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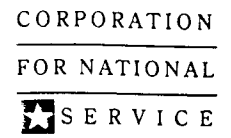
OFFICE OF THE INSPECTOR GENERAL

**Audit of the Pennsylvania Association of Colleges and Universities
Award Number 94ASCPA039**

This report is issued to CNS Management. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than November 10, 1997 and complete its corrective actions by May 1, 1998. 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
Audit of
Corporation for National Service
Award Number 94ASCPA039 to the
Pennsylvania Association of Colleges and Universities



Leonard G. Birnbaum and Company, an independent accounting firm under contract to the Office of Inspector General, performed an audit of the funds awarded by the Corporation for National Service to the Pennsylvania Association of Colleges and Universities (PACU) through the Pennsylvania Commission on National and Community Service (award number 94ASCPA039). The audit covered the costs claimed for the period August 1, 1994 through September 30, 1996.

The audit included an examination to determine whether financial reports prepared by the auditees presented fairly the financial condition of the award and the award costs reported to CNS were documented and allowable in accordance with the terms and conditions of the award. We have reviewed the report and workpapers supporting its conclusions and agree with the findings and recommendations presented.

The firm found that PACU lacked adequate

- controls over its financial management system;
- controls for monitoring subrecipients; and
- segregation of duties.

In addition, PACU incurred administrative costs in excess of the maximum allowed under the terms of the award. Based on the audit, we are questioning \$64,132 in costs claimed under the award. These and other matters are discussed in detail in this report.

A draft of this report was provided to CNS and PACU for comment. CNS' comments are included as Appendix A. PACU's comments are included as Appendix B and summarized in the report with the auditor's response, where necessary.

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Getting Things Done.
AmeriCorps, National Service
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National Senior Service Corps

Corporation for National Service
Office of Inspector General
Report Number 97-19

Cooperative Agreement Number 94ASCPA039
to
Pennsylvania Association of Colleges and Universities
800 North Third Street
Harrisburg, Pennsylvania 17102-2025

Financial Schedules
and
Independent Auditor's Reports

For the Period
August 1, 1994 to September 30, 1996

Leonard G. Birnbaum and Company
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Pennsylvania Association of Colleges and Universities

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REPORT SUMMARY AND HIGHLIGHTS

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Corporation for National Service

We have performed an audit of the funds awarded by the Corporation for National Service (CNS) to the Pennsylvania Association of Colleges and Universities (PACU) through the Pennsylvania Commission on National and Community Service, commonly referred to as PennSERVE, under Cooperative Agreement No. 94ASCPA039. Our audit covered the costs incurred during the period August 1, 1994 through September 30, 1996. The Pennsylvania Service Corps (PSC), a component of PACU, had the responsibility of administering the AmeriCorps program funded under this cooperative agreement. The PSC was dissolved towards the end of calendar year 1996 after the completion of all of its programs.

SUMMARY OF AUDIT RESULTS

Our audit of the costs claimed by PACU for its AmeriCorps program disclosed the following:

Award Budget	\$ 1,316,185
Claimed Costs	1,069,894
Incurred Costs	1,293,115
Questioned Costs	64,132

As a result of our audit of the aforementioned award, we are questioning costs totaling \$64,132 which is summarized below and detailed in Exhibit A to the Independent Auditor's Report. Additionally, we have identified living allowance shortages which should be paid to the AmeriCorps Members and \$4,384 which should be reimbursed to the National Service Trust Fund as explained in Finding Nos. 3 and 4, respectively, of the Independent Auditor's Report on Compliance. Questioned costs are costs for which there is documentation that the recorded costs were expended in violation of the law, regulations or specific conditions of the award or those costs which require additional support by the grantee or which require interpretation of allowability by CNS.

Inspector General
Corporation for National Service

The following summarizes the costs questioned on the above award by reason:

<u>Explanation</u>	<u>Amount</u>
• Costs were not adequately supported by source documentation	\$ 1,261
• Costs were incurred outside of the grant period	202
• Benefit costs were incurred for terminated employees	1,232
• Costs were either unallowable or unreasonable	521
• Administrative costs exceeded the maximum Federal share	57,408
• Costs were not allocable to the grant	<u>3,507</u>
Total Questioned Costs	<u>\$64,132</u>

We used a judgmental sampling method to test the costs claimed by the auditee. Based upon this sampling plan, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been tested. In addition, we have made no attempt to project such costs to total expenditures claimed, based on the relationship of costs tested to total costs. For a complete discussion of these questioned costs, refer to the Independent Auditor's Report.

COMPLIANCE FINDINGS

Our audit disclosed the following material instances of noncompliance.

- PACU did not maintain an adequate financial management system in accordance with 45 CFR 2543.21. (Finding No. 1)
- Administrative costs charged by PACU exceeded the maximum Federal share. (Finding No. 2)
- During the first year of the program, PACU paid the Members a living allowance on an hourly basis instead of on a stipend basis. (Finding No. 3)

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Corporation for National Service

- During the first year of the program, Members were inappropriately awarded a full educational award because PACU overstated the AmeriCorps Members' service hours that it reported to the National Service Trust Fund. (Finding No. 4)

For a complete discussion of each matter, refer to the appropriate finding in the Independent Auditor's Report on Compliance.

INTERNAL CONTROL STRUCTURE

Our audit disclosed the following matters which we consider to be reportable conditions or material weaknesses in the internal control structure and its operations.

- PACU lacks adequate segregation of duties. (Finding No. 1)
- PACU lacks adequate controls over their financial management system. (Finding No. 2)
- PennSERVE lacks adequate controls for monitoring subrecipients. (Finding No. 3)

For a complete discussion of each matter, refer to the appropriate finding in the Independent Auditor's Report on Internal Control Structure.

PURPOSE AND SCOPE OF AUDIT

Our audit covered the costs incurred during the period August 1, 1994 through September 30, 1996, under Cooperative Agreement No. 94ASCPA039 which had an award period of August 1, 1994 to December 31, 1996.

The objectives of our audit were to determine whether:

1. Financial reports prepared by PACU presented fairly the financial condition of the award;
2. The systems of internal control structure were adequate to safeguard Federal funds;
3. PACU had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations and award conditions; and

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Corporation for National Service

4. The award costs reported to CNS were documented and allowable in accordance with the award terms and conditions.

We performed the audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed against the grant award as presented in the schedule of award costs (Exhibit A), are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Exhibit A. An audit also includes assessing the accounting principles used and significant estimates made by the auditee, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

We provided a draft of this report to CNS' Office of Grants Management and to PACU for comments. CNS' Office of Grants Management comments are presented as Appendix A while PACU's comments (excluding attachments) are presented as Appendix B. We also provided CNS' Office of Grants Management copies of the attachments for their consideration during the resolution process.

MATTER REQUIRING RESOLUTION

PACU, a subrecipient of PennSERVE, acquired equipment, at a cost of \$3,776, during its performance of the grant. The terms of the grant provide that title to the equipment vests with PennSERVE, but that CNS has a reversionary interest in the equipment and the right to direct the disposition upon completion of grant performance. As of the date of our audit, PennSERVE had not received any direction from CNS as to the disposition of the equipment. We observe that both PennSERVE and PACU have been awarded other grants by CNS which are still ongoing.

OTHER MATTERS

PSC, a component of PACU, purchased nine computers using Federal funds while administering programs funded by the Corporation for National Service or its predecessor, Commission on National and Community Service. Four of these computers were either lost or stolen during the course of the program. Of these four computers, two thefts were reported and claims filed with the insurance company in mid-1995. The insurance reimbursements were used to purchase replacement computers. In regard to the remaining two computers that cannot be located, we were not able to obtain any specific information such as when the computers were noticed missing, to whom were the computers assigned to, or why claims had not been filed with the insurance

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company. It is our understanding that no notification was provided to PennSERVE regarding the disappearance of any of the computers.

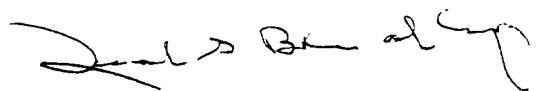
BACKGROUND

PennSERVE is an organizational unit of the Labor and Industry Department of the State of Pennsylvania. PennSERVE was established in 1988 with the mission of promoting community service.

The Pennsylvania Association of Colleges and Universities (PACU) was founded in 1896 with the mission of promoting higher education in Pennsylvania and establishing a unity of spirit and understanding among the sectors of Pennsylvania, their member institutions, and their staffs in pursuing the goals and resolving problems of higher education. In 1988, PACU established the Pennsylvania Campus Compact (PCC) to promote involvement by college students in community service activities. In 1992, PACU established the Pennsylvania Service Corps (PSC) to recruit, train, and place individuals in community service jobs. Both the PCC and the PSC have administered programs funded by the Corporation for National Service (CNS) or its predecessor, the Commission on National and Community Service which, were either awarded directly to these entities or through the Pennsylvania Commission on National and Community Service, commonly referred to as PennSERVE. Currently, the PCC is administering the Pennsylvania Service Scholars and Learn and Serve programs. The PSC had the responsibility of administering the AmeriCorps program funded by Cooperative Agreement No. 94ASCPA039. The PSC was dissolved towards the end of calendar year 1996 after the completion of all of its programs.

REPORT RELEASE

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

A handwritten signature in black ink, appearing to read "John B. Kelly", is located in the lower right quadrant of the page.

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

We have audited the costs claimed by the Pennsylvania Association of Colleges and Universities to the Corporation for National Service on the Financial Status Report - Federal Share of Outlays for the Cooperative Agreement Number listed below. These Financial Status Reports, as presented in the schedule of award costs (Exhibit A), are the responsibility of the Grantee's management. Our responsibility is to express an opinion on Exhibit A based on our audit.

<u>Cooperative Agreement</u>	<u>Award Period</u>	<u>Audit Period</u>
94ASCPA039	August 1, 1994 to December 31, 1996	August 1, 1994 to September 30, 1996

We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying financial schedules were prepared for the purpose of complying with the requirements of the award agreement as described in Note 1, and are not intended to be a complete presentation of financial position in conformity with generally accepted accounting principles.

Inspector General
Corporation for National Service

In our opinion, except for \$64,132 of questioned costs (see Exhibit A), the financial schedules referred to above present fairly, in all material respects, the costs claimed in the Financial Status Report - Federal Share of Outlays, as presented in the schedule of award costs (Exhibit A), for the period August 1, 1994 to September 30, 1996, in conformity with the award agreement.

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



Leonard G. Birnbaum and Company

Alexandria, Virginia
November 15, 1996

FINANCIAL SCHEDULES

Pennsylvania Association of Colleges and Universities
Corporation for National Service - Award Number 94ASCPA039
Schedule of Award Costs
From August 1, 1994 to September 30, 1996
Interim

<u>Cost Category</u>	<u>Approved Budget</u>	(A) <u>Claimed Costs</u>	(B) <u>Incurred Costs</u>	<u>Reclassified Costs</u>	<u>Incurred As Reclassified</u>	<u>Questioned Costs</u>	<u>Exhibit B Note Reference</u>
Member Support:							
Living allowance	\$ 582,741	\$ 507,018	\$ 582,741		\$ 582,741		
FICA & comp	47,203	61,275	46,804		46,804		
Health care	40,114	28,964	40,113		40,113		
Subtotal	<u>670,058</u>	<u>597,257</u>	<u>669,658</u>	<u>-</u>	<u>669,658</u>	<u>-</u>	
Other Member Support:							
Training and education	129,521	103,475	129,521		129,521	\$ 51	1
Uniforms	46	-	46		46		
Other	20,559	27,659	20,559		20,559	261	2
Subtotal	<u>150,126</u>	<u>131,134</u>	<u>150,126</u>	<u>-</u>	<u>150,126</u>	<u>312</u>	
Staff:							
Salaries	228,195	184,581	242,716	(67,433)	175,283		3
Benefits	78,102	65,907	85,964	(17,427)	68,537	1,232	4
Training	-	5,355	-		-		
Other	-	165	-		-		
Subtotal	<u>306,297</u>	<u>256,008</u>	<u>328,680</u>	<u>(84,860)</u>	<u>243,820</u>	<u>1,232</u>	
Operational:							
Travel	20,008	3,939	19,988		19,988	612	5
Transportation	14,705	1,332	14,674		14,674		
Supplies	2,763	288	2,749		2,749		
Equipment	191	5,247	191		191		
Other	91,548	30,072	83,121	(12,940)	70,181	4,568	6
Subtotal	<u>129,215</u>	<u>40,878</u>	<u>120,723</u>	<u>(12,940)</u>	<u>107,783</u>	<u>5,180</u>	
Internal Evaluation:	<u>-</u>	<u>10,819</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Administration:	<u>60,489</u>	<u>33,798</u>	<u>23,928</u>	<u>97,800</u>	<u>121,728</u>	<u>57,408</u>	7
TOTAL CNS FUNDS	1,316,185	1,069,894	1,293,115	-	1,293,115	64,132	
MATCHING FUNDS	<u>862,543</u>	<u>-</u>	<u>864,543</u>	<u>-</u>	<u>864,543</u>	<u>-</u>	
TOTAL FUNDS	<u>\$2,178,728</u>	<u>\$1,069,894</u>	<u>\$2,157,658</u>	<u>\$ -</u>	<u>\$2,157,658</u>	<u>\$ 64,132</u>	

The accompanying notes are an integral part of this financial schedule.

Pennsylvania Association of Colleges and Universities
Corporation for National Service - Award Number 94ASCPA039
Schedule of Award Costs
From August 1, 1994 to September 30, 1996
Interim

- (A) The total representing costs claimed reflects the amount for which the auditee requested reimbursement from PennSERVE as of the quarter ended September 30, 1996. The costs were taken directly from the auditee's books of account and do not agree with the expenditures reported on the Financial Status Report - Federal Share of Outlays as of the quarter ended September 30, 1996. The expenditures reported on the Financial Status Report reflected the total expenses incurred and not just the expenses which had been submitted for reimbursement from PennSERVE.

- (B) The total representing costs incurred as of September 30, 1996 was taken directly from the auditee's books of account. The total incurred costs using CNS funds and matching funds does not agree with the expenditures reported as Federal Share of Outlays and Recipient Share of Outlays, respectively, on the Financial Status Report for the quarter ended September 30, 1996.

Pennsylvania Association of Colleges and Universities
Corporation for National Service - Award Number 94ASCPA039
Schedule of Reclassified and Questioned Costs
From August 1, 1994 to September 30, 1996
Interim

1. Training and Education

We have questioned \$51 (check no. 10167) for being unnecessary and unreasonable since the costs were for lost keys.

2. Other Member Support - Other

We have questioned \$261 (check no. 10946) since the cost of the hotel rooms exceeded the maximum stipulated by PSC's travel policy.

3. Salaries

Based on our review of (1) the auditee's salary allocation schedule for employees who worked on more than one program during the period September 1996 through June 1996, and (2) the timesheets completed by the employees for the three month period ended September 1996, we computed the expenses that should have been allocated to administration. In addition, for those employees not included in the auditee's salary allocation schedule referred to above since they only worked on this program, we computed the amount applicable to administration based on the job descriptions. Furthermore, we determined the amount of salaries applicable to program and administration from the inception of the grant through August 30, 1995, by applying the same percentages determined for the period September 1995 through September 1996. As a result of our calculations, we have reclassified \$67,433 to administration.

4. Benefits

As a result of the above reclassified amount for salaries, we have reclassified the applicable benefits in the amount of \$17,427.

We have questioned \$1,232 of benefits which represents not only the benefits applicable to the above questioned amount for salaries but also includes benefits incurred for three terminated employees for the month of June 1996.

Pennsylvania Association of Colleges and Universities
Corporation for National Service - Award Number 94ASCPA039
Schedule of Reclassified and Questioned Costs
From August 1, 1994 to September 30, 1996
Interim

5. Travel

We have questioned \$612 of the amount incurred for travel. Of this amount, \$202 was questioned since the costs were incurred prior to the start of this grant, \$201 was questioned since the costs were not allocable to the grant and \$209 was questioned for being unallowable since the hotel receipts either indicated that the cost included either movie rental and alcoholic beverages or the room charges exceeded the maximum stipulated by PSC's travel policy.

<u>Check No.</u>	<u>Prior to Grant Period</u>	<u>Unallocable</u>	<u>Unallowable</u>
10146			\$ 80
10666			5
10760			115
1957	<u>\$ 202</u>	<u>\$ 201</u>	<u>9</u>
	<u>\$ 202</u>	<u>\$ 201</u>	<u>\$ 209</u>

6. Operating - Other

We have reclassified \$12,940 (check nos. 11454, 11455, 11372, 10993, 11064, 10962 and 10696) from operating - other to administration. All of these costs, with the exception of check nos. 11372 and 10962, represent the amounts paid to a contractor for financial services. Check no. 11372 is for office rent and check no. 10962 represents 70 percent of the amount incurred to renovate the first floor of the building that the program moved into at the end of calendar year 1995. While renovations are an allowable cost in accordance with OMB Circular A-122, we do not feel that these costs should have been charged as direct since these costs were not included in the grant budget. Even if these costs were properly charged as direct the amount was not properly allocated as this program absorbed 70 percent of the cost and another program funded by the Commission on National and Community Service absorbed 30 percent.

Pennsylvania Association of Colleges and Universities
Corporation for National Service - Award Number 94ASCPA039
Schedule of Reclassified and Questioned Costs
From August 1, 1994 to September 30, 1996
Interim

6. Operating - Other - continued

We have questioned \$4,568 of the amount incurred for operating - other. Of this amount, \$1,261 was questioned for a lack of supporting documentation, and \$3,307 was questioned for being unallocable to this program.

<u>Check No.</u>	<u>Unsupported</u>	<u>Unallocable</u>	<u>Notes</u>
11444		\$ 2,327	a
11379		22	b
11401	\$ 994		
11363		958	c
10980	<u>267</u>		
	<u>\$1,261</u>	<u>\$3,307</u>	

- a. This expense represents the amount necessary to cancel the remaining portion of the auditee's lease agreement for a copier. We have questioned this cost since the auditee did not demonstrate that the aggregate cost including termination charges was reasonable, i.e., less expensive than it would have been to lease the same equipment for the term of the grant period only.
- b. This expense represents phone calls made on a calling card after an employee's termination which would indicate that these calls were not made on behalf on the program.
- c. This expense represents the amount necessary to cancel the remaining portion of the auditee's lease agreement for a mailing scale. We have questioned this cost since the auditee did not demonstrate that the aggregate cost including termination charges was reasonable, i.e., less expensive than it would have been to lease the same equipment for the term of the grant period only.

Pennsylvania Association of Colleges and Universities
Corporation for National Service - Award Number 94ASCPA039
Schedule of Reclassified and Questioned Costs
From August 1, 1994 to September 30, 1996
Interim

7. Administration

We have questioned \$57,408 of the amount incurred for administration because the amount exceeded the maximum Federal share. AmeriCorps Provision 24 states, in part, that "the maximum Corporation share of Administrative costs cannot exceed 5% of total Corporation funds actually expended."

The amount questioned was calculated as follows:

Total Administration Costs Incurred		\$ 23,928
Cost Reclassified From:		
Salaries	\$67,433	
Benefits	17,427	
Operational - Other	<u>\$12,940</u>	
Total Reclassified Cost		<u>97,800</u>
Total Administration Costs After Reclassifications		<u>\$ 121,728</u> A
Total Incurred Cost		\$1,293,115
Questioned Costs:		
Training and Education	\$ 51	
Other Member Support - Other	261	
Benefits	1,232	
Travel	612	
Operational - Other	<u>\$ 4,568</u>	
Total Questioned Cost		<u>6,724</u>
Total Incurred Less Questioned Cost		<u>\$1,286,391</u>
Five Percent Limitation		<u>64,320</u> B
Excess Cost Over Limitation (A-B)		<u>\$ 57,408</u>

Pennsylvania Association of Colleges and Universities
Corporation for National Service - Award Number 94ASCPA039
Notes to Financial Schedules

1. Summary of Significant Accounting Policies

Accounting Basis

The accompanying financial schedules, Exhibits A and B, have been prepared from the auditee's books of account. The basis of accounting utilized in preparation of these schedules differs from generally accepted accounting principles. The following information summarizes these differences.

A. Equity

Under the terms of the award, all funds not expended according to the award agreement and budget at the end of the award period are to be returned to CNS. Therefore, the auditee does not maintain any equity in the award and any excess of cash received from CNS over final expenditures is due back to CNS.

B. Equipment

Equipment is charged to expense in the period during which it is purchased instead of being recognized as an asset and depreciated over its useful life. As a result, the expenses reflected in the statement of award costs include the cost of equipment purchased during the period rather than a provision for depreciation.

The equipment acquired is owned by PennSERVE while used in the program for which it is purchased or in other future authorized programs. However, CNS has the reversionary interest in the equipment. Its disposition, as well as the ownership of any proceeds therefrom, is subject to Federal regulations.

C. Inventory

Minor materials and supplies are charged to expense during the period of purchase. As a result, no inventory is recognized for these items in the financial schedules.

INDEPENDENT AUDITOR'S REPORTS
ON
COMPLIANCE AND INTERNAL CONTROL STRUCTURE

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

We have audited the schedule of award costs, as presented in Exhibit A, which summarizes the financial reports submitted by the Pennsylvania Association of Colleges and Universities (PACU) to the Corporation for National Service (CNS) for the cooperative agreement listed below, and have issued our report thereon dated November 15, 1996.

<u>Cooperative Agreement</u>	<u>Award Period</u>	<u>Audit Period</u>
94ASCPA039	August 1, 1994 to December 31, 1996	August 1, 1994 to September 30, 1996

We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement.

Compliance with laws, regulations, and the provisions of the award is the responsibility of PACU's management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and the terms and conditions of the award. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statues, regulations, and the provisions of the award that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is

Inspector General
Corporation for National Service

material to the financial schedules. The results of our tests of compliance disclosed the following material instances of noncompliance:

Finding No. 1

PACU did not maintain an adequate financial management system in accordance with 45 CFR 2543.21. PACU's financial management system is inadequate as it does not provide for the following:

- Accurate, current, and complete disclosure of financial results of each federally-sponsored project or program.
- Records that identify adequately the source and application of funds for all federally-sponsored activities.
- Comparison of outlays with budget amounts for each award.

Our testing and review of the incurred and claimed costs and the audit reports issued in accordance with OMB Circular A-133 disclosed the deficiencies noted above in the financial management system resulted in the following:

- expenditures in certain cost categories exceeded the approved budget,
- the expenditures by budget line item reported to PennSERVE did not accurately reflect the expenditures by budget line item as recorded in the auditee's books of account,
- the amount charged for administrative costs exceeded the maximum Federal share,
- the auditee could not specifically identify which expenditures were expended using matching funds and Federal funds, and
- the total expenditures reported on the Financial Status Report for the quarter ended September 30, 1996, as Federal Share of Outlays and Recipient Share of Outlays do not agree with the auditee's books of account.

Inspector General
Corporation for National Service

Recommendation

We recommend that PACU develop and implement policies and procedures for the establishment of an adequate financial management system for its existing programs and any future programs.

Auditee's Comments

PACU stated that it has “completed a thorough review of all financial records associated with the operation of the PSC and has properly accounted for all income and expenditures.” PACU further stated that it has made changes in its financial management system.

Finding No. 2

PACU charged excessive administrative costs to the grant. According to AmeriCorps Provision 24b, “the maximum Corporation share of Administrative costs cannot exceed 5% of total Corporation funds actually expended.” After consideration of total questioned costs, excluding administration, the incurred amount for administration represents approximately nine percent of the total incurred costs.

Recommendation

We recommend that the claimed costs for administration be limited to the rate specified by the provisions. We further recommend that PACU develop and implement policies and procedures to ensure compliance with the AmeriCorps Provision related to administrative costs for existing programs and any future programs.

Auditee's Comments

“PACU disagrees with the additional costs proposed in the draft audit report to be reclassified to Administration since these were properly budgeted in other categories in the original budget and in the revised budget.”

Auditor's Response

It is clear that PACU disagrees with our interpretation of the terms and conditions of the grant. We have reviewed PACU’s comments and are not persuaded that our interpretation is incorrect. Accordingly, this is a matter to be resolved by the Office of Grants Management.

Finding No. 3

During the first year of the program, Members were paid a living allowance on an hourly basis in relation to the hours worked. AmeriCorps Provision 12b states, in part, that “programs must not pay a living allowance on an hourly basis. It is not a wage and should not fluctuate based on the number of hours Members serve in a given period. Programs should pay the living allowance in increments, such as weekly or bi-weekly.” As a result of PACU’s method for paying living allowances, all Members received living allowances at amounts less than they would have received had the living allowance been paid on a stipend basis versus an hourly basis. The shortages received by the Members varied anywhere between \$0.71 and \$1,161.

Recommendation

We recommend that PACU ensure that living allowances are paid as they were intended for any existing or future programs. We further recommend that PACU review the living allowances paid to the Members under this grant and attempt to contact the members to rectify any shortages of significant proportions.

Auditee’s Comments

PACU stated that the method of payment of living allowances was changed to a stipend basis once the PSC staff became aware of the issue. PACU further stated that it “will review the living allowances paid to the members under this grant and evaluate whether it is cost-effective to attempt to contact the members to rectify any shortage of significant proportion.

Finding No. 4

PACU overstated the AmeriCorps Members’ service hours that it reported to the National Service Trust Fund because it included their vacation, sick and holiday hours in the calculation. In the grant agreement, AmeriCorps provision 8a states, in part, that “the grantee must ensure that each Member has sufficient opportunity to complete the required number of hours to qualify for a post-service education award. In planning for the Member’s term of service, the Grantee must account for holidays and other time off, and must provide each Member with sufficient opportunity to make up missed hours.”

Inspector General
Corporation for National Service

Recalculating the service hours and eliminating the vacation, sick and holiday hours reveals that

- 8 of the 33 Members who were awarded the full \$4,725 post-service education award, completed the required 1700 hours of service (as set forth in AmeriCorps grant provision 9a).
- 11 of the 33 Members completed 1,615 or more of service and, thus could have been awarded the full benefit, in accordance with CNS policy established in July 1995. Under that policy, CNS allows AmeriCorps Members who have completed at least 95 percent of their required service to be awarded full education benefits, with the understanding that the remaining service hours are completed through volunteer work in the future.
- 14 of the Members were inappropriately awarded the full benefit because their service hours fell below CNS' 95 percent policy. When Member service falls below 95 percent (or 1,615 of the required 1700 hours of service), CNS' practice has been to award a prorated benefit. The post-service benefits awarded in excess of CNS' practice are listed below.

AmeriCorps Member	Service Hours Worked	Benefit Awarded	Prorated Award	Excess Amount Awarded
Barbara Bailey	1565	\$4,725	\$4,352	\$ 375
Marjorie Callan	1585.5	4,725	4,408	317
Michelle Davis	1588	4,725	4,413	312
Paulette Edwards	1568	4,725	4,352	373
April Forte	1603	4,725	4,456	269
Karen Hoover	1561.5	4,725	4,342	383
Ira Jones	1596.5	4,725	4,437	288
Tamara Krashna	1597.5	4,725	4,442	283
Jacob Martin	1573.25	4,725	4,371	354
Jessica Moyer	1610	4,725	4,475	250
Lisa Oshop	1602.25	4,725	4,456	269
Nicole Parry	1603.75	4,725	4,456	269
Leslie Vicary	1590.5	4,725	4,423	302
Denise Wilson	1577.5	4,725	4,385	340
Total				<u>\$4,384</u>

Inspector General
Corporation for National Service

Recommendation

We recommend that PACU develop and implement policies and procedures to properly record whether Members are eligible for an educational award in accordance with the AmeriCorps Provisions prior to the certification of eligibility for any existing or future programs. We further recommend that PACU reimburse the National Service Trust Fund \$4,384 for the excess post service educational benefits awarded.

Auditee's Comments

According to PACU, the regulations concerning eligibility for post-service educational awards were misinterpreted initially as management believed that sick time and holidays were included, however, hours for this type of leave were excluded once the issue was clarified. PACU further states that it "does not agree that it should reimburse \$4,384 to the National Service Trust because the goals of the PSC were accomplished, corpsmembers met their objectives, and the requirements for service were not clearly understood at the beginning of the grant period."

Auditor's Response

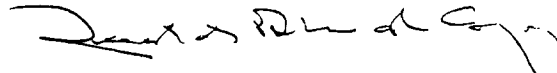
While we were able to determine that the practice of including vacation, sick, and holiday hours in the Members' service hours ceased after the first year of the program, we do not feel that the National Service Trust should not be reimbursed simply because PACU misinterpreted the regulations.

We considered these material instances of noncompliance in forming our opinion on whether Exhibit A is presented fairly in all material respects, in conformity with Corporation for National Service policies and procedures, and this report does not affect our report dated November 15, 1996, on this financial schedule.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the auditee complied in all material respects, with the provisions referred to in the third paragraph of this report.

Inspector General
Corporation for National Service

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



Leonard G. Birnbaum and Company

Alexandria, Virginia
November 15, 1996

LEONARD G. BIRNBAUM AND COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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SAN DIEGO, CALIFORNIA

Inspector General
Corporation for National Service

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

We have audited the schedule of award costs, as presented in Exhibit A, which summarizes the financial reports submitted by the Pennsylvania Association of Colleges and Universities (PACU) to the Corporation for National Service (CNS) for the cooperative agreement listed below, and have issued our report thereon dated November 15, 1996.

<u>Cooperative Agreement</u>	<u>Award Period</u>	<u>Audit Period</u>
94ASCPA039	August 1, 1994 to December 31, 1996	August 1, 1994 to September 30, 1996

We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement.

In planning and performing our audit of Exhibit A for the period August 1, 1994 to September 30, 1996, we considered the grantee's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control structure.

The grantee's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs on internal control structure policies and

Inspector General
Corporation for National Service

procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Cash Disbursements
- Cash Receipts
- Payroll/timekeeping
- Recordkeeping

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we have assessed control risk.

We noted the following matters involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure, that, in our judgement, could adversely affect the entity's ability to record, possess, summarize and report financial data consistent with the assertions of management in the financial schedules.

Finding No. 1

PACU lacks adequate segregation of duties. Instead of a centralized accounting department, PACU has assigned one individual the responsibility of performing almost all of the accounting functions for each program that it operates. For the internal control structure to be effective, there needs to be an adequate division of duties among those who perform accounting procedures and handle assets. Such arrangements reduce the risk of error and limit opportunities to misappropriate assets. While we recognize that PACU is a small organization and a lack of segregation of duties is inherent in small organizations, we feel that duties can be segregated more than they are presently.

Inspector General
Corporation for National Service

Recommendation

We recommend that the accounting functions be reviewed and evaluated to determine whether it is possible to provide more segregation of duties.

Auditee's Comments

PACU stated that "staff assignments will be reviewed to address the need for segregation of duties, wherever possible."

A material weakness is a reportable condition in which the design or operation of the specific internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses as defined above. However, our study and evaluation and our audit disclosed the following conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material to the CNS grant may occur and not be detected within a timely period.

Finding No. 2

PACU lacks adequate controls over its financial management system as required by 45 CFR 2543.21. Our testing and review of the incurred and claimed costs and the audit reports issued in accordance with OMB Circular A-133 disclosed that the lack of adequate controls over the financial management system resulted in the following:

- expenditures in certain cost categories exceeded the approved budget,
- the expenditures by budget line item reported to PennSERVE did not accurately reflect the expenditures by budget line item as recorded in the auditee's books of account,
- the amount charged for administrative costs exceeded the maximum Federal share,

Inspector General
Corporation for National Service

- the auditee could not specifically identify which expenditures were expended using matching funds and Federal funds, and
- the total expenditures reported on the Financial Status Report for the quarter ended September 30, 1996, as Federal Share of Outlays and Recipient Share of Outlays do not agree with the auditee's books of account.

For complete details refer to Finding No. 1 in the Independent Auditor's Report on Compliance.

Finding No. 3

PennSERVE lacks adequate controls for monitoring subrecipients. The lack of adequate monitoring and oversight being provided by PennSERVE to PACU has resulted in PACU's noncompliance with various OMB Circular and AmeriCorps Provisions as detailed in Finding Nos. 1 through 4 in the Independent Auditor's Report on Compliance.

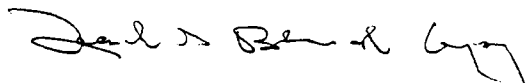
Recommendation

We recommend that PennSERVE develop and implement policies and procedures to adequately monitor subrecipients on any existing and future grants or cooperative agreements from Federal agencies.

Auditee's Comments

PennSERVE stated that since mid-1996, significant changes have been made in the way PennSERVE monitors the Federal grants which it receives. The comments further contain a listing of monitoring functions that are currently performed by the staff of PennSERVE.

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


Leonard G. Birnbaum and Company

Alexandria, Virginia
November 15, 1996


Appendix A

March 27, 1997

Leslie A. Leiper
Senior Partner
Leonard G. Birnbaum & Co.
6285 Franconia Road
Alexandria, VA 22310

CORPORATION

FOR NATIONAL

 SERVICE

Dear Mr. Leiper,

We have received your draft audit report of Cooperative Agreement no. 94ASCPA039 awarded to PennSERVE and subsequently subgranted to the Pennsylvania Association of Colleges and Universities (PACU).

We find the report useful regarding specific costs audited and internal controls and system weaknesses. The short time frame for comment does not allow a thorough examination of the costs or issues raised which will be addressed by our office during the audit resolution process. However, the report contains a large reclassification of program costs as administrative costs and subsequent disallowance as exceeding the 5% administrative limit. The details concerning the reclassification of the auditor's definition of administrative expenses and judgments made are not included in the audit and therefore no opinion on the appropriateness can be offered.

Sincerely,



Michael L. Kenefick
Director of Grants and Contracts

1201 New York Avenue, NW
Washington, DC 20525
Telephone 202-606-5000

Getting Things Done.
AmeriCorps, National Service
Learn and Serve America
National Senior Service Corps



PENNSYLVANIA ASSOCIATION OF COLLEGES AND UNIVERSITIES

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Chair

Niara Sudarkasa, President
Lincoln University

President
Paul Marion

Appendix B

April 1, 1997

Ms. Leslie A. Leiper
Senior Partner
Leonard G. Birnbaum and Company
Certified Public Accountants
6285 Franconia Road
Alexandria, VA 22310

Dear Ms. Leiper:

Attached is the response of the Pennsylvania Association of Colleges and Universities (PACU) to the draft report on the audit of Cooperative Agreement Number 94ASCPA039, which was awarded to PACU through the Pennsylvania Commission on National and Community Service, commonly referred to as PennSERVE, by the Corporation for National Service. Please feel free to contact me if additional information is needed.

Thank you.

Sincerely,

Paul Marion

cc: Ms. Peg Davis, PennSERVE
Ms. Regina G. Dull, Leonard G. Birnbaum and Company



PENN SERVE

THE GOVERNOR'S OFFICE OF CITIZEN SERVICE
1304 LABOR & INDUSTRY BUILDING
HARRISBURG, PA 17120

TELEPHONE: 717-787-1971

FAX: 717-787-9458

March 28, 1997

Dr. Paul Marion, President
Pennsylvania Association of Colleges and Universities
800 North Third Street, Suite 401
Harrisburg, PA 17102

Dear Dr. Marion:

Finding No. 3, page 29. of the draft audit report prepared by Leonard G. Birnbaum and Company of the grant awarded by PennSERVE to the Pennsylvania Association of Colleges and Universities under Cooperative Agreement Number 94ASCPA039 states: "PennSERVE lacks adequate controls for monitoring subrecipients." In July 1996, I was appointed by Johnny J. Butler, Secretary of the Pennsylvania Department of Labor and Industry, to serve as Executive Director of PennSERVE. Since that time, I have made significant changes in the way PennSERVE monitors the federal grants which it receives.

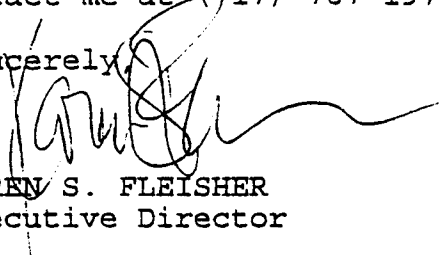
PennSERVE is responsible for both programmatic and financial monitoring of two federal grants, AmeriCorps and Learn and Serve. The following is a list of monitoring functions currently performed by the staff of PennSERVE:

- o PennSERVE has purchased computer equipment and software which will be used to develop a continuous financial monitoring system for all subgrants awarded by PennSERVE.
- o PennSERVE will provide a manual to all programs receiving subgrants which will detail all requirements for adhering to both federal and state requirements of grant recipients.
- o Funding is released to programs through a monthly request for reimbursement process. Programs are required to list matching funds on the request. PennSERVE reviews all requests to ensure that programs are staying within budgeted categories (see Attachment A).

- PennSERVE completes a status sheet of each program's contract which accompanies the check issued by the Commonwealth for each invoiced drawdown. The status sheet contains a listing of all budget categories and amounts drawn down by the program to the current date (see Attachment B).
- Budget revision requests by AmeriCorps State Programs must be in writing. PennSERVE conducts a staff review of the request and holds a conference call with the program before responding in writing to the request. If approval from the Corporation for National Service is needed, the same process is utilized.
- PennSERVE staff makes semi-annual site visits to each AmeriCorps State Program. An annual visit is made to each Learn and Serve Program. The purpose of the visits is to review financial procedures, program functions, records management and corpsmember issues.
- PennSERVE conducts an annual review of each state program. Records on corpsmembers and financial and fiscal management are reviewed. Meetings are held with the program director, financial manager, community partners and, when possible, corpsmembers. Upon completion of the review, programs receive in writing a commentary on the review (See Attachment C).
- All AmeriCorps State Programs and Learn and Serve Programs are required to have a yearly independent audit of their programs. Once the audit is completed, a copy is submitted to the Budget Office of the Commonwealth of Pennsylvania. The audit is reviewed by the Department of Labor and Industry's Bureau of Financial Management and PennSERVE. A written response to the audit is provided to each program by PennSERVE.
- PennServe has established a solid system of feedback and follow-up to our programs through regular telephone calls, written communications, trainings and site visits.

I hope this information provides a more complete view of the newly established monitoring system now in operation at PennSERVE. If you have any questions or need more information on our monitoring procedures you can contact me at (717) 787-1971.

Sincerely,



KAREN S. FLEISHER
Executive Director

Attachments

Response of the Pennsylvania Association of Colleges and
Universities (PACU) to Financial Schedules and
Independent Auditor's Report

Cooperative Agreement Number 94ASCPA039
April 1, 1997

INTRODUCTION

Responses are provided in this document to all of the findings of the draft report of the audit of Cooperative Agreement Number 94ASCPA039, which was awarded to the Pennsylvania Association of Colleges and Universities (PACU) through the Pennsylvania Commission on National and Community Service, commonly referred to as PennSERVE, by the Corporation for National Service (CNS). The grant supported the operation of the Pennsylvania Service Corps (PSC). Three additional issues are described below because they impact the responses to the draft audit report.

Auditor's Comments

1. After the audit was completed, a revised budget for this grant has been approved by PennSERVE and CNS. Attachment A presents the revised budget.
2. After the audit was completed, the cash match requirements were clarified to reflect the fact that PACU must contribute \$115,738.89 of the total of \$344,015 included in the revised budget for cash match for operation of the PSC. The cash match contributed by community partners was \$228,276.11. Since the entire \$82,645 in questioned costs included in the draft audit report is less than the \$115,738.89 in cash match contributed directly by PACU, it is reasonable to assume that the questioned costs were paid with PACU funds. Therefore, any of the questioned costs that can appropriately be charged to cash match should be charged to the cash match contributed by PACU, thereby, absolving PACU of any liability for paying back these questioned costs. Otherwise, PACU would be paying twice for the same expenses.
3. Neither PACU, nor its member colleges and universities received any benefit as a result of PACU's involvement in administering the PSC. The program effectively accomplished its goals and made significant positive contributions to Pennsylvania communities and to the corpsmembers. PACU's operation of the PSC was a service to the Commonwealth that required a great deal of time by the small PACU staff and significant legal and financial liability for the modest PACU operating budget.

Exhibit A was changed to reflect the revised budget approved by CNS.

PACU accepted the grant based on the clear understanding that the five percent payment for administration was for expenses related to time spent by the three existing staff members to provide administrative oversight for the program and other direct costs absorbed by PACU. Not only were the administrative funds received by PACU significantly less than PACU's expenses for this purpose, but PACU also contributed \$115,738.89 of its own funds as cash match. Therefore, it is unfair and illogical to expect PACU to pay even more money for the privilege of operating a program that did not benefit PACU and that required PACU to expend significant staff and budgetary resources.

RECLASSIFIED AND QUESTIONED COSTS

Auditor's Comments

1. Training and Education (page 12)

PACU disagrees with the proposed reclassification of \$3,158 (check nos. 10339 and 10234) from Training and Education to Equipment. The Training line of the original budget approved for this grant includes \$4,000 for equipment, as shown on Attachment B. Therefore, these expenditures were charged to the correct budget category.

Based on our review of the detail budget, which was approved by CNS, we have not reclassified these costs even though typically cost for such expenditures would not be classified as other member support.

PACU disagrees that \$16 (check no. 10319) and \$28 (check no. 10167) should be questioned as unreasonable expenses. The workshops for corpsmembers at Wilson College included opportunities for recreation in the fieldhouse, swimming pool, and bowling facilities on campus. Wilson College requires that a guard be present when each of these facilities is used by non-College organizations and that the costs of the guards be paid by the visiting group. A recreation period was included as part of each workshop in order to build morale and teamwork among corpsmembers and to help reduce tension after long days of workshop training for corpsmembers. Therefore, these were appropriate expenses. PACU concurs that the additional \$51 in check number 10167 is a questioned cost.

Given the rationale for these expenses, we have not questioned these costs.

PACU disagrees that \$1,431 (check nos. 10495 and 10665) should be questioned for lack of supporting documentation. These checks paid Larry Bartlebaugh and Amy Mazur for their work as Field Assistants. Attachment C provides the job description for Field Assistant and timesheets for Amy Mazur.

Given that the job description provides for a flat payment of \$2,000, we have not questioned these costs.

2. Other Member Support - Other (page 12)

PACU concurs that check number 10946 (\$261) is a questioned cost.

PACU disagrees with the proposed reclassification of \$427 (checks no. 10339 and 10377) from Other Member Support - Other to Equipment. These expenditures were charged to the correct budget category since the original approved budget, as shown on Attachment B, includes \$4,000 for equipment.

Based on our review of the detail budget, which was approved by CNS, we have not reclassified these costs even though typically costs for such expenditures would not be classified as other member support.

PACU disagrees with the reclassification of \$1,783 (check nos. 10657, 10396, and 1927) from Other Member Support - Other to Travel. The Recruitment and Placement line of the original budget approved for this grant includes \$11,600 for staff travel and \$5,040 for staff lodging and meals, as shown in attachment D. The expenses were for trips by the Director of Recruitment and Placement and, therefore, were charged to the correct budget category.

3. and 4. Salaries and Benefits (page 13)

PACU vehemently objects to the proposed reclassification to the Administration category of \$67,433 in salary costs and \$17,427 in benefit costs. These salaries and benefits are for staff positions that were created specifically to operate the PSC. The individuals who occupied these positions were hired based on the clear understanding that they would be paid from grant funds. The individuals in these positions spent 100% of their work time on the PSC program and did no work for PACU. Once the grant period ended, these positions were eliminated and the employment of the staff members was terminated. From the beginning of the PSC, this program was set up as a separate, stand-alone organization with its own staff, budget, and office location.

It is clear that PACU disagrees with our interpretation of the terms and conditions of the grant. We have reviewed the comments and are not persuaded that our interpretation is incorrect. Accordingly, this is a matter to be resolved by CNS' Office of Grants Management.

Funds for positions that have been proposed for reclassification are included in the salaries and benefits lines of the revised budget approved by PennSERVE and CNS. PACU should not be held liable for spending funds that were properly included in the salaries and benefits lines of the approved budget.

Auditor's Comments

PACU agreed to operate the PSC based on the clear understanding that the five percent administrative limit applies only to costs incurred by PACU in providing oversight for the overall administration of the program, not to costs involved in direct program implementation by staff hired specifically to perform duties required under grant #94.A.SCPA039. PACU is a small not-for-profit organization with three staff positions and a modest annual operating budget generated by member dues. Under no circumstances would PACU have accepted the grant without assurances that grant funds could be used to pay for the salaries and benefits of staff members who needed to be hired to handle the day-to-day management of the PSC program.

Existing PACU staff provided administrative support and guidance, including decisions involving funding, personnel, office procedures and policies, and internal budgeting. In addition, PACU incurred legal, accounting, insurance and surety fees associated with administration of this program. PACU processed all program employees' payroll and benefits and provided the use of PACU's conference room, copying equipment, and other equipment as needed. The costs incurred by PACU for these and other activities was significantly higher than the amount that PACU received in administrative reimbursement from grant funds.

Documentation in Attachment E supports the fact that PACU received a number of assurances that the grant funds could be used to hire the staff needed to operate the program and that the five percent in administrative funds was for oversight provided by existing PACU staff members.

Also, PACU disagrees that \$1,142 in salaries and \$1,232 in benefits for terminated employees should be questioned. As shown in Attachment F, PACU personnel policies require that employees who are terminated receive 30 days notice or 30 days pay in lieu of notice. The financial manager was notified on May 8, 1996 that his employment was terminated, effective May 30, 1996, and that his last day in the office would be May 10, 1996. This was less than the 30 days in lieu of pay normally given to terminated employees, so the salary payment was an appropriate expenditure and should not be questioned. The remainder of the \$1,232 in benefits questioned in the draft audit were due to the fact that PACU medical coverage ends on the 15th of each month, so the premium has already been paid for a portion of the next month if a staff member's employment is terminated at the end of a month. Finally, PACU received credits in August of 1996 for two months of premiums paid for dental coverage for each of the three terminated employees. PACU also received credit in July of 1996 for one month of premiums paid for medical coverages for each of two terminated employees.

Upon reviewing PACU's personnel policy regarding termination of employees, we have not questioned the salary amount claimed for terminated employees.

Given that no documentation was provided during the audit field work or as an attachment to these comments to support that the credits received were applied to this grant, the questioned amount remains unchanged.

5. Travel (page 14)

PACU concurs check numbers 10146 (\$80), 10666 (\$5), and 10760 (\$115) are questioned costs.

PACU disagrees with the questioned cost of \$758 (check no. 1957). The grant period began on August 1, 1994. PACU's records reflect that \$612.07 was incurred in

When we revisited the Support for these costs, we determined that \$202 was incurred prior to the grant period, \$201 was unallocable to the grant and \$9 was unallowable. We have reduced the questioned amount accordingly.

Auditor's Comments

September of 1994 and, therefore, these costs were allowable because they were incurred during the period of the grant. We cannot identify the additional costs that were referred to in the draft audit report.

6. Operating - Other (page 14)

PACU strongly disagrees with the proposed reclassification of \$12,940 to the Administration category. Of this total, \$8,506.47 (check nos. 11454, 11455, 11372, 10993, 11064, 10962, and 10696) was paid to a contractor for financial services. The contracted employee spent 100% of his time working on the PSC program and did no work for PACU. It was more cost-efficient to employ this individual on a contractual basis than as a full-time employee of the program, but his work was as directly related to the operation of the program as any of the other employees. If there had been no federal grant, there would have been no PSC, and, therefore, there would have been no need for PACU to pay for this contracted service. The expense, therefore, was properly charged to the Operating- Other category and was included in this category in the revised budget approved by PennSERVE and CNS.

It is clear that PACU disagrees with our interpretation of the terms and conditions of the grant. We have reviewed the comments and are not persuaded that our interpretation is incorrect. Accordingly, this is a matter to be resolved by CNS' Office of Grants Management.

Check nos. 11372 and 10962 are for rent and renovations of the office space shared by the PSC and another program funded by the Commission on National and Community Service. The expenditures for these purposes are included in the Operating - Other category of the revised budget approved by PennSERVE and CNS and, therefore, these costs have been properly charged. The costs for rent and renovations were allocated between the two programs based on the number of employees paid by each program. Several of the employees were shared between the two programs, and the percentage of time spent by each of these staff members on each program was included in the calculations. Since approximately 70 percent of the total staff time was devoted to the PSC, 70 percent of the rent and renovation costs were charged to the PSC budget. Therefore, these expenditures were appropriate.

Since a detail budget was not submitted to CNS for approval, we are unsure whether CNS was aware of the specific costs included in this cost category. Therefore, the questioned amount remains unchanged.

PACU disagrees that \$3,285 (check nos. 11444 and 11363) are unallocable to this program. Leases for a copier and a mailing scale were signed at a time when PSC staff expected that the program would receive another federal grant that would allow it to continue beyond the end of the period of the AmeriCorps grant covered in the draft audit report. Therefore, the costs of these leases were reasonable and the most cost-effective under the conditions that existed at the time that the leases were initially signed.

We are not persuaded that this position mitigates the unreasonableness of the costs.

PACU concurs that check numbers 11379 (\$22), 11401 (\$994), and 10980 (\$267) are questioned costs.

7. Evaluation (page 16)

PACU strongly disagrees with the proposed reclassification of \$7,475 to the Administration category. In the revised budget approved by PennSERVE and CNS, all of the expenses related to evaluation are charged to cash match, not to federal funds. Also, the amount contributed by PACU to cash match far exceeds the amount spent on evaluation, so it would be appropriate to assume that all of the evaluation expenses have already been paid by PACU through its cash match contribution.

Based on the revised budget approved by CNS all costs for evaluation will be provided by matching funds; therefore, we have not reclassified these costs to administration.

PACU also disagrees with the proposed reclassification because the expenditures were for evaluation activities that were required by the conditions of the grant and that meet the definitions specified in the grant regulations. Dr. Carl Fertman conducted the evaluation for the PSC on a contractual basis. He is an experienced and qualified

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evaluator, and his activities were properly paid from the Evaluation category of the budget. A letter from Dr. Ferman describing the evaluation activities that he conducted is provided as Attachment G.

8. Administration (page 16)

PACU totally and completely disagrees with the proposed reclassification of \$105,275 to the Administration category for the reasons described in sections 3, 4, 6, and 7 above.

It is clear that PACU disagrees with our interpretation of the terms and conditions of the grant. We have reviewed the comments and are not persuaded that our interpretation is incorrect. Accordingly, this is a matter to be resolved by CNS' Office of Grants Management.

COMPLIANCE FINDINGS

Finding 1. (page 21) - PACU did not maintain an adequate financial management system.

ACTION: The grant period has ended. PACU has completed a thorough review of all financial records associated with the operation of the PSC and has properly accounted for all income and expenditures. Also, PACU has made changes in its financial management system to assure accurate, current, and complete disclosure of financial results of each federally-sponsored program: to assure that records adequately identify the source and application of funds for all federally-sponsored activities; and to provide comparison of outlays with budget amounts for each award.

Finding 2. (page 22) - PACU charged excessive administrative costs to the grant.

ACTION: The revised budget approved by PennSERVE and CNS includes \$60,489 for the Administration category, which is the exact amount spent from this category and is slightly less than 5 percent of total Corporation funds actually expended. PACU disagrees with the additional costs proposed in the draft audit report to be reclassified to Administration since these were properly budgeted in other categories in the original budget and in the revised budget.

Finding 3. (page 23) - During the first year of the program, corpsmembers were paid a living allowance on an hourly basis rather than a stipend basis.

ACTION: When PSC staff became aware of this issue, the method of payment was changed to a stipend basis. PACU will review the living allowances paid to the members under this grant and evaluate whether it is cost-effective to attempt to contact the members to rectify any shortage of significant proportions.

Finding 4. (page 23) - PACU overstated the AmeriCorps members' service hours that it reported to the National Service Trust Fund because it included their vacation, sick and holiday hours in the calculation.

ACTION: Participants completed hours in good faith. Due to an initial misinterpretation of the regulations, management believed that sick time and holidays were included. When this issue was clarified, hours of service were excluded from items such as time off for illness and holidays. PACU does not agree that it should reimburse \$4,384 to the National Service Trust because the goals of the PSC were accomplished, corpsmembers met their objectives, and the requirements for service were not clearly understood at the beginning of the grant period.

INTERNAL CONTROL FINDINGS

Finding 1. (page 27) - PACU lacks adequate segregation of duties.

ACTION: As a small organization, it is unreasonable to separate the functions to the extent required to have a complete segregation of duties. However, staff assignments will be reviewed to address the need for segregation of duties, wherever possible.

Finding 2. (page 28) - PACU lacks adequate control over its financial management system.

ACTION: Supervisory control has been enhanced significantly due to increased involvement by the PACU President and Director of Administrative Services in the details of the finances of federally-funded programs administered by PACU. The grants that financed the PSC have ended and a thorough accounting has been completed for all income and expenditures. PACU has ensured that management systems for on-going programs are adequately supervised.

Finding 3. (page 29) - PennSERVE lacks adequate controls for monitoring subrecipients.

ACTION: The response of PennSERVE is provided in Attachment G.