

CORPORATION

FOR NATIONAL

 SERVICE

OFFICE OF THE INSPECTOR GENERAL

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Review of

Arizona-Mexico Commission/Border Volunteer Corps

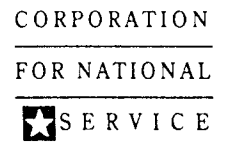
Tucson, Arizona

Grant Number 93LOAZ0001

This report is issued to CNS Management. According to OMB Circular A-50, *Audit Followup*, the Corporation must make a final management decision within 180 days of the report. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented or the amount of disallowed costs.

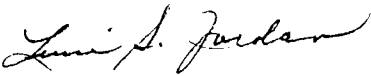
The Inspector General must approve any request for public release of the report.

MEMORANDUM



DATE: December 6, 1995

TO: Shirley Sagawa,
Executive Director
Gary Kowalczyk
Acting Chief Financial Officer

FROM: Luise S. Jordan 
Inspector General

SUBJECT: Review of Arizona-Mexico Commission/Border Volunteer Corps

Attached is a copy of our report on the results of our review of costs related to a Commission on National and Community Service grant to the Arizona-Mexico Commission/Border Volunteer Corps (BVC). Based on our review, we found that BVC did not adequately manage grant funds. As a result, we are questioning \$148,415 in salaries paid to BVC staff and \$41,043 in improper and/or unsupported costs. We also found that in two instances, BVC carried out lobbying activities that were prohibited by Federal and CNS regulations. These, and other matters are discussed in more detail in this report.

The Corporation's response to a draft of this report is included in its entirety as Exhibit A; AMC's response is presented as Exhibit B. If you have any questions pertaining to this report, please contact Bill Anderson at (202) 606-5000, extension 395.

Attachment

c: Harris Wofford
Chief Executive Officer
Mike Kenefick
Director, Grants Management

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Corporation for National Service
Office of Inspector General
Review of Arizona-Mexico Commission/Border Volunteer Corps
Grant Agreement #93LOAZ0001

We performed a limited review of costs related to a Commission on National and Community Service¹ grant to the Arizona-Mexico Commission/Border Volunteer Corps (BVC). We selected this grant for audit because (a) it was a large dollar Commission Subtitle D grant, and (b) the Office of Inspector General (OIG) had received allegations of mismanagement at BVC.

RESULTS IN BRIEF

Based on our review, we found that BVC did not adequately manage grant funds. We found that certain staff salaries were excessive and that staff did not allocate time between allowable and unallowable activities. We also examined a judgmental sample of expense vouchers and other invoices, including those for BVC's American Express credit cards, which were paid with grant funds. We found that BVC used grant funds to pay costs that were unallowable under Federal regulations including the commuting expenses of two BVC staff. As a result, we are questioning \$148,415 in salaries paid to BVC staff and \$41,043 in improper and/or unsupported costs.

We also found that in two instances, BVC carried out lobbying activities that were prohibited by Federal and CNS regulations.

Further, an individual who had been a consultant with BVC from its inception, was hired as its Assistant Director in March 1995, and subsequently fired thirty-six days later, alleged that BVC's monitoring of AmeriCorps Members was inadequate, CNS inappropriately interfered with the firing of a BVC staff member, and CNS covered up BVC deficiencies after a site visit. While we did find that at least one AmeriCorps Member inappropriately performed service hours in Mexico, we also noted that the Mexico service project was terminated and was otherwise appropriately resolved by the Corporation prior to the allegations. We found no other evidence that AmeriCorps Members were not performing service as required, however, we did find weaknesses in BVC's system to record and track service hours performed by AmeriCorps Members.

We found that CNS did not inappropriately interfere with the firing of BVC's Program Manager or cover up deficiencies at BVC as alleged. In response to the complaints, CNS appropriately informed BVC's parent organization, AMC, about the Corporation's concerns and performed a follow up visit to BVC. The Corporation's follow up actions also included issuing a

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

letter to AMC outlining grant renewal concerns related to the BVC's program design and management and requested a written response to these issues. Subsequently, AMC notified CNS that it was withdrawing its legal applicant status as of August 31, 1995, stating that the program no longer met its mission. Citing a "lack of a satisfactory parent organization, significant management problems and numerous other issues," CNS formally notified AMC that BVC would not be renewed.

These matters are discussed in more detail in the findings and recommendations section of this report.

BACKGROUND

BVC was established by the Arizona-Mexico Commission (AMC) in conjunction with the Mexico Border Progress Foundation to promote bi-national environmental and community betterment initiatives through voluntary service in the U.S.-Mexico border region. BVC began operations along the Arizona-Sonora border in September 1994. Funding for BVC had principally been provided through a Commission on National and Community Service grant to Arizona under Subtitle D of the National and Community Service Act of 1990.

By designation by the governor of Arizona, AMC, the state agency for administering the BVC, acted as legal and fiduciary agent for this program. AMC is a non-profit organization established to promote U.S.-Mexico cross border development. The Commission grant, totaling \$2.8 million, was BVC's first Federal award. The grant originally covered the period from August 1, 1993, through September 30, 1995, but effectively ended when BVC closed down on August 18, 1995.

BVC's budget was based on 110 AmeriCorps Members participating in the program. Under the program, AmeriCorps teams, comprised of from two to six members, were matched with participating "Service Partners." Service Partners were selected from nonprofit and local government agencies depending on local needs. They included health clinics, hospitals, and school districts. Although the Service Partners were responsible for the day-to-day supervision of the team members, BVC "Team Coordinators" provided oversight to ensure that the various teams serving in a given area were meeting the project's requirements.

While in operation, BVC was located in Tucson, Arizona; AMC is located in Phoenix, Arizona. AmeriCorps Members served at various sites throughout the border region. All grant administration was provided through BVC headquarters in Tucson.

Table I: Budgeted Grant Costs -- BVC AmeriCorps Program

Cost Category	CNS Award*
Planning Grant (August 1, 1993 -- July 31, 1994)	
Program and Administration Costs	\$ <u>271,293</u>
Operational Grant (August 1, 1994 -- September 30, 1995)**	
Living Allowances (110 AmeriCorps Members)	\$ 840,400
FICA, Worker's Compensation, State Unemployment Insurance, and Health Care	221,165
Training, Education, Uniforms, and Other	<u>148,500</u>
Subtotal	1,210,065
Staff Salaries, Benefits, and Training	636,966
Travel, Transportation, Supplies, and Equipment	150,319
Evaluation	75,000
Administrative Expenses	<u>137,481</u>
Total -- Operational Grant	\$ <u>2,209,831</u>
<hr/>	
Planning Grant	\$ 271,293
Operational Grant	2,209,831
Child Care	127,500
Post Service Education Awards	<u>275,000</u>
Total CNS Funding	\$ <u>2,883,624</u>

*Under the grant, BVC was required to add matching funds of \$43,000 in year one and \$412,983 in year two. Except for education benefits, providing matching funds was not statutorily required for Commission Subtitle D grants. However, BVC established an obligation to provide matching funds in its grant proposal, which was incorporated into the grant award.

**The Corporation provided additional funding of \$19,898, and approved a budget reallocation of \$60,000 to cover costs associated with closing BVC operations and administering post-service awards.

SCOPE AND METHODOLOGY

We originally planned to perform a review of BVC's accounting system and management controls to assess BVC's ability to comply with Federal fiscal accounting requirements and CNS grant requirements. With BVC's eminent closure, we modified our approach and established two objectives for our review. The first objective was to review costs charged to the grant to assess BVC's compliance with applicable Federal fiscal accounting and CNS grant requirements. Our second objective was to assess the validity of allegations of mismanagement at BVC.

We performed our review during the period July 10 through September 15, 1995. Our procedures included a site visit to BVC's office in Tucson, Arizona, and discussions with BVC Service Partners. We obtained an understanding of BVC's accounting system and management controls and performed limited testing to determine whether they were operating as intended. Our procedures included:

- interviewing key accounting and program personnel at BVC;
- reviewing audit work performed by Braun and Decker Associates, P.C. the Independent Public Accounting firm auditing BVC's financial statements;
- examining account balances and reviewing supporting documentation for a judgmental sample of charges made to the grant;
- comparing BVC staff salaries to a 1994 salary survey report compiled by the National Association of Service and Conservation Corps (NASCC). Because the report contained 1994 national averages, we adjusted the salaries to 1995 dollars using the Federal government's average salary increase for 1995. We weighted the salaries to reflect average salaries in the Tucson area based on data provided by the Department of Labor's Bureau of Labor Statistics;
- determining the ratio of salaries to AmeriCorps Members and comparing to other Commission Subtitle D programs with similar award amounts and number of AmeriCorps Members;
- reviewing BVC controls to monitor AmeriCorps Members and report service hours, and testing, on a judgmental basis, the accuracy of BVC's database used to accumulate service hours;
- contacting a judgmental sample of five of 23 BVC Service Partners responsible for direct daily supervision of AmeriCorps Members and inquiring as to whether AmeriCorps Members were performing service as indicated and controls were in place to monitor them and report their service hours; and

- interviewing relevant CNS staff; reviewing CNS staff correspondence files on BVC and constructing a time line of site visits by CNS and the sequence of events surrounding the firing of staff at BVC.

We performed our review in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. However, our procedures were substantially less in scope than an audit, and accordingly, did not include elements essential to the expression of an opinion on all costs charged to the grant. Accordingly, we do not express such an opinion. We did not review all costs charged during the grant period; if additional audit procedures had been performed, other matters and additional questioned costs might have come to our attention that would have been reported.

We provided a draft of this report to CNS and AMC officials for their comments which are presented as Exhibit A and B, respectively. In addition to its response, AMC sent OIG copies of supporting documentation that was not available to us at the time of our review. We have provided this information to CNS grants management officials for their consideration during the resolution process.

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

FINDINGS AND RECOMMENDATIONS

- I. BVC staff salaries were excessive. Salary costs charged to the grant were not properly documented and included amounts related to unallowable fund raising activities.

We found that, while overall spending on staff salaries by BVC was within amounts budgeted for the program, the salaries for some BVC staff were excessive. Additionally, BVC used grant funds to pay salary costs that were unallowable under Federal regulations.

In their response to a draft of this report both CNS and AMC objected to our questioning salaries as excessive, stating in part that CNS had approved the salaries. However, as discussed below, in our view, BVC salaries exceeded "reasonableness" criteria established in Federal cost principles. Furthermore, for the majority of the salaries in question "reasonableness" is *only one of three* criteria the salaries failed to meet.

We compared the number of staff at BVC to other Commission Subtitle D programs with similar award amounts and number of AmeriCorps Members. We also compared BVC staff salaries to similar positions in the National Association of Service and Conservation Corps' national survey of nonprofit youth service and conservation corps. This survey was the same data BVC used to justify raising its salaries. We found that BVC's staff to AmeriCorps Member ratio was reasonable. However, we found that the Executive Director's annual salary of \$85,000 per year was over 50

percent higher than the comparable average in the survey--and nearly double that paid to his predecessor.

Further, during our review we found no evidence to justify the higher salary paid to the Executive Director. In fact, the Executive Director stated that he did not have the appropriate experience to run BVC and that he was "not qualified to be a director for this type of program." We also found that the Training Manager's annual salary of \$35,000 per year exceeded the highest comparable salary in the survey by over \$6 thousand (or approximately 20%). Based on our analysis, 5 of the 18 BVC staff salaries exceeded a comparable average salary from the survey.

We reviewed the personnel files of BVC staff for justification of the higher salaries. We found that BVC did not complete performance appraisals as required by its employee manual or have formal position descriptions until March 1995 (these position descriptions were still in draft at the time of our review). Additionally, individual personnel files did not clearly show pertinent information on starting date and salary, changes in salary, promotions and terminations. We concluded that there was insufficient documentation to justify salaries higher than the average for Tucson.

Federal regulations state that charges to Federal grants must be reasonable in order to be allowed. Employee compensation is considered reasonable to the extent that it is comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved (OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, Attachment B, section 6). Under this criteria, we believe that \$59,789 in BVC salary costs charged to the grant between August 1, 1994, and August 18, 1995 (operating grant period), are unreasonable and should be disallowed.

We also found that the BVC Controller performed duties for both AMC and BVC, and that both the BVC Executive Director and the Communication & Outreach Coordinator performed fund raising activities, all of which were charged to the grant. We reviewed a judgmental sample of time sheets prepared by the Controller, Executive Director, and the Communication & Outreach Coordinator. None of the time sheets examined had an allocation for time spent on these or other activities. The Controller estimated that he spent 25% of his time working for AMC. Because the Controller performed his AMC duties in another city, he was able to provide a reasonable estimate of the percentage of time he spent on AMC activities based on his commuting schedule. Neither the Executive Director or the Communication & Outreach Coordinator could provide an accurate allocation of their time charges.

Federal regulations require employees who split their time between two or more functions to maintain an after-the-fact distribution of their activities (Circular A-122, Attachment B, section 6). These regulations also prohibit paying for fund raising activities with grant funds (Circular A-122, Attachment B, section 19). We believe that the portion of the Controller's salary which relates to duties performed for AMC is an unallowable charge to the grant. We are also questioning 100 percent of the salaries of the Executive Director and Communication & Outreach Coordinator due

to the lack of supporting documentation on the distribution of their time between allocable and unallowable activities.

We recommend that CNS disallow BVC salaries as follows:

Table II: Questioned Costs Related to BVC Salaries

Position	Incurred	Accepted	Questioned
Executive Director (Excessive Salary; Unsupported/Unallowable Activities)	\$ 86,194	\$ 0	\$ 86,194
Controller (Excessive Salary; Unsupported/Unallowable Activities)	40,974	23,259	17,715
Communication & Outreach Coordinator (Unsupported/Unallowable Activities)	22,706	0	22,706
Program Manager (Excessive Salary)	35,667	31,771	3,896
Training/Education Manager (Excessive Salary)	36,570	24,271	12,299
Human Resources/Field Manager (Excessive Salary)	30,960	25,355	5,605
Total Salaries^a	\$ 253,071	\$ 104,656	\$ 148,415

^aIncludes \$59,789 in excessive salaries and \$88,626 in unsupported and/or unallowable costs. Total Salaries Incurred are for staff with questioned salary costs and includes amounts received for unused annual leave paid when BVC shut down.

II. BVC made improper and/or unsupported charges to the grant.

As part of our review we examined a judgmental sample of expense vouchers and other invoices, including those for BVC’s American Express credit cards, which were paid with grant funds. We found that BVC paid at least \$41,043 in improper and/or unsupported costs including the commuting expenses of two BVC staff and fund raising costs.

We recommend that CNS disallow \$41,043 related to these costs as follows:

Table III: Questioned Costs Related to Improper/Unsupported Charges

Description	Incurred	Accepted	Questioned
Commuting expenses <i>(Note 1)</i>	\$ 16,834	\$ 0	\$ 16,834
Fund raising costs <i>(Note 2)</i> (travel - \$2,448; direct mail campaign - \$365)	2,813	0	2,813
Costs related to personnel action <i>(Note 3)</i> (back pay - \$996; attorney fees - \$1,831)	2,827	0	2,827
Entertainment meals and refreshments <i>(Note 4)</i>	3,238	0	3,238
Excess travel charges ^a <i>(Note 5)</i>	5,680	1,935	3,745
Charges related to other AMC programs <i>(Note 6)</i>	825	0	825
Fines and penalties <i>(Note 7)</i>	230	0	230
Travel to Mexico <i>(Note 8)</i>	2,106	0	2,106
Personal expenses <i>(Note 9)</i>	195	0	195
Unsupported charges <i>(Note 10)</i>	8,230	0	8,230
Total	\$ 42,978	\$ 1,935	\$ 41,043

^a Incurred amount represents only charges related to excessive travel, not total travel expenses charged to the grant.

Notes to Table III

Note 1. **Commuting expenses.** We found that BVC purchased a car and paid gas and car maintenance for the Controller to commute to work with grant funds. We found no evidence that the Controller commuted to work during his normal work hours. BVC's Controller commuted between his home in Phoenix and BVC's office in Tucson three to four days a week, a round trip of approximately 250 miles. BVC initially reimbursed the Controller for his commuting expenses at 25.5 cents per mile. In August 1994, BVC purchased a car for the Controller to use for his commute and paid for gas and car maintenance by reimbursing him for out of pocket expenses or through the use of a BVC American Express card. Payments to the Controller for commuting expenses, including the cost of the car, were at least \$15,984. Because we did not review all of the Controller's expense reports, total payments for the Controller's commuting expense could be higher.

We also found that BVC paid for gas for a Team Coordinator to commute between her home in Tucson and her normal work site in Nogales. BVC allowed the Team Coordinator to use a BVC van purchased with grant funds for her commute. The van was purchased and used to transport AmeriCorps Members. BVC paid for the gas by reimbursing the Team Coordinator for her out of pocket expenses or through the use of a BVC American Express card. Based on our review of a judgmental sample of payments to the Team Coordinator, we estimate that at least \$850 was paid for commuting expenses. We found no evidence that the Team Coordinator commuted to work during her normal work hours.

Federal regulations state that compensation for employees is allowable to the extent that it is reasonable for the services rendered (Circular A-122, Attachment B, section 6). The regulations do not list commuting expenses as an acceptable employee fringe benefit. We consider the use of a BVC vehicle and reimbursement for commuting expenses to be a fringe benefit and an unallowable charge to the grant. We recommend that CNS disallow all costs related to the Controller and Team Coordinator's commute. We estimate these costs to be at least \$16,834. Furthermore, we recommend that the compensation to the Controller and Team Coordinator for these commuting expenses be reported to the Internal Revenue Service as income.

Note 2. **Costs associated with fund raising.** We found that BVC used grant funds to pay the travel expenses of the Executive Director and Communication & Outreach Coordinator to attend a fund raising seminar. We also found that BVC held a direct mail fund raising campaign financed with grant funds. Federal regulations prohibit the use of grant funds for fund raising (Circular A-122, Attachment B, section 19).

Note 3. **Costs associated with a personnel action taken by BVC's Program Manager.** BVC entered into a settlement agreement with its Program Manager related to her firing and subsequent rehiring. The settlement agreement included the payment of \$996 in back pay and \$1,831 for attorneys' fees to the Program Manager. Federal regulations state that compensation for personal services must be reasonable to be allowable (Circular A-122, Attachment B, section 6). We question the reasonableness of the back pay because the Program Manager was not an employee of BVC nor working on grant activity during the period that this pay covers. The reasonableness of the attorneys' fees is questioned on the basis that the fees were paid by an employee to her personal attorney and were not related to the grant. Neither cost was approved for payment by CNS.

Note 4. **Costs for meals and refreshments related to entertainment.** BVC staff routinely paid for meals and refreshments with grant funds. BVC personnel stated that the costs were related to staff meetings or training sessions with AmeriCorps Members. BVC staff were not in a travel status when the meal or refreshments

Notes to Table III - continued

were charged. While BVC's grant application stated that it would offer informal training through various types of meetings, its proposed budget did not include meals or refreshments as an anticipated cost of these meetings. We have determined these charges to be entertainment expenses. Federal regulations classify entertainment as an unallowed cost (Circular A-122, Attachment B, section 12).

Note 5. *Travel charges in excess of daily maximums for lodging and meals.* BVC travel policy provided maximum lodging rates for various cities and a maximum daily meal allowance of \$30. Federal regulations state that travel costs may be charged on a basis consistent with the method used by the organization in its regular operations (Circular A-122, Attachment B, section 50b). We are questioning costs in excess of maximums allowed by BVC's travel policy.

Note 6. *Charges not related to BVC's program.* BVC used grant funds to pay for costs, usually for travel by the Executive Director, which were associated with other AMC programs such as the Border Governor Conference, the Joint Protocol Session and miscellaneous AMC meetings. Federal regulations state that a cost is allocable to a Federal grant if it is incurred specifically for the grant award, benefits the award or is necessary to the overall operation of the organization (Circular A-122, Attachment A, section 4a). We do not consider costs related to other AMC programs to be allocable charges to the grant.

Note 7. *Fines and penalties paid with grant funds.* BVC paid for a fine incurred because a driver of a BVC van did not have the vehicle registration in the car. BVC also paid for a penalty charge for a late tax payment. Federal regulations state that the costs of fines and penalties are unallowable (Circular A-122, Attachment B, section 14).

Note 8. *Executive Director's travel to Mexico.* The Executive Director traveled to Mexico at least four times between January 24 and June 1, 1995. BVC used grant funds to pay the related airfare, hotel, meals and other costs associated with these trips. Federal regulations state that direct charges for foreign travel costs are allowable only when each separate trip has received prior approval from the awarding agency (Circular A-122, Attachment B, section 50e). The trips to Mexico were not included in BVC's approved budget, and there is no evidence that BVC received prior approval from CNS for any of the trips. Furthermore, because CNS policy, which the Executive Director was aware of, prohibits service activity outside of the United States, we believe there was no grant related purpose for the BVC Executive Director to travel to Mexico.

Note 9. *Personal expenses.* BVC's Executive Director paid for maintenance to his van with a BVC credit card. We also found an unexplained purchase of flowers paid with the credit card. Federal regulations state that a cost is allocable to a Federal grant if it is incurred specifically for the grant award, benefits the award or is necessary to the overall operation of the organization (Circular A-122, Attachment A, section 4a). We do not consider personal expenses to be allocable charges to the grant.

Note 10. *Costs paid without adequate supporting documentation.* We found numerous charges which lacked supporting documentation (such as receipts and/or an explanation of the purpose of the charge). Federal regulations state that costs charged to the grant must be adequately documented (Circular A-122, Attachment A, section 2g).

III. One AmeriCorps Member performed inappropriate service.

We found that at least one AmeriCorps Member performed service hours in Mexico. However, we found no other evidence that AmeriCorps Members were not performing service as required.

BVC's Executive Director and Program Manager stated that a BVC AmeriCorps Member performed service hours in Mexico. The service was related to coordinating community agencies in Nogales, Arizona, and Sonora, Mexico, in an effort to reduce crime committed by street children. Both employees stated that they requested guidance from CNS regarding the appropriateness of an AmeriCorps Member serving in Mexico. In an April 3, 1995 memo, CNS' Office of the General Counsel informed BVC that AmeriCorps Members could not perform their service in Mexico. The Executive Director stated that once CNS informed BVC of the prohibition, BVC canceled the project and did not allow any other AmeriCorps Members to serve in Mexico. We found no evidence of any other AmeriCorps Members performing inappropriate service. We believe that this issue was adequately addressed and resolved by the Corporation prior to any allegations received by the OIG.

Additionally, we received an allegation that AmeriCorps Members were not performing service and were not adequately monitored. We reviewed BVC Service Partner agreements which were used to document the scope of service projects and inform Service Partners of their responsibility to supervise AmeriCorps Members. We found that BVC had signed agreements from all Service Partners. We also contacted a judgmental sample of five BVC Service Partners responsible for direct daily supervision of AmeriCorps Members. We made inquiries as to the supervision of AmeriCorps Members and the service provided. One Service Partner reported that they had an AmeriCorps Member who was consistently late or absent. After efforts to improve the AmeriCorps Member's performance were unsuccessful, BVC dismissed the AmeriCorps Member. No other Service Partner interviewed reported problems with AmeriCorps Members' service or supervision.

IV. BVC's controls over accumulation of service hours were inadequate.

BVC used bi-weekly time sheets to track and accumulate AmeriCorps Members' service hours. The time sheets were to be signed by the AmeriCorps Member, Service Partner, and Team Coordinator to certify that the service hours were actually performed. However, we found that time sheets were submitted without the signature of the Service Partner or Team Coordinator or the signature was dated as many as 51 days after the AmeriCorps Member's signature. We also found that BVC staff allowed submission of time sheets as late as six weeks after the end of the pay period and encouraged the re-creation of missing time sheets.

Unlike current AmeriCorps grant programs, BVC AmeriCorps Members were not required by law to serve a minimum number of hours to receive a post service award. However, the BVC

included a 1700 minimum hour requirement in its grant application. Thus, BVC was required to track and accumulate the number of service hours each AmeriCorps Member performed. BVC used a time sheet data base to determine total number of hours served.

After reviewing the first five of a judgmental sample of AmeriCorps Member time sheets, we determined that the controls over their preparation were ineffective. For the five time sheets, we found that all five were missing either the Service Partner or Team Coordinator signature. Also, on one of the five time sheets, the signature of the Service Partner was dated 51 days after the AmeriCorps Member's signature. The BVC staff person responsible for collecting the time sheets stated that it might be up to six weeks after a pay period before he received all time sheets. Additionally, BVC's Program Manager acknowledged in a memo that time sheets are not always prepared by AmeriCorps Members and that she had informed the AmeriCorps Members to re-create any missing time sheets. We concluded that controls over reporting and accumulating service hours worked were inadequate to ensure accurate data.

We have noted similar problems with controls over accumulating data on service hours provided at other grantees. We recommend that CNS develop control procedures that will enable it to better ensure itself as to the accuracy and reliability of AmeriCorps Members' time charges, by providing for a continuing review of CNS and grantee timekeeping policies, internal controls, procedures, and organizational responsibilities.

V. BVC conducted prohibited lobbying activity.

We found that the March 1, 1995, and May 24, 1995, issues of BVC's newsletter urged AmeriCorps Members to write to members of Congress in support of AmeriCorps, and provided a sample letter and the addresses of Arizona's Senators and Representatives. BVC's Communication & Outreach Coordinator stated that any AmeriCorps Members who wrote letters would have been doing so as private citizens on their own time. Federal regulations prohibit the use of Federal funds for costs associated with lobbying and political activities (Circular A-122, Attachment B, section B21). Additionally, CNS policy specifically prohibits these kinds of activities. CNS' Chief Executive Officer reemphasized this policy in a March 7, 1995, memo addressed to all Corporation programs and grantees. The memo stated that "organizing a letter-writing campaign to Congress" was an "example of unlawful political activity." While the memo acknowledged that individuals can contact members of Congress, it stated that they must do so on their own time, at their own expense and at their own initiative.

We believe the letter-writing campaign encouraged in BVC's newsletter is a violation of CNS prohibitions on lobbying and advocacy. We recommend that CNS require all grantee newsletters to be sent to the Corporation. Because CNS is in the process of awarding new grants,

we also recommend that CNS send a letter to all grantees formally notifying them of the Corporation's policy in this area.

VI. CNS did not inappropriately interfere with the firing and subsequent rehiring of BVC's Program Manager or cover up deficiencies at BVC.

BVC's Executive Director stated that decisions related to the hiring and firing of an Assistant Director and Program Manager in March 1995 were made by him and that CNS did not interfere with these decisions. BVC's Program Manager stated that although she contacted CNS staff for information on March 8, 1995, the day she was fired, and three or four other times to obtain information on BVC's grant, no one at CNS gave her advice on how to handle her firing.

The grant agreement with CNS states that BVC had full responsibility for day-to-day operations and the conduct of the grant program. However, CNS expects the grantee to consult with CNS when major changes are made or key personnel are changed. We believe the firing of the Program Manager was a major action which should have been discussed with CNS officials prior to the action being taken. We believe the issue was appropriately discussed with CNS officials after the fact. Based on our review of correspondence between CNS and BVC and discussions with CNS staff, it appeared that CNS was merely responding on a programmatic level to the repercussions of the staff changes.

Further, we found no evidence of a cover up by CNS of BVC deficiencies after a site visit in February 1995. CNS provided BVC with feedback and recommendations for improvement after completing the review. Additionally, after the staffing changes made in March 1995, BVC staff, AmeriCorps Members, and Service Partners complained to CNS. In response to the complaints, CNS appropriately informed BVC's parent organization, AMC, about the Corporation's concerns and performed a follow up visit to BVC.

As previously discussed, the Corporation's follow up actions included issuing a letter to AMC on July 10, 1995, outlining grant renewal concerns related to the BVC's program design and management and requested a written response to these issues. In a follow-up conference call to the letter, AMC notified CNS that it was withdrawing its legal applicant status stating that the program no longer met its mission. AMC said it would assist BVC in its search for a new parent organization. At CNS' request, AMC also sent written notification of its withdrawal, which was effective as of August 31, 1995.

CNS informed AMC that the Corporation could accept or reject any proposed new parent organization. BVC was awarded an additional \$19,898 to continue operations and search for a new parent. Citing "lack of a satisfactory parent organization, significant management problems and numerous other issues," CNS formally notified AMC that BVC would not be renewed in a letter

dated August 15, 1995. Without adequate funding from any other sources, BVC shut down on August 18, 1995.

At the time of our review, BVC was in the process of having its financial statements audited under the requirements of OMB Circular A-133, *Audits of Institutions of Higher Education and Other Non-Profit Institutions*. As of October 13, 1995, a report on the results of the audit had not been issued. The OIG plans to review the work performed during the A-133 audit to determine if other costs should be questioned.

TO: Luise S. Jordan, IG

FROM: Shirley Sagawa
Diana Algra
Michael Kenefick

SUBJECT: Response to Draft Audit Report No. 96-04
Border Volunteer Corps

DATE: November 28, 1995

CORPORATION
FOR NATIONAL
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We have reviewed the draft audit. We support the many findings concerning improper activities or unallowable cost. However, in some areas we have substantive concerns about the character of and rationale for some of the costs questioned.

For five of the BVC staff, the draft audit questions \$59,789 of incurred costs based on assessments of "excessive" salaries. These determinations were derived by a comparative analysis with other Subtitle D programs and with other similar positions in the National Association of Service and Conservation Corps' national survey of nonprofit youth service and conservation corps. In the case of the Executive Director, this data demonstrated that the Executive Director's salary was 50% higher than the average; the Training Director exceeded the highest NASCC comparable salary by \$6,000 and 5 of 18 BVC staff exceeded a comparable average in the survey.

The Commission on National and Community Service staff were aware of the BVC salaries being paid. The Commission and subsequently Corporation staff were aware of the rate of pay being provided to the Executive Director when he was hired with implicit concurrence. Further, the methodology to establish "reasonable" costs is unusual and limited to NASCC youth service organizational data. Neither the prior Subtitle D nor current AmeriCorps programs are limited to traditional youth service organizations but encompass a wide array of nonprofit organizations. Salaries in these organizations would vary extensively. The purpose of the reasonableness criteria in the OMB circulars is to prevent "loading-up" compensation due to Government support. The types of people needed to start a new program such as BVC's would justify hiring someone at a high level of compensation to successfully do so. As you and Corporation management note, this program was not successfully implemented and may well have resulted from the inadequacy of the Executive Director. However, this judgment of inadequacy should not lead to questioning costs incurred for salaries. As a result of inadequate management, the program has been discontinued.

Finally, stating that 5 of 18 salaries at BVC exceeded the average seems to imply a balanced reasonableness, i.e., 13 of 18 did not exceed the average or were under it.

The audit also questions costs related to BVC staff attendance at a fund-raising seminar and the costs associated with a direct mail fund-raising campaign. We agree that the direct campaign fund-raising activity is not allowable as a direct charge. However, the staff attendance at the training course should be an allowable expense particularly since the Corporation sponsors the course and advocates attendance. Building infrastructure and capability are warranted activities under the grants, even more important with new, growing programs.

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November 17, 1995

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Luise S. Jordan, Inspector General
Corporation for National Service
1201 New York Avenue N.W.
Washington, D.C. 20525

Dear Ms. Jordan:

This letter is the Arizona-Mexico Commission's preliminary response to your letter to me of October 19, 1995. This letter will address the two major findings and recommendations contained in the Office of the Inspector General's ("OIG") report enclosed with your October 19 letter.

Finding No: 1 - BVC STAFF SALARIES WERE EXCESSIVE

1. General Response Related to Staff Salaries

The CNS approved BVC salaries. The BVC submitted a proposed budget to the CNS that included a budget narrative containing the executive director's salary, along with the salaries of other personnel. This budget was approved by the CNS by letter dated January 17, 1995 from Michael Kenefick. (A copy of the budget, budget narrative and CNS approval are enclosed.) In fact, Mr. Carter reports that CNS was integrally involved in recruiting Mr. Carter and Mr. Camunez of the CNS made the formal salary offer to him.

Three of these salaries (the controller, the training/education manager and the human resources/field manager) were approved a second time. This second approval was on July 27, 1995, also by Mr. Kenefick. Attached is a copy of this approval.

In some cases, raises were given that subsequently increased the salary above the specific amount contained in the proposed budget (*e.g.* the training/education manager, human resources/field manager and controller). However, in these cases, additional responsibilities were assumed by the staff person so that these adjustments were warranted. These raises brought salaries in line with responsibilities and were, in part, motivated by Mr. Camunez's concerns that the BVC salaries were too low. Mr. Carter based

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these raises on his knowledge of the Tucson market and by reference to a non-profit organization salary guide. The total amount spent on salaries was within the budget allocation for staff salaries.

In addition, please note that these salaries are somewhat inflated because vacation pay was given as a result of the termination of the BVC project. We understand that these payments were required by state law. We would be happy to provide more detailed information to you on these amounts.

2. Executive Director

The OIG found that the executive director's annual salary of \$85,000 per year was over 50% higher than the comparable average in the National Association of Service and Conservation Corps' national survey of non-profit youth service and conservation corps (the "Survey"). The OIG also noted that the salary was double that paid to Mr. Carter's predecessor.

We have reviewed the 1994 Survey. It appears to us that the executive director's salary was within the range reflected in that Survey. While it was higher than average, it was below the highest comparable salary in the Survey. It does not appear from our review of the Survey that the director's salary was unreasonable. There was no requirement that the BVC only pay its staff the "average" salary set forth in the Survey.

It should also be noted that the executive director did not have a direct predecessor. The predecessor to whom the OIG report refers was really an assistant director filling in on an interim basis, so it is not appropriate to compare the executive director's salary with his "predecessor's" salary.

The OIG report refers to Mr. Carter's statements about his experience and ability in operating an entity such as BVC and apparently concludes that this self assessment is further reason his compensation was too high. However, you should contrast these statements with the praise heaped upon Mr. Carter from a variety of sources. The CNS and others praised his efforts during his directorship. In a June 21, 1995 letter, Congressman Kolbe told Mr. Carter that "I am very impressed with your accomplishments this first year . . . the Border Volunteer Corps has made a real difference in the lives of our citizens." In May of 1994, Mr. Camuney wrote that "I have great confidence in Richard Carter. . . ." In October 1994, the Chair of the Border Progress Foundation praised the "tremendous success that the Border Volunteer Corps is experiencing" and he specifically noted the

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positive impact of Mr. Carter's leadership. In January 1995, Mr. Eli Segal of CNS wrote to Mr. Carter that he was "enormously impressed with how much you have accomplished in such a short period of time." Richard Persely of CNS wrote to Mr. Carter in February 1995 that "whenever I need to show visitors an exemplary project, BVC will be at the top of the list." Even before his role at the BVC, Mr. Carter was very well regarded in the community and was on the Arizona-Mexico Commission Executive Committee. He was very experienced and knowledgeable about United States/Mexico relations with special expertise in the environmental area.

3. Training Manager

The OIG found that the training manager's annual salary of \$35,000 per year exceeded the highest comparable salary in the Survey by over \$6,000.

Our review of the 1994 Survey reveals that the highest comparable salary for an education coordinator's position was listed at \$31,200 - just \$3,500, not \$6,000, below the BVC salary. Please note that the BVC training coordinator supervised other employees, which appears to be a greater responsibility than is reflected in the education coordinator position description on page 2 of the Survey. As a result, a \$3,500 "premium" above the highest comparable salary is reasonable.

4. Controller

We assume with respect to the controller, OIG was using the administrative officer category in the Survey. The salary for the BVC controller (\$40,974) is well within the range contained in the Survey. While the BVC controller salary exceeded the average, it was almost \$14,000 less than the highest comparable salary in the Survey. BVC had no obligation to keep salaries at or below the Survey average.

5. Program Manager

We are not sure how OIG determined an acceptable salary for the program manager because we do not find a comparable position in the Survey. Would you please explain in more detail why OIG believes the program managers' salary was excessive by \$3,896. In any event, we find the OIG claim surprising because, as the CNS knows, this person was the backbone of the BVC program and often served as an "informal" assistant director for operations.

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6. Human Resources/Field Manager

With respect to the human resources/field manager, we are not sure what comparable Survey position was used by OIG. If the administrative support position was used, the human resources/field manager position was again well within the Survey range. Please let us know what comparable Survey position OIG used.

7. Activities Outside Scope of Grant

The OIG maintained that a portion of the BVC controller's compensation should be disallowed because 25% of his time was spent working for the AMC. This allocation was approved by the CNS, through Mr. Camunez. Other AMC staff devoted substantial time to the BVC. Rather than charge the BVC for their efforts, the CNS agreed to allow the controller to serve as the AMC bookkeeper at no charge to the AMC as an offset to the time and efforts given to the BVC by other AMC staff. We believe the value of the AMC staff contribution to the BVC probably well exceeded 25% of the controller's salary.

The report also disallows the entire executive director's and the communication and outreach coordinator's salaries on the grounds that there is lack of supporting documentation for the distribution of their time between allowable and unallowable activities (*i.e.* fund raising). This disallowance is inappropriate. The OIG points to two activities to support this finding: preparation of a BVC pamphlet and attendance at a "fund raising" seminar. The pamphlet describes the activity of the Border Volunteer Corps. Although admittedly it requests funds in the cover letter, it also serves as an educational pamphlet to increase community awareness of the BVC. The executive director's only involvement in this pamphlet was to review the final product and write a cover letter. The communications and outreach coordinator compiled the pamphlet primarily from existing materials. The seminar constituted only three days, including travel. Mr. Carter believes this seminar was approved by CNS.

The executive director, in conjunction with the communications and outreach coordinator, did have to spend substantial time increasing the recognition of the BVC. In fact, the CNS encouraged them to do so and explained that such activities were allowable so long as they were not solely for fund raising. In response to his request for guidance, CNS explained that fund raising was part of his job. In a March 15, 1995 letter from Verna Kuo,

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she advised ". . . an executive director . . . could travel to conferences and events and, among their duties of informing the public about the program [he could] ask for matching funds." Ms. Kuo later told Mr. Carter that "{F}und development must occur." In other words, CNS told the BVC that it must raise funds but it had to be a secondary (rather than primary) purpose of any activity. Under that standard, arguably only the seminar fell into the primarily fund raising activity. The other activities of the executive director and the communications and outreach coordinator at issue were primarily to provide public recognition of the BVC and, only secondarily, if at all, to raise funds.

Finding No: 2 - BVC MADE IMPROPER AND/OR UNSUPPORTED CHARGES TO THE GRANT

1. Commuting Expenses

The \$16,834 in commuting expenses includes the cost of the car which we anticipate will shortly be turned over to the CNS. As a result, this charge should be reduced by an amount equivalent to the value of the car. The purchase price of the car was approximately \$12,000.

With respect to the balance of the commuting expenses, please understand that the controller was hired before it was decided that his primary place of business would be Tucson. As a result, the BVC was left with a choice of hiring a new controller or defraying this controller's commuting expenses. The OIG views this as additional compensation. Even if treated as additional compensation, the controller's total compensation still fell within the range set forth in the Survey and was still reasonable under the circumstances.

The reimbursement payments for a team coordinator's use of a BVC van arose from a similar situation. In this case, the team coordinator was not hired with the expectation that she would be working in Nogales. However, a suitable replacement in Nogales could not be identified and so the commute from Tucson to Nogales was necessary.

The CNS should take into account the overall circumstances outlined above. It made more sense and was probably more cost effective to retain, rather than replace, the controller and team coordinator even though it was necessary to incur these commuting expenses.

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2. Costs Associated With Fund Raising

We will need to do further investigation on this item. It is not clear to us whether the seminar was solely on fund raising topics or had multiple purposes. As noted above, Mr. Carter believed CNS had approved his attendance at this seminar. The direct mail campaign had some aspect of fund raising as reflected in the cover letter, but also served an educational, public recognition function. In any event, we anticipate that some portion of this amount probably should be unallowable, but we are not yet in a position to quantify that amount.

3. Costs Related to Personnel Action

With respect to this item, please note that in the CNS approved budget \$3,000 in legal fees were to be charged to the corporation grant. We recommend that the BVC be responsible for the back pay and that the \$1,831 in attorney fees be paid for from the grant funds.

4. Entertainment, Meals and Refreshments

The OIG has just provided us with the back up detail on these charges. From a preliminary review, it appears that some of these charges were for staff members who were on a travel status and should be allowed. Others may not be allowable under the grant. We will provide you with our detailed analysis as soon as it is completed.

5. Travel Charges in Excess of Daily Maximum for Lodging and Meals

We have just received the back up detail from the OIG and will supplement this response once we have completed our analysis. We are willing, as part of that process, to sit down with an OIG or CNS representative and jointly review these invoices.

Our preliminary review, however, indicates that many of these expenses are allowable. For instance, one of the largest unallowable charges was a relocation expense to house a team coordinator in Yuma until other housing could be arranged. It is our understanding that such relocation expenses are allowable and can be paid for with grant funds. (See OMB circular A-122, ¶41 (attachment B)).

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In other cases it appears that the OIG simply misunderstood certain credit card charges. For instance, one charge for \$406 was viewed by the OIG as being a one night lodging charge for one person and disallowed the charge. In reality the hotel bill shows that it was a cumulative bill for different charges for a variety of different people over several days. All of these charges fall within the travel policy allowances. In other cases BVC members doubled up in hotel rooms, saving grant money. The expense per person was well within the travel policy daily allowance except that the room charge was not divided in half by the OIG but rather was treated as a charge for a single occupant.

Please note that the travel policy referenced by the OIG was not promulgated until December 5, 1994. Consequently, charges prior to that time cannot be judged strictly on that standard but on some more general standard of reasonableness.

6. Charges Not Related to BVC's Program

We concur that some of these expenses relate to AMC programs and should not be allowed. However, we note that at least a portion of these expenses could fairly be allocated to the BVC because at the Border Governor's Conference the BVC executive director did meet with Michael Camunez of CNS to discuss the BVC program. President Clinton in May 1994 specifically linked the Conference with the BVC and said that support of the BVC by the Conference was vital. In light of this connection, it was certainly appropriate for Mr. Carter to participate in the Border Governor's Conference on behalf of BVC.

7. Fines and Penalties Payable by Grant Funds

We concur with the OIG report on this item.

8. Travel to Mexico

It was Mr. Carter's understanding in part from CNS that it was his job to promote the BVC in the United States and Mexico. Further, it was his understanding that the Mexico trips were acceptable to the CNS.

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9. Personal Expenses

With respect to the charges for maintenance to the executive director's van, please note that the executive director allowed his van to be used periodically for BVC business. Reimbursement for maintenance was less expensive to the BVC than payment of mileage. Mr. Carter believes he saved BVC over \$1,500.

The flowers purchased by the BVC were sent to an ill corps member and are at least arguably work related.

10. Costs Paid Without Adequate Supporting Documentation

We have compiled supporting documentation for many of the charges questioned by the OIG and are enclosing with this letter copies of that supporting documentation. We believe these charges were legitimate and are supported by the enclosed documentation. We are willing to have one of our representatives meet with an OIG representative to explain the enclosed backup documentation, if necessary.

We will provide an additional response to the OIG report as soon as our ongoing analysis is completed. In the meantime, please contact the undersigned if you have any questions or would like to discuss any of these issues further.

Very truly yours,



Margie A. Emmerman
Executive Director
Arizona-Mexico Commission

Enclosures