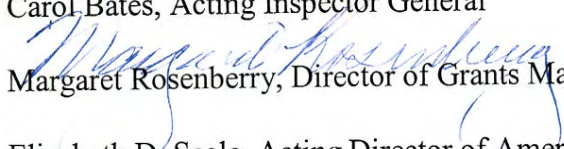
Finding 6

We concur with this finding. We have made the recommended change and now stamp all invoices, receipts, or packing slips.

APPENDIX B

Corporation for National and Community Service's Response to Report

Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

To: Carol Bates, Acting Inspector General
From: 
Margaret Rosenberry, Director of Grants Management
Cc: Elizabeth D. Seale, Acting Director of AmeriCorps
Tory Willson, Special Projects Coordinator, Office of CFO
Date: February 7, 2006
Sub: Response to OIG Draft Audit Report: Audit of Corporation for National and
Community Service Grants Awarded to the EducationWorks

Thank you for the opportunity to review the draft audit report of the Corporation's grants awarded to EducationWorks. The Corporation has also reviewed the response from EducationWorks. We are addressing only one issue at this time. We will respond to all findings and recommendations in our management decision when the final audit is issued; we have reviewed the findings in detail; and worked with EducationWorks to resolve the audit.

The auditors questioned \$87,250 in costs associated with the Substitute Teacher Corps. The Corporation's regulations [45 CFR 2540.100 (e) *Nonduplication*] state, "Corporation assistance may not be used to duplicate an activity that is already available in the locality of a program." Before awarding the grant, the Corporation required EducationWorks to obtain a letter from the superintendent of schools attesting to a shortage of substitute teachers. As EducationWorks pointed out in their response, the services provided by the members were not available to the school system; therefore duplication did not take place. In addition, the role of the members was not the same as the ordinary substitute teachers.

The Corporation will address all of the findings during audit resolution after the audit is issued as final.

