
C O R P O R A T I O N

F O R N A T I O N A L



S E R V I C E

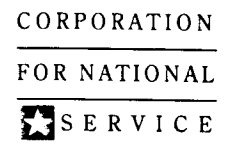
OFFICE OF THE INSPECTOR GENERAL

**Audit of PennSERVE
Grant Number 92COSTPA0022
(American Youth and Conservation Corps)**

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
Commission on National and Community Service
Award Number 92COSTPA0022 to PennSERVE
(American Youth and Conservation Corps)



Leonard G. Birnbaum and Company, under contract to the Office of Inspector General, performed an audit of the funds awarded by the former Commission on National and Community Service to PennSERVE for the American Youth and Conservation Corps program (award number 92COSTPA0022). The audit covered the costs claimed during the period July 22, 1992 to September 3, 1995.

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.

We have not questioned any of the claimed costs as a result of the audit. However, we have noted two instances of noncompliance, the first of which is considered material, as follows

- PennSERVE was unable to demonstrate that all annual and quarterly progress reports were submitted; and
- Approval was not obtained for budget revisions (i.e., transfers of funds between cost categories in excess of ten percent of total costs).

These matters are discussed in detail in this report.

A draft of this report was provided to PennSERVE and CNS for comment. PennSERVE stated that it concurred with the findings and recommendations in the report and that corrective actions had been implemented. PennSERVE's comments are included as Appendix A. CNS did not respond.

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

Corporation for National Service
Office of Inspector General
Report Number 97-22

Grant Number 92COSTPA0022
to
PennSERVE (American Youth and Conservation Corps)
1304 Labor and Industry Building
7th and Forster Streets
Harrisburg, PA 17120

Financial Schedules
and
Independent Auditor's Reports

For the Period
July 22, 1992 to September 30, 1995

Leonard G. Birnbaum and Company
Certified Public Accountants
6285 Franconia Road
Alexandria, Virginia 22310
(703) 922-7622

PennSERVE

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REPORT SUMMARY AND HIGHLIGHTS

LEONARD G. BIRNBAUM AND COMPANY

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LOS ALTOS, CALIFORNIA
SAN DIEGO, CALIFORNIA

Inspector General
Corporation for National Service

We have performed an audit of the funds awarded by the Commission on National and Community Service¹ (Commission) to PennSERVE for the American Youth and Conservation Corps program under Grant No. 92COSTPA0022. Our audit covered the costs claimed during the period July 22, 1992 through September 30, 1995.

SUMMARY OF AUDIT RESULTS

Our audit of the costs claimed by PennSERVE for its American Youth and Conservation Corps program disclosed the following:

Award Budget	\$3,278,036
Claimed Costs	3,277,704
Questioned Costs	-

We have not questioned any of the claimed costs as a result of our audit.

COMPLIANCE FINDINGS

Our audit disclosed material and nonmaterial instances of noncompliance. The instance of noncompliance which we consider to be material is as follows:

- PennSERVE was unable to demonstrate that all annual and quarterly progress reports were submitted. (Finding No. 1)

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

Inspector General
Corporation for National Service

In addition, our audit disclosed the following nonmaterial instance of noncompliance:

- Approval was not obtained for budget revisions, i.e., transfers of funds between cost categories in excess of ten percent of the total costs. (Finding No. 2)

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 did not disclose any matters which we consider to be material weaknesses in the internal control structure and its operation.

PURPOSE AND SCOPE OF AUDIT

Our audit covered the costs claimed during the period July 22, 1992 through September 30, 1995, under Grant No. 92COSTPA0022 which was the award period.

The objectives of our audit were to determine whether:

1. Financial reports prepared by PennSERVE presented fairly the financial condition of the award;
2. The system of internal control structure was adequate to safeguard Federal funds;
3. PennSERVE had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations and award conditions; and
4. The award costs reported to the Commission 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 required 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.

Inspector General
Corporation for National Service

We provided a draft of this report to CNS' Office of Grants Management Services and to PennSERVE for comments. While CNS did not respond, PennSERVE's response is presented as Appendix A of this report. The letter included additional information which we have forwarded to CNS' Office of Grants Management Services. Unless noted otherwise after each finding, PennSERVE concurred with the finding and indicated corrective actions that have either been taken or will be taken.

MATTER REQUIRING RESOLUTION

PennSERVE acquired equipment, at a cost of \$120,895, 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 PennSERVE, prior to the conclusion of this grant, has been awarded other grants by CNS.

BACKGROUND

PennSERVE is an organizational unit of the Labor and Industry Department (L&I) of the State of Pennsylvania. PennSERVE was established in 1988 with the mission of promoting community Service. The program awarded under this grant was administered by the Pennsylvania Conservation Corps (PCC) which, until July 1996 was a division of PennSERVE. In July 1996, PCC was established as a separate organizational unit of L&I. PCC's mission is to provide job training, and life and job readiness skills to young adults between the ages of 16 and 25 years of age.

<u>Award Number</u>	<u>Award Description</u>
92COSTPA0022	PennSERVE received a two year grant in the amount of \$3,278,036 under Subtitle C of the National Community Service Act of 1990 to support the American Conservation and Youth Corps program.

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



INDEPENDENT AUDITOR'S REPORT

LEONARD G. BIRNBAUM AND COMPANY

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Corporation for National Service

INDEPENDENT AUDITOR'S REPORT

We have audited the costs claimed by PennSERVE to the Corporation for National Service and its predecessor, the Commission on National and Community Service, on the Financial Status Report - Federal Share of Outlays for the grant 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>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
92COSTPA0022	July 22, 1992 to September 30, 1995	July 22, 1992 to September 30, 1995

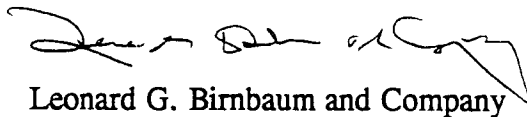
We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial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

Inspector General
Corporation for National Service

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.

In our opinion, 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 July 22, 1992 to September 30, 1995, in conformity with the award agreements.

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



Leonard G. Birnbaum and Company

Alexandria, Virginia
December 12, 1996

FINANCIAL SCHEDULES

PennSERVE
Commission on National and Community Service Award No. 92COSTPA0022
Schedule of Award Costs
From July 22, 1992 to September 30, 1995
Final

<u>Cost Category</u>	<u>Approved Budget</u>	<u>(A) Claimed Costs</u>	<u>Reclassified Costs</u>	<u>Claimed As Reclassified</u>	<u>Questioned Costs</u>	<u>Exhibit B Note Reference</u>
Subgrants to local corps	\$ 303,922	\$ 200,000	-	\$ 200,000	-	
State-run corps						
Year-round corps						
Living allowances and benefits	825,310	1,814,787	\$ (592,850)	1,221,937		1
Staff personnel and benefits	344,004	8,150		8,150		
Health insurance - participants	-	-		-		
Post service benefits	118,000	-	12,011	12,011		1
Training and education	160,000	439,135	70,268	509,403		1
Joint projects with senior citizens	-	-		-		
Capital expenditures	32,000	-	120,895	120,895		1
Evaluation	75,000	-		-		
Administration	50,000	8,995	66,352	75,347		1
Other	<u>238,900</u>	<u>-</u>	<u>284,215</u>	<u>284,215</u>		1
Subtotal	<u>1,843,214</u>	<u>2,271,067</u>	<u>(39,109)</u>	<u>2,231,958</u>	<u>-</u>	
Summer Corps						
Living allowances and benefits	523,276	756,637	37,834	794,471		1
Staff personnel and benefits	160,124	-		-		
Health insurance - participants	-	-		-		
Post service benefits	253,000	-		-		
Training and education	160,000	50,000	1,275	51,275		1
Joint projects with senior citizens	-	-		-		
Capital expenditures	-	-		-		
Evaluation	10,000	-		-		
Administration	-	-		-		
Other	<u>24,500</u>	<u>-</u>		<u>-</u>		
Subtotal	<u>1,130,900</u>	<u>806,637</u>	<u>39,109</u>	<u>845,746</u>	<u>-</u>	
Total CNS Funds	3,278,036	3,277,704	-	3,277,704	-	
Matching Funds	<u>12,914,072</u>	<u>1,145,478</u>	<u>-</u>	<u>1,145,478</u>	<u>-</u>	
Total Funds	<u>\$16,192,108</u>	<u>\$ 4,413,182</u>	<u>\$ -</u>	<u>\$ 4,413,182</u>	<u>\$ -</u>	

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

PennSERVE
Commission on National and Community Service Award No. 92COSTPA0022
Schedule of Award Costs
From July 22, 1992 to September 30, 1995
Final

- (A) The total representing costs claimed from CNS funds agrees with the expenditures reported on the Financial Status Report - Federal Share of Outlays as of the quarter ended September 30, 1995. Claimed costs reported above are taken directly from the auditee's books of account.

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

PennSERVE
Commission on National and Community Service Award No. 92COSTPA0022
Schedule of Reclassified and Questioned Costs
From July 22, 1992 to September 30, 1995
Final

1. Our review of the requests for reimbursements submitted by the subgrantees of the year-round corps program and the supporting documentation included in our sample for transaction testing disclosed that numerous costs had not been posted to the proper budget line item. Given the number of reclassifications disclosed within our limited sample of transactions, we consider the possibility of other transactions not having been properly classified to be high. The individual transactions that we did not consider to be properly classified are detailed in Schedule B-1.

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

PennSERVE
 Commission on National and Community Service Award No. 92COSTPA0022
 Schedule of Reclassified Costs
 From July 22, 1992 to September 30, 1995
 Final

Document ID	Reference ID	Living Allowance	Post Service Benefits	Training/ Education	Capital Expenditures	Administration	Other
Year Round Corps							
Subgrantees		\$ (468,310)		\$ 118,431		\$ 66,352	\$ 283,527
Subgrantees		(12,011)	\$ 12,011				
VT31200389				(300)			300
VT31200487				(21)			21
VT31203901		(14,939)			\$ 14,939		
VT31203901		(14,939)			14,939		
VT31203901		(14,939)			14,939		
VT31203901		(14,939)			14,939		
VT31203901		(14,939)			14,939		
VT31203983				(3,459)	3,459		
VT31203983				(2,432)	2,432		
VT31203968				(40,309)	40,309		
VT41207244				(38)			38
VT35000118	ME4323400	(12,450)					
VT41207114				(329)			329
VT45000058	ME93223401	(400)					
VT45000081	ME14323401			(1,275)			
VT45000083	ME9323401	(3,100)					
VT45000095	ME7323400	(8,950)					
VT45000090	ME6423100	(12,934)					
Subtotal		(592,850)	12,011	70,268	120,895	66,352	284,215
Summer Corps							
VT35000118	ME4323400	12,450					
VT45000058	ME93223401	400					
VT45000081	ME14323401			1,275			
VT45000083	ME9323401	3,100					
VT45000095	ME7323400	8,950					
VT45000090	ME6423100	12,934					
Subtotal		37,834	0	1,275	0	0	0
TOTAL		\$ (555,016)	\$ 12,011	\$ 71,543	\$ 120,895	\$ 66,352	\$ 284,215

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

PennSERVE
Commission on National and Community Service Award No. 92COSTPA0022
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 reports submitted to CNS and the Commission. The basis of accounting utilized in preparation of these reports 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.

2. Income Taxes

PennSERVE is a component of a state government and is exempt from income taxes.

INDEPENDENT AUDITOR'S REPORTS
ON
COMPLIANCE AND INTERNAL CONTROL STRUCTURE

LEONARD G. BIRNBAUM AND COMPANY

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Inspector General
Corporation for National Service

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 PennSERVE to the Corporation for National Service and its predecessor, The Commission on National and Community Service, for the award listed below, and have issued our report thereon dated December 12, 1996.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
92COSTPA0022	July 22, 1992 to September 30, 1995	July 22, 1992 to September 30, 1995

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

Inspector General
Corporation for National Service

Finding No. 1

PennSERVE was unable to demonstrate that all required annual and quarterly progress reports were submitted in accordance with provision 9 of the Grant General Provisions and Amendment 1 to the grant, respectively. Provision 9 stipulates that States prepare and submit an annual report concerning the use of Federal funds under the grant and the status of national and community service programs in the State. Amendment 1 stipulates the reporting dates for Technical and Financial Status Reports, their forms, and the applicable periods covered by them. Based on these reporting requirements, PennSERVE should have submitted three annual reports and 12 quarterly progress reports, excluding the interim report included as part of the renewal application for second year funding. PennSERVE was only able to provide us one annual report and one quarterly progress report.

Recommendation

We recommend that PennSERVE establish and implement policies and procedures to submit required reports on a timely basis and to retain copies of such reports for any existing or future grants.

We considered this material instance 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 December 12, 1996, on the financial schedule.

In addition to the above mentioned material instance of noncompliance, we noted a nonmaterial instance of noncompliance as described below:

Finding No. 2

Approval was not obtained for budget revisions, i.e., transfer of funds between cost categories in excess of ten percent of the total costs. Provision 6 of the Special Provisions - Corps, States and Indian Tribes states, in part, that "the grantee must adhere to the provisions of Subpart C.30, Changes, of the Uniform Administrative Requirements." Subpart C.30 stipulates that prior approval be obtained from the awarding agency if "cumulative transfers among direct cost categories, or, if applicable, among separately budgeted programs, projects, functions, or activities which exceed or are expected to exceed ten percent of the total approved budget, whenever the awarding agency's share exceeds \$100,000." Since the total budget for this grant was \$3,278,036, PennSERVE would have been allowed to transfer funds up to \$327,804 without obtaining approval. Our audit disclosed that transfers were made to the living allowance and training and education line items for the year-round corps in amounts of \$396,627 and \$349,403,

Inspector General
Corporation for National Service

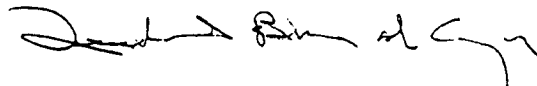
respectively, therefore, prior approval should have been obtained. We found no indication that any such approval was requested or that a waiver of this requirement had been given.

Recommendation

We recommend that PennSERVE establish and implement policies and procedures to obtain as appropriate, approval of budget revisions for any existing or future grants.

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

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



Leonard G. Birnbaum and Company

Alexandria, Virginia
December 12, 1996

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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 PennSERVE to the Corporation for National Service and its predecessor, the Commission on National and Community Service, for the grant listed below, and have issued our report thereon dated December 12, 1996.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
92COSTPA0022	July 22, 1992 to September 30, 1995	July 22, 1992 to September 30, 1995

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 July 22, 1992 to September 30, 1995, 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.

Inspector General
Corporation for National Service

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 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:

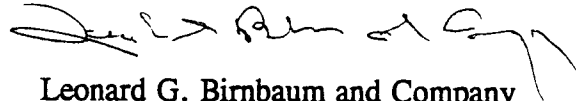
- Cash Disbursements
- Cash Receipts
- Payroll/timekeeping
- Recordkeeping

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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that error 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. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

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



Leonard G. Birnbaum and Company

Alexandria, Virginia
December 12, 1996



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF LABOR AND INDUSTRY
HARRISBURG, PENNSYLVANIA 17120

April 2, 1997

OFFICE OF THE
DEPUTY SECRETARY

Leslie A. Leiper
Senior Partner
Leonard G. Birnbaum and Company
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6285 Franconia Road
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RE: Draft Audit - PennSERVE
Grant Number 92COSTPA0022

Dear Mr. Leiper:

Enclosed is the Department of Labor and Industry's response to the above referenced draft audit.

We have commented on the findings as presented and have provided the corrective action taken to address those findings. Also, discussing this draft report with our Comptroller, additional information is enclosed to support the submission of a revised Financial Status Report (FSR), which should clarify the issue of Federal Match. The matching funds reported on pages 8 and 9 of the draft report include Federal Sources, primarily, U.S. Department of Labor's Job Training Partnership Act Program funds. These funds were not used as matching funds. Regulations do not allow Federal funds to be used as match. The revised FSR and supporting documentation submitted to the Commission on National and Community Service reflects actual state and local match used in the program. This should clarify this issue.

If any additional information is required contact Mr. Lou Scott at (717) 772-4071.

Sincerely,

A handwritten signature in cursive script, appearing to read "John E. McAllister".

John E. McAllister
Deputy Secretary for Administration

Auditor's Note:

We have revised the amount presented on Exhibit A for matching funds to conform to the amount shown on the revised FSR.



Finding No. 1

PennSERVE was unable to demonstrate that all required annual and quarterly progress reports were submitted in accordance with provision 9 of the Grant General Provisions and Amendment 1 to the grant, respectively. Provision 9 stipulates that States prepare and submit an annual report concerning the use of Federal funds under the grant and the status of national and community service programs in the State. Amendment 1 stipulates the reporting dates for Technical and Financial Status Reports, their forms, and the applicable periods covered by them. Based on these reporting requirements, PennSERVE should have submitted three annual reports and 12 quarterly progress reports, excluding the interim report included as part of the renewal application for second year funding. PennSERVE was only able to provide us one annual report and one quarterly progress report.

Recommendation

We recommend that PennSERVE establish and implement policies and procedures to submit required reports on a timely basis and to retain copies of such reports for any existing or future grants.

Auditee's Comments

PennSERVE has reviewed this finding and concurs with the recommendation as stated. The department has updated and revised the PCC Policy Guidelines to address and correct this issue. Attached (attachment 1) is the amended PCC Policy Guidelines which supports the auditor's recommendation.

Finding No. 2

Approval was not obtained for budget revisions, i.e., transfer of funds between cost categories in excess of ten percent of the total costs. Provision 6 of the Special Provisions - Corps, States and Indian Tribes states, in part, that "the grantee must adhere to the provisions of Subpart C.30, Changes, of the Uniform Administrative Requirements." Subpart C.30 stipulates that prior approval be obtained from the awarding agency if "cumulative transfers among direct cost categories, or, if applicable, among separately budgeted programs, projects, functions, or activities which exceed or are expected to exceed ten percent of the total approved budget, whenever the awarding agency's share exceeds \$100,000." Since the total budget for this grant was \$3,278,036, PennSERVE would have been allowed to transfer funds up to \$327,804 without obtaining approval. Our audit disclosed that transfers were made to the living allowance and training and education line items for the year-round corps in amounts of \$396,627 and \$349,403, respectively, therefore, prior approval should have been obtained. We found no indication that any such approval was requested or that a waiver of this requirement had been given.

Recommendation

We recommend that PennSERVE establish and implement policies and procedures to obtain as appropriate, approval of budget revisions for any existing or future grants.

Auditee's Comments

PennSERVE has reviewed this finding and concurs with the recommendation as stated. The department has updated and revised the PCC Policy Guidelines to address and correct this issue. Attached (attachment 1) is the amended PCC Policy Guidelines which supports the auditor's recommendation.