Office of Inspector General
Corporation for National and Community Service

AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE COOPERATIVE AGREEMENTS AWARDED TO ETR ASSOCIATES, INC.

OIG REPORT NUMBER 06-13

Corporation for
NATIONAL & COMMUNITY SERVICE

Prepared by:

COTTON & COMPANY LLP
635 Slaters Lane, 4th Floor
Alexandria, Virginia 22314

This report was issued to Corporation management on January 5, 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 July 5, 2006, and complete its corrective actions by January 5, 2007. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Corporation for
NATIONAL & COMMUNITY SERVICE

OFFICE OF INSPECTOR GENERAL

Audit of Corporation for National and Community Service Cooperative Agreements Awarded to ETR Associates, Inc.
Audit Report 06-13

OIG Summary

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), contracted with Cotton & Company LLP to perform an audit of costs claimed by ETR Associates, Inc. (ETR) for the period April 1, 2003, through March 31, 2005. The audit covered financial transactions, compliance, and internal control testing of two Training and Technical Assistance cooperative agreements: 01CACA0006 and 01CACA0012.

Our audit identified questioned costs, totaling $47,427, which related to controls over program income associated with National Service Learning Clearinghouse cooperative agreements. Our audit also disclosed that ETR did not adequately monitor subcontract costs. The Corporation and ETR, in their responses to our draft report, proposed satisfactory corrective actions.

The report also discloses that cooperative agreements awarded to ETR were funded through various Corporation fund codes provided by several Corporation departments or sections. When the Corporation commingles various funds within a single agreement or contract without restriction, the Corporation could be at risk of expending funds for purposes not intended by the appropriations associated with the funding codes. The Corporation commented that it had recognized the need to improve its funding and accounting procedures for cooperative agreements and developed new procedures that were included in the application instructions for awards for new providers in October 2005. This matter will be considered further in the OIG's planning processes.

The OIG reviewed Cotton & Company's report and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Claimed and Questioned Costs in Appendix A of the report or the effectiveness of internal control or conclusions on compliance with laws and regulations. Cotton & Company is responsible for the attached auditor's report dated November 8, 2005, and the conclusions expressed in the report. However, our review disclosed no instances where Cotton & Company did not comply, in all material respects, with generally accepted government auditing standards.

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

OFFICE OF INSPECTOR GENERAL
AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
COOPERATIVE AGREEMENTS AWARDED TO
ETR ASSOCIATES, INC.

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EXECUTIVE SUMMARY

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), contracted with Cotton & Company LLP to perform an audit of costs claimed by ETR Associates, Inc., for the period April 1, 2003, through March 31, 2005. Our audit covered financial transactions, compliance, and internal control testing of the following awards:

Program	Award No.	Award Period	Audit Period
Resource Center	01CACA0006	08/01/01-09/30/05	04/01/03-03/31/05
National Service Learning Clearinghouse	01CACA0012	06/01/01-09/30/05	04/01/03-03/31/05

Audit objectives were to determine if:

- ETR's financial reports to the Corporation presented financial award results fairly and costs were allowable in accordance with award terms and conditions;

- ETR's internal controls were adequate to safeguard Federal funds; and

- ETR had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations, and award conditions.

We conducted audit tests between August 9, 2005, and November 8, 2005.

Our audit report expresses a qualified opinion on Appendix A, Claimed and Questioned Costs, and we determined that costs claimed by ETR for the awards appear fairly stated and allowable in accordance with award terms and conditions, except for $47,427 of questioned costs related to program income.

We have also issued a report, titled Independent Auditors' Report on Compliance and Internal Control, on our consideration of ETR's internal control and compliance with laws and regulations. In that report, we identified two issues of noncompliance that are required to be reported under generally accepted government auditing standards. One of these matters affected ETR's internal control over financial reporting and its operation that we consider to be a material weakness. These issues are summarized below:

- ETR did not report program income or appropriately apply income earned under the National Service Learning Clearinghouse (NSLC) award as a reduction of reported/claimed expenses. Program income during our audit period amounted to $47,427; and

- ETR did not adequately monitor subcontract costs.

BACKGROUND

Corporation for National and Community Service

The Corporation supports a range of national and community service programs that provides an opportunity for individuals to engage in service that fosters civic responsibility and strengthens communities. It also provides educational opportunities for those who make a substantial commitment to service.

The Corporation has three major service initiatives: National Senior Service Corps, AmeriCorps, and Learn and Serve. To help strengthen the quality of these initiatives, the Corporation provides training and technical assistance. Both the Domestic Volunteer Service Act and the National and Community Service Act provide for training as a significant element in conducting effective service activities and developing participant skills. The Corporation is responsible for providing high-quality training through its training systems and programs.

Training officers at Corporation headquarters support the planning and delivery of training by national service grantees and projects. Their activities may take many forms based on needs of intended recipients.

The Corporation has Training and Technical Assistance (TTA) providers that serve grantees, subgrantees, and projects in areas of common need (such as sustainability) across programs; national priority (such as education); and national standards or norms (such as financial management). Others support development of national service programs through training design and delivery, program management and sustainability. Each TTA provider has an individual work plan and varied sources of funding. Services include providing telephone consultation, materials, and training. Requests for TTA provider services are coordinated through the respective state commissions, Corporation state offices or state education agencies, and Corporation headquarters.

ETR Associates, Inc.

ETR Associates, Inc., is a nonprofit organization located in Scotts Valley, California. Its mission is to enhance the well being of individuals, families, and communities by providing leadership, educational resources, training, and research in health promotion with an emphasis on sexuality and health education. ETR, which has approximately 100 employees, is composed of two operating divisions that provide educational services and media to Federal, state and local governments.

ETR provides technical assistance to the Corporation under two cooperative agreements: NSLC and Resource Center. These cooperative agreements have no matching requirements. The purposes of the two agreements are to collect and disseminate information and materials related to service learning and provide publications to AmeriCorps and other buyers.

ETR receives an annual Single Audit in compliance with Office of Management and Budget (OMB) Circular A-133. We reviewed Single Audits for years ended June 30, 2001, 2002, 2003, and 2004. The Corporation's funds were selected as a major program in all years. ETR has received unqualified opinions in these years.

EXIT CONFERENCE

We held an exit conference with ETR and Corporation representatives on November 21, 2005. ETR and Corporation responses to the draft report are included as Appendices B and C, respectively. ETR and the Corporation included planned corrective action for both internal control issues. Additionally the Corporation provided comments on the Other Matters.

OTHER MATTERS

The cooperative agreements awarded to ETR were funded through various Corporation fund codes[1] provided by several Corporation departments or sections. Modifications were similarly funded and defined additional scope of work, extension of time to perform core activities, or both. Modifications often included budget and project periods that started at the beginning cooperative agreement award dates, although the modifications were not prepared (and were not effective) for several years after cooperative agreement award dates.

When the Corporation commingles various fund codes on a cooperative agreement without restriction, the recipient has no obligation to account for those funds separately or to associate specific fund codes with any particular effort or performance period. Depending upon legal restrictions that might exist, the Corporation might be at risk of expending funds for purposes not intended by the appropriations associated with the funding codes. The OIG plans to further consider this matter.

[1] The term "fund code" represents accounting classifications used by the Corporation to identify the appropriation or subdivision of an appropriation that will be obligated and expended for the activity. Fund codes include the legal restrictions of the funding appropriation, such as when the funds can be used (i.e., a particular fiscal year of obligation) or other limitations.

Cotton & Company LLP
635 Slaters Lane
4th Floor
Alexandria, VA 22314
P: 703.836.6701
F: 703.836.0941
www.cottoncpa.com

November 8, 2005

Office of Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT

We have audited costs claimed by ETR Associates, Inc. for the period April 1, 2003, through March 31, 2005, for the cooperative agreements listed below. These costs are presented in Appendix A, Claimed and Questioned Costs, and are the responsibility of ETR management. Our responsibility is to express an opinion on these costs based on our audit.

Program	Award No.	Award Period	Audit Period
Resource Center	01CACA0006	08/01/01-09/30/05	04/01/03-03/31/05
National Service Learning Clearinghouse	01CACA0012	06/01/01-09/30/05	04/01/03-03/31/05

We conducted our audit in accordance with audit 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 about whether financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in Appendix A. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial presentation. We believe that our audit provides a reasonable basis for our opinion on incurred costs.

Appendix A is intended to present allowable costs incurred under the awards in accordance with applicable OMB Circulars, and award terms and conditions. Appendix A is not intended to be a complete presentation of ETR's financial position in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for questioned costs in Appendix A, the financial schedule presents fairly, in all material respects, costs claimed for the cooperative agreements in conformity with OMB Circulars and award terms and conditions.

In accordance with generally accepted government auditing standards, we have also issued a report dated November 8, 2005, on our consideration of ETR's internal control and compliance with laws and regulations. This report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering audit results.

This report is intended for the information and use of the OIG, ETR, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

SHadley

Sam Hadley, CPA
Partner

Cotton& Company

Cotton & Company LLP
635 Slaters Lane
4th Floor
Alexandria, VA 22314

P: 703.836.6701
F: 703.836.0941
www.cottoncpa.com

November 8, 2005

Office of Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL

We have audited costs claimed by ETR Associates, Inc., to the Corporation for National and Community Service for the following awards and have issued our report thereon dated November 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and generally accepted government auditing standards.

Program	Award No.	Award Period	Audit Period
Resource Center	01CACA0006	08/01/01-09/30/05	04/01/03-03/31/05
National Service Learning Clearinghouse	01CACA0012	06/01/01-09/30/05	04/01/03-03/31/05

COMPLIANCE WITH LAWS AND REGULATIONS

As part of obtaining reasonable assurance about whether financial schedules are free of material misstatements, we performed tests of compliance with certain provisions of laws, regulations, and the cooperative agreements, noncompliance with which could have a direct and material effect on determination of financial schedule amounts. Providing an overall opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. Test results disclosed an instance of noncompliance that is required to be reported under generally accepted government auditing standards and is discussed below (Finding No. 1).

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we obtained an understanding of ETR's internal control over financial reporting to determine audit procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on internal control over financial reporting. We noted matters involving internal control over financial reporting and its operation, however, that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect ETR's ability to record, process, summarize, and report financial data consistent with assertions of management in the financial schedules (Finding Nos. 1 and 2 below).

A material weakness is a condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that misstatements 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 internal control over financial reporting would not necessarily disclose all matters in the internal control structure that might be reportable conditions and that are also considered material weaknesses. We consider Finding No. 1 to be a material weakness.

FINDINGS

1. ETR did not report program income or appropriately apply income earned under the NSLC award as a reduction of reported/claimed expenses.

During our audit period, ETR received $47,427 of income based on the sale of pamphlets and other materials offered under the NSLC initiative. ETR provided correspondence, dated June13, 2001, between the Corporation and ETR indicating the Corporation's intent that ETR was to use program income to offset production costs. ETR did not, however, report its program income to the Corporation, and it has not used the income to offset claimed costs.

According to OMB Circular A-110, Subpart C, paragraph 24, *Program Income*, grantees are required to retain program income earned during the project period. Further, program income must be:

- Added to funds committed to the project by the Federal awarding agency;
- Used to finance the non-Federal share of the project; or
- Deducted from total project allowable costs in determining net allowable costs.

A Federal agency is permitted to authorize which method is to be applied. In this case, the Corporation provided guidance to ETR on the disposition method; however, ETR did not follow the guidance. ETR expected the Corporation to provide further and more detailed guidance on program income. It could not, however, provide documentation to support this.

Recommendation: We recommend that the Corporation:

a. Recover all program income earned to date. Earned program income during our audit period totaled $47,427, and was $51,763 from inception to date;

b. Calculate and recover interest earned on program income that was not returned or used to offset program expenses;

c. Ensure that ETR establishes a policy to report all program income earned on Federal awards; and

d. Monitor program income earned and budgeted by ETR to ensure that all income is being reported and adequately returned or applied against program expenses.

ETR and Corporation Comments: ETR noted that the program income funds are committed to the project although the funds have not been spent, and that they have received program officer approval for the specific projects that will be funded. ETR further noted that it now understand that the income should be reported on the FSRs and will do so in the future. Finally, ETR believes that the issue should not be reported as a material weakness due to the small amount of income, and because the program income had been accurately tracked. The Corporation agreed that ETR did not follow previous instructions regarding the program income, and it will ensure that ETR uses the funds as directed (to offset program expenses), and will further ensure that ETR establishes appropriate policies and procedures related to program income.

Auditors Additional Comment: ETR and Corporation corrective actions are responsive to our recommendations. We believe that the finding should remain as a material weakness because the instructions provided by the Corporation were not followed; program income had not been reported to the Corporation and interest earned had not been calculated or remitted back to the Corporation.

2. ETR did not adequately monitor subcontract costs.

ETR entered into several subcontracts with research firms and universities to accomplish subprojects within the scope of its cooperative agreements with the Corporation. In many instances, ETR issued cost-type subcontracts that require its subcontractors to invoice ETR for actual costs incurred. ETR did not, however, have procedures in place to review invoices, and thereby ensure that costs billed represented actual costs. Such procedures can determine whether invoiced:

- Labor hours were supported by employee timesheets;
- Labor rates represented actual costs incurred for each employee;
- Indirect costs or rates (fringe benefits, overhead, general and administrative) represented actual, allowable indirect costs; and
- Other direct costs were supported by documentation such as travel receipts or vendor invoices.

ETR noted that it monitors subcontract relationships closely and ensures that it receives the product requested under the subcontract. It approves interim invoices after ensuring that the invoice amount is reasonable compared to the scope of work and budget provided by the subcontractor. It does not, however, review actual costs. In many cases, ETR believes that the services provided are so easily defined that a review is not necessary. OMB Circular A-110, Subpart B, paragraph 21(b), *Standards for Financial Management Systems*, requires ETR to have effective control over funds, adequately safeguard assets, and have procedures for determining the reasonableness and allowability of costs. Additionally, paragraph 47, *Contract Administration*, requires recipients to develop a system that evaluates contractor compliance with the terms and specifications of the subcontract.

Recommendation: We recommend that the Corporation:

a. Require ETR to revise its policies and procedures to include a review of subcontractor invoices to ensure that actual costs are being billed;

b. Provide guidance to ETR on the use of other subcontracting arrangements (such as time and materials and fixed price) that would allow ETR to obtain services required without requiring a detailed review of invoices; and

c. Provide guidance to ETR on alternative contract language for cost-type contracts that will increase controls over actual costs, such as including fixed labor rates, fixed or ceiling indirect cost rates and ceilings on other direct costs or subjecting the subcontractor to per-diem travel limits.

ETR and Corporation Comments: ETR has begun an aggressive review and update of the policies and procedures regarding monitoring cost-type contracts. Additionally, they are reviewing all contracts to ensure that the correct contract vehicle is used. The Corporation agreed to review ETR's revised subcontracting procedures to ensure they meet Federal requirements.

Auditors Additional Comment: ETR and Corporation corrective actions appear responsive to our recommendations.

This report is intended for the information and use of the OIG, ETR, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

SHadley

Sam Hadley, CPA
Partner

APPENDIX A

CLAIMED AND QUESTIONED COSTS

Program	Award No.	Audit Period	Claimed Costs	Questioned Costs
Resource Center	01CACA0006	4/01/2003-3/31/2005	$3,768,725	$0
National Service Learning Clearinghouse	01CACA0012	4/01/2003-3/31/2005	$1,481,029	$47,427

As discussed in Finding No. 1 to the Independent Auditors' Report on Compliance and Internal Control, ETR did not report $47,427 of program income earned during our audit period under the NSLC award or apply this amount as a reduction to claimed costs. Earned program income and related interest earned should have been taken as a reduction of claimed costs, ultimately reducing the Corporation's reimbursement to ETR by that amount. Program income earned to date is $51,763.

APPENDIX B

ETR's RESPONSE TO DRAFT AUDIT REPORT

To: Carol Bates, Acting Inspector General

From: Carlos Pedraza, Director, National Service Projects, ETR Associates
David Kitchen, Chief Financial Officer, ETR Associates

Cc: Gretchen Van der Veer, Office of Leadership, Development, and Training
Tory Willson, Audit Resolution Coordinator

Date: 21 December 2005

Subject: Response to OIG Draft Audit Report of Corporation for National and Community Service Cooperative Agreements Awarded to ETR Associates

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Thank you for the opportunity to review the draft audit report of the Corporation's cooperative agreement awarded to ETR Associates.

Finding 1

The report noted that ETR did not report program income, nor appropriately apply income earned under the award as a reduction of reported/claimed expenses.

The draft audit report further notes that according to OMB Circular A-110 grantees are required to retain program income earned during the project period. Program income must be:

- Added to funds committed to the project by the Federal awarding agency;
- Used to finance the non-Federal share of the project; or
- Deducted from the total project allowable costs in determining the net allowable costs.

Further, the Corporation was to authorize which method was to be applied. While ETR stipulates to the requirements of the OMB Circular, we do not agree with the conclusions of the draft audit report that:

1. ETR did not follow Corporation's guidance on the disposition method.
2. ETR required further guidance from the Corporation as to disposition.

The 2001 e-mail on this topic from NSLC program officer, Brad Lewis, which ETR furnished to the auditors, specified the manner of disposition for these funds, which was that they should be added to funds committed to the National Service-Learning Clearinghouse by the Corporation to further the goals outlined in our scope of work under the cooperative agreement. ETR has, in fact, committed these funds to those purposes within the timeframe of the cooperative agreement, which extends through December 2006. The fact that the funds were not fully expended during the timeframe examined by the auditors is not material since ETR was under no obligation to have done so during that particular 24-month period.

As to the auditor report's Recommendation A ("The Corporation [should] recover all program income earned to date either through a reimbursement or by offsetting program income against subsequent claimed costs."), ETR has already received approval from our program officer at Learn and Serve America as to specific activities we are funding from this program income. Also, ETR believes that Learn and Serve staff should have been included in the audit exit meeting since the National Service-Learning Clearinghouse was the project that earned the income in question.

Finally, ETR now understands that the program income should have been included on our FSRs and will do so in the future, in accordance with the further recommendations on this matter in the draft audit report.

As to whether this finding rises to the level of a "material weakness" in this audit, ETR disagrees that the scope of this finding reaches that level. The definition offered in the draft audit report states:

> "A material weakness is a condition in which the design or operation of one or more of the internal control elements does not reduce, to a relatively low level, the risk that misstatements 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."

While ETR stipulates that the income should have been reported on the FSR, we also believe it is important to note that the income amount in question represents 1.7 percent of the $3.1 million funded under this cooperative agreement.

Furthermore, this definition of "material weakness" seems to imply that our employees were unaware as a normal course of performing our assigned functions about the existence and amount of the program income. This is not true. Program income was closely tracked by our financial office and program staff, and included in our monthly internal financial statements. The use of program income was always intended as specified in the 2001 e-mail from our program officer at the Corporation.

Finding 2

ETR does not minimize the importance of proper monitoring of subcontracts. As was noted in the draft audit report, ETR has occasionally used cost-type subcontracts that require subcontractors to invoice for actual costs incurred. Although ETR did receive invoices which were reviewed and compared to budgets and predicted accomplishments, ETR acknowledges that there were not procedures in place for reviewing timesheets, payroll records, or other direct costs. ETR did request and receive A-133 audits from major subcontracts that are required to have A-133 audits performed.

The audit reports states:

> "In many cases, ETR believes that the services provided are so easily defined that a review is not necessary…."

ETR believes the statement was made in reference to the completion of work related to providing trainings, not control of funds.

ETR has begun an aggressive review and update of the policies and procedures regarding the monitoring of cost-type contracts, including review of source documents such as timesheets and payroll information.

In addition, ETR is reviewing all contract types and contract language to ensure the correct contract vehicle is used to contract for the services or materials required.

APPENDIX C

CORPORATION’S RESPONSE TO DRAFT AUDIT REPORT

Corporation for
NATIONAL &
COMMUNITY
SERVICE

To: Carol Bates, Acting Inspector General

Margaret Rosenberry

From: Margaret Rosenberry, Director of Grants Management

Cc: Gretchen Van der Veer, Office of Leadership Development and Training
Tory Willson, Audit Resolution Coordinator

Date: December 20, 2005

Sub: Response to OIG Draft Audit Report of Corporation for National and Community Service Cooperative Agreements Awarded to ETR Associates, Inc

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Thank you for the opportunity to review the draft audit report of the Corporation's cooperative agreements awarded to ETR Associates. Due to the limited timeframe we are not responding to all of the findings and recommendations at this time. We will respond to all findings and recommendations during the audit resolution process after the final report is issued.

The report noted that ETR did not follow Corporation instructions related to program income and recommended that the Corporation ensure that ETR establishes a policy to report all program income earned on federal awards. The Corporation agrees. During the audit resolution process, we will determine the disposition of program income based on the Corporation's instructions to use it to offset costs of production and ensure ETR establishes appropriate policies and procedures related to program income.

As recommended, the Corporation will also review the ETR subcontracting procedures and ensure they meet federal requirements.

The report also raised an issue related to funding sources for cooperative agreements that the Corporation addressed in its recent competition for new cooperative agreements. Under these awards, the Corporation supports training and technical assistance activities for several of its programs. We recognized we needed to amend our funding and accounting procedures for cooperative agreements to track activities by funding source. In 2003-2004 the Corporation reviewed our processes and now requires training and technical assistance providers to submit activity-based budgets by program fund in addition to line item budgets. They also report on their activities by program funding source. New procedures were developed and included in the application instructions approved by OMB for new providers awarded on October 1, 2005.