
CORPORATION

FOR NATIONAL



S E R V I C E

OFFICE OF THE INSPECTOR GENERAL

Review of

Missouri Community Service Commission
AmeriCorps*State Grant Number 94ASCMO02602

Subgrant Number Subgrant CDA397-0005 to
YouthNet

This report is issued to CNS Management. According to OMB Circular A-50, *Audit Follow Up*, the Corporation must make final management decisions on the report's findings and recommendations no later than September 8, 1997. 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.

Office of the Inspector General
Report Number 97-05

November 26, 1996

Frank Beal
Chief Operating Officer

Donna H. Cunninghame
Chief Financial Officer

CORPORATION
FOR NATIONAL
 SERVICE

The Corporation for National Service (CNS), Office of the Inspector General (OIG) engaged Myint & Buntua, CPAs to perform a post award review of an AmeriCorps*State grant awarded by the Missouri Community Service Commission¹ to YouthNet, a not-for-profit corporation. The purpose of the review was to assess YouthNet's accounting and management control systems to determine their ability to comply with Federal fiscal accounting and CNS grant requirements.

Myint & Buntua performed its review work in December 1995, with additional follow-up procedures in June 1996. Their review was substantially less in scope than an audit and, accordingly, did not include elements essential to the expression of an opinion on Youth Net's financial and management control structure or to determine the propriety of costs charged to the grant.

Myint & Buntua delivered their draft report and accompanying workpapers to CNS OIG on August 30, 1996. OIG reviewed the workpapers and draft report and found that the review raised the following issues:

- YouthNet may have used as much as \$176,000 in excess AmeriCorps funds it received for its non-AmeriCorps operations;
- YouthNet claimed a flat 5% charge for the Federal share of its administrative costs without the documentation required by CNS regulations; and
- YouthNet had weaknesses in its controls over its AmeriCorps Member time sheets and service activity, and monitoring of its subrecipients.

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¹The award is a subgrant under CNS grant number 94ASCMO026 to the Missouri Commission.

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OIG has opted to issue this letter report to advise CNS of conditions that we believe warrant further review and oversight by the Corporation and the Missouri Commission on National and Community Service.

We provided a draft of this letter report to officials of CNS, the Missouri Community Service Commission, and YouthNet for their response. CNS did not respond. The Missouri Commission's response is presented as Exhibit A and YouthNet's response is presented as Exhibit B. Both YouthNet and the Missouri Commission submitted additional materials with their responses to our draft report. We have not included these materials in Exhibits A or B, instead, we forwarded the information to CNS' Grants Management Office for their use in the audit resolution process.

In their response, YouthNet disagreed with our finding that it may have applied its excess AmeriCorps funds to finance YouthNet's non-AmeriCorps operations. Otherwise, YouthNet and the Missouri Commission generally agreed with our findings and proposed corrective actions. Summaries of YouthNet's and the Missouri Commission's responses, and our assessments, are including in the findings.

Background

In 1994, the Missouri Commission awarded YouthNet a \$317,906 subgrant to help finance YouthNet's Blockleaders and Heart and Hands programs from August 1, 1994 to December 31, 1995.² The Blockleaders program involved using AmeriCorps members to serve as part-time role models and activity leaders for youth in their home communities. The Heart and Hands program involved AmeriCorps members in providing energy audits and home weatherization in low-income neighborhoods and making drug abuse and violence prevention presentations to groups of young people in schools and community settings.

From the start of YouthNet's grant through March 1996, YouthNet's finances were administered by the Kansas City Community Foundation and Affiliated Trusts (KCCF). YouthNet entered into a service agreement with KCCF that stated that KCCF would manage YouthNet's funds as a "component fund" of KCCF's investment pool. During this time, KCCF directly received distributions of YouthNet's AmeriCorps funds from the Missouri Commission and held those funds in a consolidated account along with all other funds entrusted to KCCF. YouthNet would arrange for payment of its expenses by forwarding requests for disbursement to KCCF. KCCF officials would then review the disbursement information and process a payment for YouthNet. In March of 1996, YouthNet stopped using KCCF as a fiscal agent, established its own accounting system, and directly received and expended its AmeriCorps funds.

²The Missouri Commission has twice amended YouthNet's grant to provide additional funds. First, the Commission awarded YouthNet \$317,219 (including \$83,219 of funds carried over from the first year) to operate its program through December 31, 1996. Later, the Commission awarded YouthNet \$272,778 (including \$154,090 of funds carried over from prior years) to operate the program through December 31, 1997.

YouthNet May Have Used Excess AmeriCorps Funds to Finance its Non-AmeriCorps Operations

The results of the initial review show that YouthNet drew down AmeriCorps funds from the Missouri Commission that were as much 244 percent of the actual cash needs. Further, the records provided during the review raise the question of whether YouthNet improperly expended its excess AmeriCorps funds on YouthNet's non-AmeriCorps operations, rather than holding the funds in an interest bearing account and remitting the interest earned as required by CNS regulations.

Both the initial review work conducted by Myint & Buntua and an audit conducted by Arthur Andersen LLP of KCCF's financial statements as of January 31, 1995 showed that KCCF was holding excess AmeriCorps funds for YouthNet. At OIG's request, Myint & Buntua asked YouthNet and KCCF to provide the detailed records that would show the receipt and application of YouthNet's excess AmeriCorps funds. Neither YouthNet nor KCCF produced the requested detailed records. First, Myint & Buntua reported that they could not obtain consistent information from KCCF on the cash balances it held for YouthNet through March 1996.

In addition, YouthNet advised Myint & Buntua that it could not reconcile its records with the cash balance information provided by KCCF. Further, Myint & Buntua's review work showed that the data entered into YouthNet's new accounting system (established as of March 1996) does not provide answers to what happened to the excess AmeriCorps funds. For example, all of YouthNet's transactions that took place during 1995 were entered into the new system with a December 31, 1995 transaction date. Moreover, the balances in YouthNet's general ledger did not agree with the balances reported on its Statement of Funds Balance. Because of these deficiencies, as of the time of the review, YouthNet's new accounting system did not adequately account for the sources and uses of YouthNet's AmeriCorps funds.

From various sources within the Myint & Buntua workpapers, OIG has reconstructed the following information related to the excess AmeriCorps grant funds that YouthNet drew down.

Status of AmeriCorps Grant Funds Received by YouthNet

Date	AmeriCorps Funds			YouthNet Cash Balances per KCCF Records ^d	Excess AmeriCorps Funds That May Have Been Used For Non-AmeriCorps Operations ^e
	Cumulative Federal Share of Program Costs ^a	Cumulative AmeriCorps Funds Received ^b	Excess AmeriCorps Funds Received ^c		
1/31/95	\$ 28,800	\$ 123,965	\$ 95,165	\$ 22,581	\$ 72,584
3/31/95	70,727	145,933	75,206	291,900	0
6/30/95	102,063	211,836	109,773	104,672	5,101
9/30/95	122,652	277,738	155,086	16,283	138,803
11/30/95	122,652	299,036	176,384	112,693	63,691
12/31/95	151,352	299,036	147,684	152,853	0
3/31/96	249,384	299,036	49,652	22,335	27,317

Notes: ^aFigures taken from Financial Status Reports (SF 269s) filed by YouthNet.
^bInformation drawn from copies of KCCF General Ledger reports and Missouri Commission records.
^cCalculated as the Cumulative AmeriCorps Funds Received less Cumulative Federal Share of Program Costs.
^dIncludes the regular cash balance that KCCF held for YouthNet and a \$200,000 loan to YouthNet from the Kaufman Foundation. The loan was made in June of 1995 and forgiven in March of 1996.
^eCalculated by comparing the Excess AmeriCorps Funds Received and YouthNet's Cash Available as Reported by KCCF. The calculation assumes that YouthNet would have expended all other available funds before expending excess AmeriCorps Funds.

This table shows that YouthNet drew down AmeriCorps funds in excess of its actual cash needs. By November 30, 1995, YouthNet had received AmeriCorps funds totaling \$299,036, an amount that was 244 percent of the \$122,652 Federal share of YouthNet's AmeriCorps program costs. However, at the time of the review, YouthNet had not remitted any interest on the excess AmeriCorps funds it received from the Missouri Commission.

In addition, the table shows that, for five of the seven dates we can identify, YouthNet's consolidated cash balance was not sufficient to account for its excess AmeriCorps funds. This information appears to show that YouthNet expended its excess AmeriCorps funds for activities unrelated to its AmeriCorps program.

YouthNet received its grant from the Missouri Commission specifically to finance the Federal share of the Blockleaders and Heart in Hands programs, not to finance YouthNet's general operations. In addition, CNS regulations provide that, as a condition of receiving advances of AmeriCorps funds, YouthNet's advances "shall be limited to the minimum amounts needed and timed to be in

accordance with *the actual, immediate cash requirements of the recipient organization³ in carrying out the purpose of the approved program or project.*” 45 C.F.R. 2543.22(b)(2) (emphasis added). CNS’ regulations also required YouthNet to place its AmeriCorps funds in an interest bearing account, and to annually remit any interest earned (in excess of \$250) to the federal government. 45 C.F.R. 2543.22(k) and (l).

Moreover, Federal law prohibits YouthNet officials from intentionally expending its excess AmeriCorps funds for non-AmeriCorps purposes. Specifically, 18 U.S.C. 666 applies to any organization that receives at least \$10,000 under a Federal grant program in a year. When applicable, section 666 makes it a Federal crime for any agent of an organization to intentionally misapply property (valued at \$5,000 or more) that is owned or controlled by the organization. Section 666 applies to YouthNet because it received an AmeriCorps*State grant of more than \$10,000.

Based on Myint & Buntua’s review, it appears that YouthNet accumulated these extensive cash balances for two reasons. The first reason is because YouthNet’s monthly financial reports to the Missouri Commission were faulty. The second reason is because the Missouri Commission continued to issue monthly checks to YouthNet despite YouthNet’s faulty reports. The Missouri Commission distributes grant funds to its AmeriCorps*State programs on a formula basis. The Commission gives its programs three months worth of budgeted expenses at the start of a grant year,⁴ and distributes the balance of the budgeted amount pro rata on a monthly basis thereafter. However, in order to receive their payments, programs are to submit their balance sheets and general ledgers to the Commission monthly. The Missouri Commission’s procedures state that programs with excess fund balances (as reflected in the Commission’s review of the balance sheets and general ledgers) are to receive a reduced monthly payment.

The Myint & Buntua workpapers indicate that, throughout the initial year of its AmeriCorps program, YouthNet failed to submit its monthly financial information in compliance with the Commission’s requirements. Further, YouthNet’s reports did not identify the amount of excess AmeriCorps funds it had received. Despite this, the Missouri Commission continued to make the regular monthly payments to YouthNet.

In addition, the Missouri Commission did not require YouthNet to file a Statement of Federal Cash Transactions (SF 272), as required by CNS regulations, 45 C.F.R. 2543.5 and 2543.53(a)(2). These reports would have disclosed the amount of excess AmeriCorps funds that had been distributed to YouthNet.

³The requirements related to organizations that are direct recipients of CNS also apply to subrecipients organizations like YouthNet. 45 C.F.R. 2543.5.

⁴According to the Missouri Commission, this amount is to finance “start-up” costs of programs. In some cases, the first payment of three months worth of budgeted expenses could be reimbursements paid to programs that were authorized to incur grant expenses prior to the actual award date.

In their response to a draft of this letter report, YouthNet stated that its excess AmeriCorps funds were always on deposit with KCCF, and that KCCF had advanced YouthNet the funds required for its non-AmeriCorps operations. YouthNet also denied that it had failed to submit the monthly financial information that the Missouri Commission requested. In its response, the Missouri Commission also stated that it had been assured by KCCF that the excess AmeriCorps funds were always on hand, and that the overall cash balance of KCCF supported this assertion. However, the Missouri Commission agreed with our finding that YouthNet's monthly reporting was faulty, and acknowledged that the Commission had not exercised appropriate oversight. The Commission stated that it was working with YouthNet to determine (based on audited information) the amount of interest that YouthNet owed to the Federal government.

In our view, KCCF's general assertion that it maintained YouthNet's excess AmeriCorps funds on hand is not consistent with the detailed information it provided during the review. Specifically, KCCF provided Myint & Buntua with a schedule clearly showing that, despite having excess AmeriCorps funds and a \$200,000 loan, YouthNet had fully expended its available funds. KCCF's position that it would have continued to advance funds to pay YouthNet's AmeriCorps program expenses does not equate to KCCF having held the excess AmeriCorps funds on hand at all times.

Additional Issues Related to YouthNet's AmeriCorps Program

Although YouthNet's receipt of excess AmeriCorps funds is the most important matter identified in Myint & Buntua's review, the firm's work also revealed other matters that may need to be resolved. Specifically, YouthNet--

- Claimed a flat, undocumented 5% charge for the federal share of its AmeriCorps program administrative costs;
- Had weaknesses in its controls over AmeriCorps member time sheets and service activity; and
- Had weaknesses in its procedures for monitoring its subrecipients.

Under the National and Community Service Act of 1990, as amended, no more than 5% of the Federal share of an AmeriCorps grant may be used for administrative costs (42 U.S.C. 12571(d)). Myint & Buntua's workpapers indicate that YouthNet added a flat, undocumented 5% to the Federal share of its AmeriCorps program costs as a means of claiming allowable administrative costs on its Financial Status Reports.

Under CNS's regulations, 45 C.F.R. Part 2543, YouthNet must maintain records "that identify adequately the source and application of funds for federally-sponsored activities." Moreover, YouthNet must maintain "accounting records including cost accounting records that are supported by source documentation" (45 C.F.R. 2543.21(b)(2) and (7)). However, under the general provisions of AmeriCorps grants, CNS allowed AmeriCorps programs to claim administrative costs equal to 5% of the Federal share of grant program costs "without supporting documentation and [an] allocation plan for administrative and indirect costs" (Paragraph 24.c. AmeriCorps Provisions).

As we have previously reported, in our view, the AmeriCorps grant provision is an attempt by CNS to make a blanket waiver of the documentation requirements in its regulations that would otherwise apply to AmeriCorps program administrative costs. Moreover, it is our position that CNS exceeded its authority in attempting to create a blanket waiver for all AmeriCorps programs. Under CNS regulations (which implement the common rule of OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*), the requirements of 45 C.F.R. Part 2543 supersede any CNS program guidance that is inconsistent with the terms of the regulations, unless the deviations are authorized as provided under 45 C.F.R. 2543.2. This section provides that only the Office of Management and Budget may grant exceptions for classes of grantees. CNS may only waive the Circular's requirements when "awarding small amounts" (those under \$25,000), or "on a case-by-case basis" (45 C.F.R. 2543.4). CNS's blanket waiver of the documentation requirements for administrative costs for all AmeriCorps programs is beyond this authority. Therefore, the requirements of the 45 C.F.R. Part 2543 supersede the AmeriCorps provisions, and AmeriCorps grantees must comply with the CNS regulation's documentation requirements for their administrative costs.

In their responses to a draft of this report, both YouthNet and the Missouri Commission noted that YouthNet had developed a Cost Allocation Plan. According to documentation it submitted with its response, YouthNet developed an indirect cost rate of about 18% for the year ended May 31, 1996. YouthNet asserts that this indirect cost rate is adequate to support the 5% charge for administrative costs it made to the AmeriCorps grant.

From the draft report and workpapers, it also appears that YouthNet had weaknesses in its controls over the recording of service activity by its AmeriCorps Members. At the end of the first year of its AmeriCorps program, YouthNet certified that ten AmeriCorps Members were eligible to receive an education benefit from the National Service Trust Fund. However, the Myint & Buntua work papers indicate that YouthNet was unable to produce any time sheets for one AmeriCorps Member. While YouthNet officials have stated that they provided the timesheets for this AmeriCorps Member to Myint & Buntua and that the time sheets have not been returned, Myint & Buntua's staff stated that they never received any timesheets for this one AmeriCorps Member.

In addition, our review of the workpapers showed that there may be problems with YouthNet AmeriCorps Members performing inappropriate service activity. For example--

- A document instructing AmeriCorps Members working at one of the sites for YouthNet's Blockleaders program on filling out time sheets implores them to describe their activity in terms of its "community impact." The documents states, "even a skating party can be 'community' if you talk about the importance of business in a neighborhood, how it can make it safer, cleaner, what kind of businesses we need, why? etc."
- Myint & Buntua examined a sample of timesheets for four AmeriCorps Members at one of YouthNet's Blockleaders program sites. One of the AmeriCorps Members recorded items such as "B-Ball Practice" or "Basketball" as 40% of his service activity on the three timesheets that were included in the sample.

In their responses to a draft of this report, both the Missouri Commission and YouthNet stated that YouthNet has instituted new controls over member time sheets and service activities. These controls include adopting a consistent form for recording service hours, maintaining AmeriCorps member service records centrally at YouthNet's offices, and developing new training and procedures on what constitutes acceptable service activity. YouthNet also stated that it had developed documentation related to the service activity of the AmeriCorps member whose timesheets were missing, and has forwarded that documentation to the Missouri Commission.

Finally, during its review, Myint & Buntua noted other grant administration issues; specifically, the budgets that YouthNet established for its subrecipients in the second year of its AmeriCorps program appeared to be based upon the budgets for the first year, rather than the amount of the second year grant award. In addition, YouthNet appeared not to be comparing costs claimed by its subrecipients to the established budgets. Finally, the workpapers show that YouthNet did not obtain, review and follow-up on audit reports of its subrecipients as required by OMB Circular A-133, *Audits of Institutions of Higher Education and Other Non-Profit Institutions*.

Under CNS's regulations, YouthNet's subrecipients financial management systems must provide for comparisons of outlays to established budgets. 45 C.F.R. § 2543.21(b)(4). As the AmeriCorps*State grantee of the Missouri Commission, YouthNet is responsible for overseeing its subrecipients' compliance with this and other financial management requirements. Further, OMB Circular A-133 requires YouthNet and any of its subrecipients that receive more than \$25,000 in Federal funds to obtain an audit.⁵ As a "pass through" organization (e.g., one that distributes Federal funds to subrecipients) YouthNet was also required to ensure that its subrecipients comply with the audit requirement, obtain and review its subrecipients' audit reports, and ensure follow-up on any audit findings noted that would affect its AmeriCorps program.

In their response to a draft of this report, YouthNet stated that it had reviewed its record keeping and monitoring procedures with the Missouri Commission. In their response the Missouri Commission stated that it would revise the guidance it provides to AmeriCorp programs to include procedures for comparing budgets to expenditures. The Missouri Commission also stated that YouthNet had developed contracts and reporting requirements for YouthNet's subrecipients that provide greater controls over monitoring subrecipient budgets.

Recommendations

I. Regarding the excess AmeriCorps Funds that it received, we recommend that YouthNet prepare and have audited a schedule of its draw downs from the Missouri Commission and the Federal share of its AmeriCorps program expenditures. Based on the schedule, YouthNet and the Missouri Commission should determine YouthNet's interest liability for the excess AmeriCorps funds it received. In addition, we recommend that the Missouri Commission adopt procedures that will

⁵OMB Circular A-133 has been amended so that the requirement to obtain an audit will only apply to organizations that expend \$300,000 or more in Federal funds in a year. However, this change goes into effect for organization fiscal years that start after June 30, 1996.

provide reasonable assurance that advances of funds to its AmeriCorps*State programs comply with the cash draw down requirements in CNS' regulations and applicable OMB Circulars.

II. Regarding the documentation of administrative costs charged to the grant, we note that under OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, YouthNet must have its indirect cost rate approved by its cognizant agency. Based on YouthNet's Schedule of Federal Financial Assistance for the year ended May 31, 1996, CNS provided the majority of YouthNet's federal funding, and therefore would be YouthNet's cognizant agency. Accordingly, we recommend that CNS determine whether YouthNet's Cost Allocation Plan is sufficient to support the 5% charge for administrative costs. Further, we recommend that CNS determine whether YouthNet has an appropriate basis for the administrative costs charged to the AmeriCorps grant that are not covered by YouthNet's Cost Allocation Plan.

III. We recommend that CNS and the Missouri Commission--

- Review YouthNet's alternative documentation for the missing AmeriCorps Member time sheets. If the alternative documentation does not provide reasonable assurance that the AmeriCorps Member performed service and was entitled to a post service education benefit, we recommend that CNS require YouthNet to reimburse the Trust Fund for the amount of that AmeriCorps Member's post service benefit;
- Review YouthNet's new practices and procedures to assess whether they provide reasonable assurance that YouthNet's AmeriCorps Members are performing appropriate service activities as specified in applicable laws and regulations and the terms of its grant and;
- Assess whether YouthNet's new practices and procedures are adequate to fulfil YouthNet's responsibilities for monitoring and oversight of its subrecipients under CNS regulations, applicable OMB guidance, and the terms of YouthNet's AmeriCorps grant.

IV. Finally, we note that with its response to a draft of this report, YouthNet provided us with a copy of the recently issued report on the audit of YouthNet's financial statements for the year ended May 31, 1996. However, YouthNet's audit does not cover the early period of its AmeriCorps grant (August 1994 through May 1995). We recommend that the Missouri Commission determine whether there has been sufficient audit coverage of YouthNet's AmeriCorps program to allow the Missouri Commission to close its grant to YouthNet.

If you would like our assistance in working with the Missouri Commission and YouthNet to resolve the issues raised in this report, please do not hesitate to contact us. If you have any questions related to the issues raised in this report, please contact Douglas H. Hilton, Counsel to the Inspector General, at (202) 606-5000 ext. 396.



Luise S. Jordan
Inspector General

missouri community

Mel Carnahan, Governor



service commission

Lt. Gov. Roger B. Wilson, Chair

February 5, 1997

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

RE: OIG Draft Report 97-05; YouthNet AmeriCorps*State Grant Awarded
by the Missouri Community Service Commission

Dear Ms. Jordan:

The initial response of the Commission to the findings and recommendations contained in the report follows. Each of the three areas of concern will be addressed, as well as a brief description of completed and ongoing corrective action.

FINDING: *YouthNet may have used excess AmeriCorps funds to finance its Non-AmeriCorps Operations*

RESPONSE: Substantially agree. It appears that YouthNet's financial status was insufficient to support both AmeriCorps match requirements and non-AmeriCorps commitments throughout the first year and into the second year of the program. The Greater Kansas City Community Foundation assures us that funds to cover all cash balances and obligations were available to YouthNet at all times, and the overall cash balance of the Foundation supports that assertion. However, the requirements of the grant were not met during this period, and an appropriate accounting for these funds has not been presented.

Excess cash balances resulted from faulty reporting by YouthNet, and were compounded by a lack of oversight by the Commission. The Commission had no established procedure for verifying financial reports, and lacked controls over program reimbursements.

CORRECTIVE ACTION PLAN: Commission staff are currently working with YouthNet staff to ascertain an accurate accounting of all AmeriCorps expenditures and federal cash on hand for the entire grant period. An initial interest calculation has been made based on preliminary cash balances (See attachment 1). This figure will be adjusted when a schedule of drawdowns and expenditures is



completed and audited. YouthNet will be instructed to issue a check in the amount of interest less up to \$250 per year for administrative costs, payable to Health and Human Services, and to route this reimbursement check through the Commission, who will then forward it to HHS.

The Statement of Federal Cash Transactions (SF 272), required by CNS regulations, has waived and been replaced by the PMS272 for the Missouri Commission. This report is submitted quarterly to the Department of Health and Human Services. The Corporation for National Service requires a quarterly Financial Status Report (FSR 269) from each program and from the Commission. The Commission has developed and instituted a monthly reporting procedure (See attachment 2) which provides the information necessary to determine cash accountability

FINDING: *YouthNet claimed a flat, undocumented 5% charge for the federal share of its AmeriCorps program administrative costs*

RESPONSE: Substantially agree.

CORRECTIVE ACTION PLAN: YouthNet has provided the Commission with an indirect cost calculation for the year ended May 31, 1996 (See attachment 3).

FINDING: *a. (YouthNet) Had weaknesses in its controls over AmeriCorps member time sheets and service activity*
b. (YouthNet) Had weaknesses in its procedures for monitoring its subrecipients

RESPONSE: Substantially agree.

CORRECTIVE ACTION PLAN: YouthNet has established centralized filing systems for all member records and timesheets. Prior to and during this audit, member files, including timesheets, were held at the service site. Member files and timesheets are now maintained by the Program Director at the YouthNet administrative offices, and appropriate controls have been established to insure the confidentiality of these records.

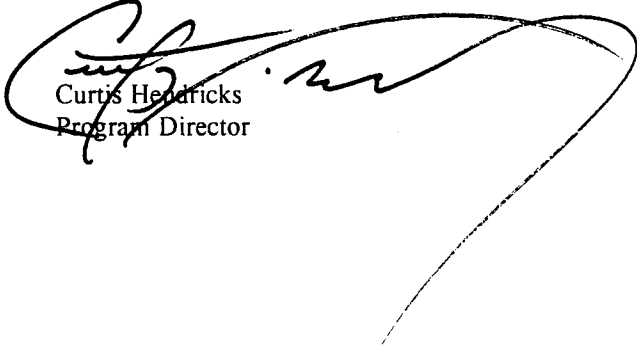
The Commission is dedicated to providing the necessary guidance and instruction to all AmeriCorps program grant recipients to assist in meeting all grant and CNS requirements, as well as the financial reporting requirements of the applicable OMB Circulars and grant provisions. The booklet "Financial Guidelines and Reporting Procedures" (See attachment 4) will be revised to include detailed internal accounting procedures and policies, and will merge budget and expenditures comparisons with the reimbursement process.

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YouthNet has developed contracts and reporting procedures for its subrecipients which provide control over timesheets, service activity, and monitoring of subrecipients budgets (See attachment 5).

If you have any further questions pertaining to this response, or to the corrective action plans or Commission procedures, please contact me at (573) 751-7488.

Sincerely,



Curtis Hendricks
Program Director

cc: Orla O'Riordan, CNS
Enclosures (5)



February 5, 1997

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

Re: OIG Draft Report 97-05; YouthNet AmeriCorps State Grant Awarded by the
Missouri Commission on National and Community Service

Dear Ms. Jordan:

This letter is in response to the draft report referenced above. Each of the three issues raised in your letter is discussed below.

1. *Application of AmeriCorps funds to other YouthNet operations.*

YouthNet did not apply AmeriCorps funds to the other YouthNet operations. YouthNet responded to this concern in a letter dated January 13, 1997, enclosing a copy of a letter from Mr. George Bitner at the Greater Kansas City Community Foundation. The letter and enclosure are attached again for your reference. To recount, AmeriCorps funds were deposited at the Community Foundation and became a part of a common pool of funds held by the Community Foundation. The Community Foundation advanced YouthNet funds to cover other operations as they were needed. The AmeriCorps funds were on deposit at the Community Foundation and always available to the project.

YouthNet submitted financial reports to the state as they were requested by the state. Initially, reports were submitted on an accrual basis. The staff from the state requested reports be submitted in a specific format and on a cash basis. YouthNet complied with that request.

YouthNet did encounter problems with our accounting system at the Community Foundation. The problems related primarily to the timing of entries. YouthNet has completed a reconciliation of every transaction from the beginning of the grant. This process has cost YouthNet thousands of dollars in accounting fees. The cost to reconstruct every transaction in all projects for YouthNet would have been prohibitive.

The interest has been calculated on the excess funds that YouthNet received from the state. The amount is \$6,291.04. The adjustment was posted on the YouthNet books effective January, 1997 with the auditors adjusting entries. Interest will be remitted to Health and Human Services as coordinated by the State Commission.

2. *YouthNet claimed a flat undocumented charge for administrative costs.*

YouthNet has completed a cost allocation plan. Documentation for the administrative costs has been submitted to the State. The administrative costs associated with the grant were 17% of the grant. The percentage of administrative cost represents the relationship between each program's direct cost and the total direct cost of the agency. This follows procedures established for calculating indirect cost for Health and Human Services. Attached is the documentation for the calculation. YouthNet only charged 5% to the grant - the amount allowed by the grant.

3. *YouthNet had weaknesses in its controls over its AmeriCorps member time sheets, service activity and monitoring of subrecipients.*

Controls have been instituted over member time sheets, service activities and monitoring of subrecipients. A consistent form for documentation of service hours and service activities has been implemented. Member files have been relocated to the YouthNet office. Training and procedures have been written to direct subrecipients as to the appropriate service activities. Carol Blackwell from the Missouri Commission has met with YouthNet and has reviewed our record keeping and monitoring procedures.

One member's file was missing. It could be accounted for prior to the Myint Buntua initial visit. It was missing after the visit. Documentation related to that member service has been constructed. The file has been forwarded to the staff of the Missouri Commission on February 3, 1997.

In addition, YouthNet retained an independent accounting firm to conduct an audit for the fiscal year ending 5/96. The audit is complete and a copy of the audit with the auditor's unqualified opinion is enclosed. The auditor has reviewed the OIG draft report and believes that the current system meets the oversight responsibilities under OMB Circular A-133.

Sincerely,



Karen T. Haren
President

cc: Carol Blackwell, Missouri Commission
B. John Readey, III
George Bitner