


Report Number 96-28

Date: January 17, 1996

CORPORATION

FOR NATIONAL

 SERVICE

OFFICE OF THE INSPECTOR GENERAL

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Review of

Local Initiatives Support Corporation

New York, New York

Grant Number 94ADNNY019

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 this report.

**Review of the
Corporation For National and Community Service
Grant Number 94ADNNY019**

**Local Initiatives Support Corporation
New York, New York**

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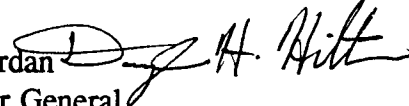
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SECTION 1

MEMORANDUM

DATE: January 17, 1996

TO: Gary Kowalczyk
Acting Chief Financial Officer

FROM: For Luise Jordan 
Inspector General

SUBJECT: Initial Review Report Number 96-28
Local Initiatives Support Corporation
CNS Grant Number 94ADNNY019



The Office of the Inspector General (OIG) obtained the services of Haag & Company, CPAs, P.C., to conduct a review of the CNS AmeriCorps grantee Local Initiatives Support Corporation (LISC). The purpose of the review was to assess LISC's ability to comply with Federal accounting and reporting requirements required under the grant's provisions.

Although the review disclosed that LISC's accounting system appeared to be adequate for accumulating and reporting costs incurred for the AmeriCorps grant¹, Haag & Company found that the system does not fully comply with all applicable Federal regulations. The OIG reviewed the Haag & Company report and the workpapers supporting its conclusions. We agree with the findings and recommendations presented in the report. Further, we are questioning \$75,693 in costs charged to the grant.

<u>Expense Category</u>	<u>Amounts</u>	
	<u>Questioned*</u>	<u>Reference</u>
Salary and Fringe Benefits	\$ 46,526	Finding 1
Administrative Expenses	29,167	Finding 3
Total	\$ <u>75,693</u>	

* Incurred through March 31, 1995

We provided a draft of the report to LISC and CNS management for their comments. CNS did not respond. LISC's response is included as Attachment A.

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¹ As described in the Scope of Review section of the Haag & Company report (page 1).

Background

The Corporation awarded LISC a \$998,247 grant for the period July 1, 1994 through September 30, 1995. CNS budgeted an additional \$434,700 for future educational awards that may be earned by eligible AmeriCorps members at the completion of their service period. The grantee agreed to provide \$1,027,963 as its non-Federal share.

The grant's purpose was to support 92 AmeriCorps Members and provide technical assistance to various nonprofit community development corporations to assist in the development of affordable housing, spur commercial investment, create jobs, and expand other services to improve the quality of life in low-income communities.

Summary of Findings

The Haag & Company report follows in its entirety. We have summarized its findings and recommendations below. As a result of our review of the report and the workpapers supporting its conclusions, we are questioning costs totaling \$75,693 from the grant's inception through March 31, 1995, the period covered by the Haag & Company review.

I. Salary costs for LISC's New York staff employees charged directly to the AmeriCorps grant are not properly documented. The grantee's time recordation system does not identify each employee's daily activity by project or function². Estimated salary and fringe benefits charged to the grant through March 31, 1995 were \$46,526.

In response to the draft report, LISC stated that it implemented a time sheet system effective for those costs incurred after the OIG review, to document all salary costs charged to the AmeriCorps grant. For those salary expenses incurred prior to the implementation of the new time sheet system, LISC offered its assurance that previously claimed costs were accurate. LISC also indicated that it was their understanding that time charged to the grant could be based on the negotiated rates identified in the program budget and attributed the noted deficiency to a lack of CNS guidance.

Because the system did not conform to Federal requirements, we are questioning the \$46,526 charged to the grant. In addition, we recommend that CNS grants management assess the effectiveness of LISC's new system for documenting grant related salary costs and require LISC to provide sufficient evidence to establish their validity.

² Attachment B, Section 6 of OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, requires that the grantee document salary costs with personal activity reports that reflect an after-the-fact determination of the actual activity of each employee.

II. Administrative salaries for the LISC Vice President of Human Resources and the Vice President of Field Strategy are being charged directly to the grant rather than being included as part of the grant's administrative costs.

Both vice presidents are part of LISC's central management and support functions that are not assigned to projects on an hourly or use basis. Without specific evidence to the contrary, we believe that their functions meet the definition for administrative expenses and as such, should be part of the grant's administrative costs. Reclassification of these costs, approximately \$12,500 through March 31, 1995, would raise LISC's administrative expense charges to nearly 14 percent of total Federal costs incurred through March 31, 1995, and thus exceed the five percent administrative expense limitation in section 42 U.S.C.12571(d) of the National and Community Service Act, as amended, and CNS regulations (45 C.F.R. 2521.30 (h)). Further, the charges are based on budget estimates rather than actual costs. Despite requests by the Haag & Company to review documentation to support these costs, no records were provided.

In response to the draft report, LISC stated that the salary costs charged to the grant by its two vice presidents were direct program expenses for training of AmeriCorps members, program oversight, internal evaluations, and policy development.

We recommend that the vice presidents' salaries be reclassified from direct costs to administrative costs and that charges exceeding the five percent administrative cap be disallowed.

III. Administrative expenses charged to the AmeriCorps grant were based on budget estimates rather than actual costs. Total administrative costs charged through March 31, 1995--for rent, telephone, FAX, reproduction, and postage--amount to \$29,167. The charges were prorated monthly billings of \$4,167 derived from budget estimates, have no relationship to costs recorded in LISC's general ledger, and fail to meet the requirements of OMB Circular A-122.

LISC responded to this issue by stating that Haag & Company based its determination on inaccurate assumptions. LISC projects that it will fully expend all budgeted Federal costs thereby allowing it to recover all budgeted administrative costs subject to the five percent spending cap. LISC also stated that adjustments were made to its General Ledger, subsequent to the Haag & Company's review, so that recorded expenditures now agree with those reported in its Financial Status Reports.

Because LISC's administrative charges appear to have been based on budget estimates rather than actual costs incurred, we are questioning administrative costs reported on LISC's FSRs. We recommend that CNS determine the proper amount of administrative expenses that LISC is entitled to at the end of the grant period.

IV. Hours recorded and charged to the grant by AmeriCorps members are not properly controlled. LISC has failed to implement controls to assure itself that reported member hours are accurate.

AmeriCorps grant provisions require signed time and attendance records, for both grant employees and AmeriCorps members, and documented payrolls approved by the grantee. At the time of the review, no LISC approval process was evidenced.

LISC responded that it monitors the financial and management systems of the Community Development Corporations (CDCs) where AmeriCorps members are placed. Since most of the CDC's also receive funds from other Federal sources, LISC indicated it also relies on monitoring performed by the other Federal sources. Although LISC performs site-visits to the CDCs, there was no evidence provided that these visits addressed anything other than programmatic concerns.

We recommend that LISC establish controls to assure that information, including time and attendance reports, received from its CDC worksites is reliable.

V. Costs reported by LISC in its quarterly Financial Status Report (FSR) to the Corporation were not developed from its general ledger accounting records. Rather, costs were obtained from the project manager's manually prepared worksheets. Although reported differences were not significant at the time of review, all future FSRs prepared by the grantee should be based on actual expenses that are supported by LISC's accounting records, in accordance with Federal accounting and reporting requirements.

LISC acknowledged that reported costs in their Financial Status Reports did differ from the amounts recorded in their general ledger. However, LISC considered these differences to be insignificant and attributed them to interim period adjustments that were not yet reflected in their general ledger. Since LISC considered the project manager's worksheets to be the most accurate representation of actual project costs, these costs were reported in the grant's FSRs.

We recommend that CNS require LISC to develop all costs reported in their FSRs from the organization's accounting system. Unrecorded interim adjustments from a project manager's worksheets should not serve as the basis for reporting actual costs to the Corporation.

If you have any questions pertaining to this report, please contact Joseph M. Suszko at (202) 606-5000, extension 392.

Attachment

SECTION 2

Haag & Company, CPAs, P.C.

COST MANAGEMENT CONSULTANTS

P.O. BOX 299, GARWOOD, N.J. 07027-0299 (908) 654-1110

REPORT ON INITIAL YEAR POSTAWARD
ACCOUNTING SYSTEM REVIEW OF
LOCAL INITIATIVE SUPPORT CORPORATION
NEW YORK, NEW YORK
RELATIVE TO
AMERICORPS GRANT AGREEMENT 94ADNNY019

June 23, 1995

REPORT ON INITIAL YEAR POSTAWARD
ACCOUNTING SYSTEM REVIEW OF
LOCAL INITIATIVE SUPPORT CORPORATION
NEW YORK, NEW YORK
RELATIVE TO
AMERICORPS GRANT AGREEMENT 94ADNNY019

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June 23, 1995

SUBJECT: Report On Initial Year Postaward
Accounting System Review Of
Local Initiative Support Corporation
New York, New York
Relative To AmeriCorps Grant Agreement
94ADNNY019

TO: Inspector General
Office Of Inspector General
Corporation For National and Community Service
1201 New York Avenue NW, 8th Floor
Washington, D.C. 20525

1. Purpose And Summary Results Of Review

a. We have performed a postaward accounting system review of Local Initiative Support Corporation (LISC) relative to AmeriCorps Grant Agreement No. 94ADNNY019, to assess LISC's ability to comply with Federal fiscal accounting, and reporting requirements required under the grant's provisions.

b. Our review revealed that LISC's accounting system is adequate for accumulating and reporting costs incurred as part of the AmeriCorps grant. However, some procedures currently being followed by LISC do not comply, in all respects, with applicable Federal regulations that are included in the terms and provisions of the subject grant. These conditions which require correction by LISC are summarized in paragraph 4 below, and detailed in the attached appendixes.

2. Scope of Review

a. In accordance with the Corporation For National and Community Service (CNS) Purchase Order 95-752-1031, dated April 11, 1995, we have performed a postaward accounting system review of Local Initiative Support Corporation (LISC) relative to AmeriCorps Grant Agreement No. 94ADNNY019.

b. We have applied procedures described in the CNS Office Of Inspector General's "Post Award Initial Year Accounting System Review Program". These procedures were performed solely to identify, document and evaluate LISC's management controls over the administration of a CNS grant in compliance with the terms and conditions of the grant document.

Our review covered:

- Organizational structure and assignment of responsibilities.
- Policies, procedures, and other instructions.
- Internal controls and managerial reviews.

- Independent audit reports, and management letter.
- Accounting books and records.
- Time reporting records.

c. Our review was limited to an examination of the grantee's accounting records and financial operating procedures for the purpose of determining the adequacy and suitability of the grantee's accounting system and management control procedures for accumulating and reporting costs incurred as part of the AmeriCorps grant award. As a result of this limitation in scope, we express no opinion on the grantee's system of internal controls taken as a whole.

3. Background Information

a. Grantee's Organization And Operations - Local Initiatives Support Corporation was established in 1979 by the Ford Foundation to help resident led community development corporations (CDCs) transform their distressed neighborhoods into healthy communities. LISC provides financial and technical assistance to CDCs through local offices in 34 areas LISC serves.

In addition to the CNS AmeriCorps Grant, LISC has over \$20 Million in HUD Grants. We were advised by LISC representatives that LISC has never been audited by a Government auditor from HUD, or any other Federal Agency. An A-133 audit is performed annually. At the time of our review, the most recent A-133 audit covered the year ended December 31, 1993. Government grants are only a part of LISC's activities. Revenue for 1994 will exceed \$50 Million. In addition to LISC, the Corporation has three subsidiaries. They are:

1. The National Equity Fund - designed to provide low-income housing assistance through the use of the Low Income Housing Tax Credit to investors.
2. Low Income Managed Assets Corporation - designed to provide a secondary market to provide financial assistance to CDC's at or below current market interest rates which may range from 0% to 6%.
3. Retail Initiative Corporation - designed to provide seed money and business/technical assistance to target groups for retail business start-up.

All entities are non-profit organizations, exempt under the provisions of IRC 501(c)(3). New York City is the corporate headquarters of LISC and its main office. Besides N.Y., LISC has offices in 34 other cities. The AmeriCorps Grant is being performed in 12 of these cities as summarized below.

b. Summary Of The AmeriCorps Grant - This cost-sharing grant agreement was entered into pursuant to the authority of the National and Community Service Act Of 1990 as amended (42 U.S.C. 12501 et seq). The period of performance of this grant is from July 1, 1994 through September 30, 1995. However, the grantee's cost reports indicate that it began incurring costs in September, 1994. LISC, New York is the grantee for this award. All revenue and expenses are controlled through its books and records. CNS funds authorized under the grant totalled \$998,247, with a projected LISC's matching requirement of \$1,027,963. The total value amounts to \$2,026,210. The grant also provides for educational awards of \$4,725 to 92 AmeriCorps participants for a value of \$434,700.

The grant's purpose is to conduct an AmeriCorps program to provide financing and technical know-how to nonprofit community development corporations (CDCs). AmeriCorps members along with these neighborhood-based groups, will develop affordable housing, spur commercial investment, create jobs and expand other services that improve the quality of life in the low income communities.

The Grant operates in 12 locales in which LISC has offices. These include: San Francisco, Los Angeles, San Diego, Hartford, Boston, Lansing, Kalamazoo, St. Paul, Mid-South Delta, Kansas City, Rhode Island, and Puget Sound. Although the grant operates in these cities, all revenues and expenses are controlled and processed through the New York office.

In all cases, LISC works with unrelated Community Development Corporations in these areas. Typically, a local office of LISC will send an RFP to the local CDCs in its area, requesting them to propose a project that fits the AmeriCorps profile. A "project" usually represents the effort of 1 AmeriCorps participant. At the time of our review, there were approximately 80 active AmeriCorps projects. The grant provides for LISC to have a maximum of 92 participants. The AmeriCorps participant is supervised by the CDC at which they work.

The following costs are charged to the AmeriCorps Grant:

- Participant payroll, including taxes and health insurance.
- Training and training related travel.
- Staff travel to sites (primarily to observe training) -
- Administrative costs - This included a share of N.Y. rent, phone, FAX and postage.
- Staff salaries - The Grant is charged with the following:
Project director 100%; 50% of administrative assistant;
10% of V.P. of Human Resources; 10% of V.P. of Field Strategy.
- Computer rental - LISC charges the Grant \$2,700/year for the computer used by the Project Manager.
- Office supplies - Based on actual expenditures.

4. Summary of Areas Requiring Corrective Action

a. LISC's accounting system does not comply, in all respects, with applicable Federal regulations that are included in the terms and provisions of the subject grant. These conditions are detailed in the appendixes of this report, and are summarized below:

- The grantee's system of labor recordation related to its New York employees, and field office employees whose salary is charged directly to the AmeriCorps Grant does not comply with OMB Circular A-110, because timesheets do not identify time charges by specific project. (See Appendix 1)

- The grantee is recovering "administrative" salaries as direct staff salaries. By classifying these salaries as direct staff salaries, these administration expenses are not being subjected to the 5% administrative expense limitation. (See Appendix 2)

- Labor recordation related to AmeriCorps members is not properly controlled, because LISC is not directly involved in the review and approval of AmeriCorps participants timesheets. LISC's staff does not sign-off on timesheets. Furthermore, it appears that LISC does not assure itself that the entities to whom it has delegated this responsibility, ie. CDCs in various cities, have acceptable systems of labor recordation that can be relied on by LISC. (Appendix 3)

- Administrative expenses billed to the Government, and reported on quarterly FSRs are not actual administrative expenses, as reported in general ledger control accounts, and are not distributed to grants on a verifiable basis of allocation. (Appendix 4)

- Among the budget and grant requirements contained in AmeriCorps grant, is a limitation on recoverable administrative costs at 5% of the total grant amount. The grantee is currently recovering administrative expenses at a rate of approximately 14%. (Appendix 5)

- Costs reported in the "Quarterly Financial Status Report" are not supported by the general ledger accounts for the AmeriCorps grant. As of March 31, 1995, the end of the period that served as the basis for our review, the grantee's "Account Detail" report, which, reconciles to the general ledger did not reflect the same AmeriCorps grant costs as reported on the FSR. Instead, reported project costs were arrived at by the project manager through the use of manually prepared worksheets, and schedules. (Appendix 6)

5. Status Of Corrective Action Taken On Prior Recommendations

On December 30, 1994, LISC's independent auditor issued a memorandum that informed LISC management of several conditions that impacted the administration, internal compliance and control procedures related to Federal grants. These conditions were reported as a result of the calendar year 1993 independent audit, performed in accordance with OMB Circular A-133. A summary of these findings as well as the current status of corrective action are as follows:

INDIRECT COST RATES:

Condition: LISC does not prepare and submit indirect cost proposals.

Current Status: The grantee is still not using indirect expense rates to allocate indirect expenses. However, it has prepared a proforma 1994 indirect rate computation, and is in the process of requesting its independent accounting firm to review the methodology. The grantee advised us that it is expecting to begin using a rate to allocate indirect expenses in 1996.

TIMESHEET BASED BILLINGS:

Condition: LISC does not use a timesheet based billing system, but bases charges to Federal Programs on estimated allocation percentages.

Current Status: This condition has not yet been corrected. Four LISC employees are charged in whole or in part to the AmeriCorps grant. A review of their timesheets indicate that they do not specifically identify their daily effort by activity. Instead, the direct charges to the grant are based on estimated allocation percentages.

RECONCILIATION OF BILLED COSTS TO THE GENERAL LEDGER:

Condition: LISC does not perform a reconciliation of Federal Program billings to Federal Program expenses in the general ledger.

Current Status: It appears that this condition still exists. Expenditures reported on the FSR are not supported by general ledger detail.

OVERVIEW OF SUBGRANTEES:

Condition: LISC receives Federal money from grantor agencies. This money is then distributed to CDCs as sub-grants. LISC does not appear to be monitoring CDC activity to ensure that Federal funds and CDC activity are in compliance with Federal

regulations.

Current Status: At this time, we are unaware of any corrective action they may have been taken with respect to this finding.

6. CONCLUDING REMARKS

a. On Wednesday, June 21, 1995, a preliminary exit conference was held, via the telephone, with LISC representatives, to discuss the results of audit and statement of conditions and recommendations. The conference was held at this time, at the request of the grantee, due to the fact that it was the last time that key LISC employees would be together for an extended period of time, as the result of prior commitments, including vacation schedules. It is noted, that at the time of the exit conference, all findings reported herein were not fully developed, and accordingly were not discussed in detail with the grantee's representatives.

b. This report is intended for management representatives of the Corporation For National And Community Service. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

c. Any questions concerning this report may be directed to Edward P. Haag, CPA, of our Firm, through the Office Of Inspector General, CNS.

Haag & Company, CPAs
Haag & Company, CPAs

Report:302-9402

FINDINGS

PROPER RECORDING OF TIME CHARGES - STAFF EMPLOYEES

LISC's New York staff employees who are charged directly to the AmeriCorps grant, do not identify the specific activity on which they spend their time. Four corporate employees are charged in whole or in part directly to the AmeriCorps Grant. This includes: the project manager (100%), an administrative assistant (50%), the Vice President of Human Resources (10%), and the Vice President of Field Strategy (10%). Although these employees prepare a timesheet, the timesheet does not provide for the employee to account for the specific activity on which they spent their time. Instead, the direct charges to specific projects are based on unsupported percentage allocations.

Per OMB A-122 Appendix B, Para. 6.1., the distribution of salaries and wages to contracts or grants must be supported by personnel activity reports (timesheets) that reflect the distribution of activity of each employee whose compensation is charged in whole or in part directly to awards.

We recommend that LISC revise its time recording procedures, and timesheet format, to require employees to specifically identify their daily activity by project or function, and this document be used as a basis for charging time to contracts and grants.

As noted in Appendix 2, we have taken exception to the grantee's classification of the V.P. of Human Resources, and the V.P. of Field Strategy as direct staff salaries.

ADMINISTRATIVE SALARIES ERRONEOUSLY CHARGED DIRECTLY

Included in direct staff salaries and benefits, the grantee is recovering administrative salaries and benefits that should be recovered as part of "administration" costs. By classifying these salaries as direct staff salaries, these administration expenses are not being subjected to the 5% administrative expense limitation.

10% of the salaries of the Vice President of Human Resources, and the Vice President of Field Strategy are being charged directly to the AmeriCorps grant, as direct staff salaries. It is noted, that these employees do not specifically identify their time to the grant. Instead, the direct charge is based on an unsupported estimated percentage allocation.

It is noted that this treatment is consistent with the approved budget. In the CNS portion of the approved budget, LISC included the 10% salary allocation of the V.P. Of Human Resources, and the V.P. Of Field Strategy as direct staff salaries.

We take exception to both the including of these administration salaries in the CNS approved budget as a direct charge; as well as the grantee actually recovering these salaries directly. The cost regulations clearly state that administrative expenses should not be recovered directly. In this instance, we do not believe that the grant document can override the OMB cost principles.

The "AmeriCorps Direct Application", as well as OMB Circular A-122 defines administrative costs as costs related to the support of a program's general operations and not to expenses identified with a specific program or project. Administrative costs include indirect costs such as legal staff, central management and support functions that are not specifically assigned to projects on an hourly or use basis but are accumulated as a whole and proportionately spread across projects.

We believe that the Vice President of Human Resources and the Vice President of Field Strategy meet the definition of administrative expense as described above, and should not be charged to the AmeriCorps Grant as direct staff costs, but should be part of the administrative cost pool.

We recommend that LISC reclassify the salary and related costs of the above vice presidential positions from direct staff costs to administrative costs.

REVIEW AND APPROVAL OF TIME CHARGES - AMERICORPS PARTICIPANTS

Labor recordation related to AmeriCorps participants is not properly controlled by LISC. LISC is not directly involved in the review and approval of AmeriCorps participants timesheets. LISC's staff does not sign-off on timesheets, nor does it appear that LISC assures itself that the entities to whom it has delegated this responsibility, ie. CDCs in various cities, have acceptable systems of labor recordation that can be relied on by LISC.

The Financial Management Provisions of the AmeriCorps Grant, Para. 18.c., "Time and attendance records", state that, "Salaries, wages, and living allowances charged directly to this grant or charged to matching funds must be supported by signed time and attendance records for each individual employee and participant, regardless of position, and by documented payrolls approved by a responsible official of the grantee." (Underline added)

Furthermore, OMB Circular A-110, Attachment F, makes it clear that grantees have a responsibility to assure themselves that other entities, to whom they delegate responsibility, have in place a financial management systems that can be relied on to protect the Governments interest.

To test LISC's compliance with this grant provision, we requested time and attendance records for selected AmeriCorps participants. Our review of the timesheets disclosed that no LISC official signed off on timesheets.

The AmeriCorps participant is supervised by the CDC at which they work. They observe the work rules of the CDC. Accordingly, the LISC AmeriCorps participants have different work rules depending upon the CDC for whom they work. We were advised that the AmeriCorps participant prepares a timesheet, the CDC reviews and approves the timesheet, and the timesheets are sent to the New York office of LISC directly from the CDC, for payment. Since the LISC program manager does not observe the activities of the participants on a daily basis, she does not approve or sign-off on timesheets. LISC relies on the various CDC's timekeeping procedures. However, we do not know to what extent LISC has determined the acceptability of timekeeping procedures of the various CDCs that approve AmeriCorps participants timesheets.

On June 16, 1995, we asked LISC to furnish us with any evidence

that documents their review and verification of the acceptability of CDCs' time reporting systems, on which they rely. To date we not received copies of any such documentation.

We recommend that LISC strengthen control procedures that will enable it to better insure itself as to the accuracy and reliability of AmeriCorps participants time charges, by providing for a continuing review of LISC and CDC labor management and timekeeping policies, internal controls, procedures and organizational responsibilities.

BILLING AND REPORTING ADMINISTRATIVE EXPENSES

Administrative expenses billed to the Government, and reported on quarterly FSRs are not actual administrative expenses, as reported in general ledger control accounts, and are not distributed to grants on the basis of a verifiable basis of allocation.

The AmeriCorps Grant provisions states that the grantee's financial management system must include a clear audit trail in support of charges to the grant, and the amounts charged must be shown in the books and records of the grantee.

OMB Circular A-122, Attachment A, para. C. "Indirect Costs", indicates that indirect costs should be allocated to cost objectives on a basis most appropriate to the cost being prorated. Also, para. E.2.b. "Negotiation and Approval of Rates", states that a nonprofit organization which has not previously established an indirect cost rate with a Federal agency shall submit its initial cost proposal as soon as possible after the organization is advised that an award will be made, and in no event later than three months after the effective date of the award.

LISC is billing the following standard amounts to its AmeriCorps Grant as administrative expenses, each month, and is also reporting these amounts on its quarterly FSR.

Rent	\$2,809.00
Telephone	466.42
FAX	373.17
Copies	200.00
Postage	318.08

	\$4,166.67
	=====

These figures are the amounts that LISC used as a basis for negotiating their AmeriCorps Grant. They are not an allocation of actual costs incurred as reflected in the general ledger.

Also, the grantee has not developed an administrative expense rate, which would assist in the systematic allocation of administrative expenses.

We recommend that LISC develop a billing and reporting mechanism for administrative costs, that is controlled through the general ledger, and distributes cost to final cost objectives based on a reasonable and verifiable basis of allocation. We believe this could best be achieved by the establishment of an indirect expenses rate.

EXCEEDING THE 5% ADMINISTRATIVE COST CEILING

Among the budget and grant requirements contained in AmeriCorps grant, is a limitation on recoverable administrative costs at 5% of the total grant amount. The grantee is currently recovering administrative expenses in excess of this ceiling.

Our observation is based on the following:

	Amount	% Of Total Grant	
	-----	-----	
Administrative expenses drawn down through 3/31/95 (\$4,166.67 X 7 months)	\$29,167	10%	(1).
Estimated salaries of V.P.s drawn down through 3/31/95 that appear to properly be administrative costs	11,700	4%	(2).
FICA related to the above salaries drawn down	800		
	-----	-----	
Total Administrative Expenses Drawn Down	\$41,667	14%	
	=====	=====	
Total Grant Costs Per The General Ledger	\$296,573		(3).
	=====		

(1). As discussed in Appendix 4, the grantee is erroneously basing its administrative expense draw down on a fixed monthly amount that represents estimated administrative expenses that is contained in the AmeriCorps Grant budget.

(2). As discussed in Appendix 2, LISC has classified 10% of the salaries of the V.P. Of Human Resources, and V.P. of Field Strategy as direct staff salaries, thus not subjecting them to the 5% administrative cost ceiling. We believe these salaries should be reclassified as administrative expenses. Accordingly, we have included them in this analysis.

(3). Through the first seven months of this grant, LISC has incurred \$296,573 of CNS reimbursable costs. If this amount is projected over the remaining six months of the grant period, through September 30, 1995, total grant funds will approximate \$551,000. This is significantly less than authorized Federal funds of \$998,248. If the grantee only incurs this projected amount, allowable administrative costs will be \$27,550. The grantee has already drawn down administrative costs in excess of this projected amount.

We recommend that the grantee reclassify administrative salaries that have been charged to the grant as direct staff salaries. It is further recommended that financial reports and draw downs be adjusted to account for the over recovery of administrative expenses.

FSR REPORTING ON THE AMERICORPS GRANT

Cost reported by LISC on the "Quarterly Financial Status Report" are not supported by the AmeriCorps grant general ledger accounts.

Paragraph 18 of the AmeriCorps Grant provisions indicates that the grantee must maintain a financial management system which includes standard accounting practices, sufficient internal control, and a clear audit trail. Costs must be shown in books or records such as a disbursement ledger or journal.

Also, Section K of LISC's "Accounting Policies And Procedures Manual" states the following:

The (LISC) Government Grant Administrator should reconcile government program billings to the program expenses in the general ledger at end of each month.

Costs reported in the FSR are intended to provide the Government with an accurate representation of the financial status of its projects, in accordance with consistently applied GAAP. In order to provide the Government with adequate assurance, that costs reported in quarterly FSRs, are an accurate representation of the results of operations for the reported period, these costs should be based on costs reported in subsidiary project accounts that are controlled through the general ledger. Only with this consistency, can the Government assure itself that costs being reported to it are subjected to the same GAAP that the grantee applies to record costs in its general ledger.

As of March 31, 1995, the end of the period that served as the basis for our review, the grantee's "Account Detail" report, which is part of the general ledger data base, did not reflect the same AmeriCorps grant costs as reported on the FSR. Instead, reported project costs were arrived at by the LISC AmeriCorps project manager through the use of manually prepared worksheets, and schedules. It does not appear that these costs are based on the same consistently applied accounting principles that are employed by LISC to recognize costs for general ledger reporting purposes.

We recommend that LISC review its current method of reporting costs on the Financial Status Report for the AmeriCorps Grant, and develop a reporting mechanism that is controlled through the general ledger, in compliance with grant provisions, as well as LISC's own polices and procedures manual.

GRANTEE'S ACCOUNTING SYSTEM

GRANTEE'S ACCOUNTING SYSTEM

LISC uses the FundWare System which is a fully integrated accounting and financial management software designed for nonprofit organizations and governmental agencies using fund accounting. The FundWare system is composed of a number of interrelated software modules. LISC currently uses the General Ledger Module and the Accounts Payable Module.

FundWare is an on-line system with transactions posted as soon as they are entered. Transaction detail and account balances are accessible at all times for as many fiscal periods as the user chooses to maintain.

FundWare uses an account format which allows the user to identify funds, departments, projects, or any other cost center as part of an extended account number. Up to eighteen digits can be used. LISC uses thirteen digits. Accounts can be used to sort, sum, or select information to include in report presentations.

Every time a transaction is posted through any journal to any ledger, a trace report is created automatically. These reports provide a paper audit trail of all entries to the financial management system.

LISC uses a thirteen digit work order number system to control its project costs distributed as illustrated:

XX-XXXXX-XXXXXX

The first two digits represent the type of grant:

01-XXXXX-XXXXXX represents a restricted grant.
02-XXXXX-XXXXXX represents an unrestricted grant.
03-XXXXX-XXXXXX represents a loan fund.

The next five digits represent the General Ledger account code. Chart of Accounts is structured as follows:

10000 - 19999	Current assets.
20000 - 29999	Fixed assets/Accumulated depreciation and amortization.
30000	Reserve for encumbrances.
30001 - 39999	Payables and deferred charges.
40000 - 49999	Fund balances.
50000 - 59999	Income accounts.
60000 - 69999	Not used
70000 - 79999	Direct charge expenses.
80000 - 89999	General and administrative expenses.
90000 - 99999	Not used

The last six digits are reserved for project numbers. The first two of these six digits indicate the type of program:

10XXXX National program
30XXXX Local program.
40XXXX to
60XXXX - Special programs.
70XXXX Federal government programs.

Grant Number 94ADNNY019 contains the following fields:

76XXXX LISC portion.
78XXXX CNS (Government) portion.

80XXXX National community Development Institute (NCDI) Programs.

The next two digits are reserved for the state code. The states are listed numerically as they appear in the telephone directory, and are assigned numeric codes.

ATTACHMENT A



LOCAL INITIATIVES SUPPORT CORPORATION
733 THIRD AVENUE, NEW YORK, NEW YORK 10017
TEL (212) 455-9800
FAX (212) 682-5929

October 13, 1995

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

RE: LISC AmeriCorps Program - Grant #94ADNNY019

Dear Ms. Jordan,

I am writing in response to your letter of September 19, 1995 and the questions raised by the review of the LISC AmeriCorps program performed by Haag & Company, P.C.

I am pleased that Haag & Company found our accounting system adequate for accumulating costs incurred for the AmeriCorps grant. However, I would like to clarify the issues they raised regarding compliance with federal regulations. I am confident that the following information will adequately address your concerns regarding the \$75,693 of questioned costs.

a. **Salary Costs**

At the time of the exit conference, Patrick Collins raised his concerns regarding documentation of the time that LISC's New York staff employees spend working on the AmeriCorps program. In response to his concerns, we have implemented a time sheet system whereby hours are properly tracked for those employees working a percentage of their time on the AmeriCorps program. (I have attached a sample of this new time sheet.) You are welcome to review our analysis of the hours tracked since the system has been implemented, which shows that employees have met or exceeded the percentage allocations originally used. For example, during the months of September, October and November of 1994, before a Program Director had been hired or billed for, the Vice President for Human Resources and the Vice President for Field Strategies spent far more than the allocated 10 percent of their time working on the AmeriCorps program. I assure you that this has been the case since the initial implementation of the AmeriCorps program.

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October 13, 1995
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Prior to the review by Haag & Company, contract salary costs were based on actual payroll expenditures. Our initial understanding of the grant was that we could allocate these actual costs to the AmeriCorps contract based on the negotiated rate in our program budget. During the start up period, we requested assistance from the Corporation for National Service regarding contract issues such as this. As they were also in a start up phase, they were often unable to provide the guidance we needed. At this point we have rectified the situation and if necessary, we can go back and document actual hours spent during the time period before the new time sheets were implemented.

b. **Salary Costs for the LISC Vice President of Human Resources and the Vice President of Field Strategies**

The salary costs for the Vice President of Human Resources and the Vice President of Field Strategies are direct programmatic expenses, not administrative in nature. Therefore, those salary expenses should not be reclassified as administrative expenses. The Vice President of Human Resources supervises the AmeriCorps program, oversees program and policy development, and engages in member training. The Vice President of Field Strategies is responsible for the internal evaluation of the AmeriCorps program and training of the AmeriCorps members. These functions are specific to the LISC AmeriCorps program and therefore should not be included in the overall administrative overhead. Furthermore, the decision to have the LISC AmeriCorps program evaluation handled internally by the Vice President for Field Strategies was done as a cost saving measure and was agreed upon in our contract negotiations. Originally, the evaluation was budgeted at \$86,000; funding the time of the Vice President for Field Strategies represents a substantial savings.

Based on our original classification of these salary costs as direct program expenses, our administrative expenses will remain within the 5 percent cap imposed by the regulations. The Grant totals \$998,248; administrative costs will total \$50,000, which is within the allowable amount. Haag & Company based their determination of excess administrative costs on inaccurate assumptions. They assumed that our program costs would remain constant over the contract period and that they could therefore project the costs of the 1st six months to be half of the contract costs. In fact, program costs in the second half of the contract will exceed those in the first half due to members starting their term of service later in the year and the start up nature of the program. We project to spend the full contract funds which would mean that the administrative expenses would fall within the limit allowable by law.

Luise Jordan
October 13, 1995
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c. **Administrative Expenses**

The administrative expenses charged to the AmeriCorps grant are based on actual costs that are capped at the budgeted amounts. The monthly costs are capped at the following:

Rent (970 Square Feet @ \$34.75)	\$2,809.00
Telephone	466.42
Transmission and Receipt of Faxes	373.17
Equipment	200.00
Postage	<u>318.08</u>
	\$4,166.67 per month

The figures in the general ledger support these costs. For the 7 month period through 3/31/95, the following costs are reflected in the General Ledger.

Rent (970 Square Feet @ \$34.75)	\$17,860.74
Telephone and	
Transmission and Receipt of Faxes	5,037.54
Equipment	1,200.00
Postage	<u>1,109.43</u>
	\$25,207.71

Adjustments reflecting our actual allocable costs were booked in the subsequent period which reconciled the difference between the General Ledger and the funds drawn down. As of 9/30/95, administrative expenses totaling \$50,000 are reflected in the General Ledger. This equals the total charged against the AmeriCorps contract. Additionally, \$4,166.67 in costs over the budgeted amount were incurred but are not included in the AmeriCorps allocation because we have reached the legal cap.

At the time of the review, we were in the process of developing an indirect cost rate. That rate has now been established at 17.1 percent with the assistance of Mitchell & Titus, LLP, LISC's external auditors. Moving forward, it is our understanding that acceptance of this indirect rate will facilitate the process of allocating administrative charges.

Luise Jordan
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The following addresses other concerns raised by the reviewers' report.

- **Control of Member Hours** --- LISC has a long-standing business relationship with all of the Community Development Corporations (CDCs) where AmeriCorps members are placed. In the course of providing the CDCs with grants and loans, we monitor their financial and management systems. Furthermore, most of these agencies receive other federal money and are therefore monitored by other sources.

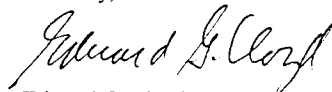
As a pre-requisite for placing an AmeriCorps member with a particular CDC, the organization must demonstrate the capacity for supervising the member, including monitoring hours served and in training. The responsibility for signing off on member time sheets lies with the CDC Site Supervisor because they are in regular, direct contact with the members. To monitor the site supervision and program progress, LISC field staff and national staff have made and will continue to make periodic site visits to the CDCs. Over the last year, no sites were found to have inadequate labor management practices including time keeping policies, internal controls and personnel procedures.

- **Preparing Financial Status Reports** --- The Program Director submitted reports that included minor subsequent period adjustments (reflecting actual costs) to the General Ledger. Because the reports submitted were for interim periods, we felt that it was appropriate to submit the adjusted figures, because they would ultimately be included in the final report. Measures have already been taken to assure that the reports will equal the General Ledger at the final report date for the contract.

We hope that you find our response to your letter acceptable. The AmeriCorps program is important to LISC and our CDCs. Any disallowance of expenses will negatively affect the amount of resources LISC provides to CDCs. We would welcome the opportunity to discuss our response.

If you have any further questions regarding these matters, please call Andrea Phillips at (212) 455-9324.

Sincerely,



Edward G. Lloyd
Executive Vice President and
Chief Financial Officer

LOCAL INITIATIVES SUPPORT CORPORATION							PERIOD END	
GOVT CONTRACT ALLOCATION				LIST CONTRACT(S)			DATE	
EMPLOYEE NAME				1.			/ /	
				2.				
REPORTING		HOURS WORKED						
DATE	DAY	IN	OUT	REGULAR HOURS	TRAINING	CONTRACT	DETAIL	
1	16							
2	17							
3	18							
4	19							
5	20							
6	21							
7	22							
8	23							
9	24							
10	25							
11	26							
12	27							
13	28							
14	29							
15	30							
	31							
TOTAL/PERIOD								
EMPLOYEE'S SIGNATURE				DATE	IMMEDIATE SUPERVISOR SIGNATURE		DATE	
				/ /			/ /	