

Report No. 97-26

January 17, 1997

CORPORATION

FOR NATIONAL



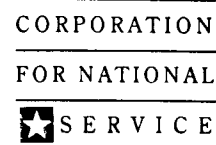
S E R V I C E

OFFICE OF THE INSPECTOR GENERAL

**Audit of Corporation for National Service
Award Number 94ASCTX045 to
Serve Houston**

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 94ASCTX045 to
Serve Houston



Leonard G. Birnbaum and Company, under contract to the Office of Inspector General, performed an audit of the funds awarded by CNS to Serve Houston through the Texas Commission for National and Community Service under Cooperative Agreement number 94ASCTX045. The audit covered the costs claimed during the period August 1, 1994 through December 31, and was intended to determine whether financial reports prepared by Serve Houston 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.

The audit disclosed no questioned costs, material instances of noncompliance or any matters involving the internal control structure and its operations that are considered to be material weaknesses. We have reviewed the report and supporting workpapers and agree with its conclusions. Because the report contains no findings or recommendations we did not request comments on the report. The results of the audit were presented to Serve Houston on March 21, 1997 in an exit conference.

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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 97-26

Cooperative Agreement Number 94ASCTX045

to

Serve Houston
2525 Murworth Drive, Suite 112
Houston, Texas 77054

Financial Schedules
and
Independent Auditor's Reports

For the Period
August 1, 1994 to December 31, 1996

Leonard G. Birnbaum and Company
Certified Public Accountants
6285 Franconia Road
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Serve Houston

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REPORT SUMMARY AND HIGHLIGHTS

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**Inspector General
Corporation for National Service**

We have performed an audit of the funds awarded by the Corporation for National Service (CNS) to Serve Houston through the Texas Commission for National and Community Service under Cooperative Agreement No. 94ASCTX045. Our audit covered the costs claimed during the period August 1, 1994 through December 31, 1996.

SUMMARY OF AUDIT RESULTS

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

Award Budget	\$ 2,517,356
Claimed Costs	2,207,015
Questioned Costs	-

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

COMPLIANCE AND INTERNAL CONTROL STRUCTURE

Our audit disclosed no material instances of noncompliance or any matters involving the internal control structure and its operations that we consider to be material weaknesses.

PURPOSE AND SCOPE OF AUDIT

Our audit covered the costs claimed during the period August 1, 1994 through December 31, 1996 under Cooperative Agreement No. 94ASCTX045 which was the award period for the program years one and two. Serve Houston has recently been awarded funds to continue its program for a third year.

Inspector General
Corporation for National Service

The objectives of our audit were to determine whether:

1. Financial reports prepared by Serve Houston presented fairly the financial condition of the award;
2. The system of internal control structure was adequate to safeguard Federal funds;
3. Serve Houston had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations and award conditions; and
4. The award costs reported to CNS were documented and allowable in accordance with the award terms and conditions.

Our audit was made 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.

BACKGROUND

Serve Houston, a nonprofit organization, was established in July 1993 to unite and empower a diverse group of young people to strengthen themselves and their community through service. In August 1994, Serve Houston was awarded funds by the Corporation for National Service through The Texas Commission for National and Community Service under Cooperative Agreement No. 94ASCTX045 to further its goal. Serve Houston has recently been awarded funds to continue its program for a third year.

REPORT RELEASE

This report is intended for the information and use of the Corporation's management and its Office of Inspector General, the Texas Commission for National and Community Service's management, and the management of Serve Houston. However, this report is a matter of public record and its distribution is not limited.

INDEPENDENT AUDITOR'S REPORT

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Inspector General
Corporation for National Service

INDEPENDENT AUDITOR'S REPORT

We have audited the costs claimed by Serve Houston to the Corporation for National Service on the Financial Status Report - Federal Share of Outlays for the award 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>
94ASCTX045	August 1, 1994 to December 31, 1996	August 1, 1994 to December 31, 1996

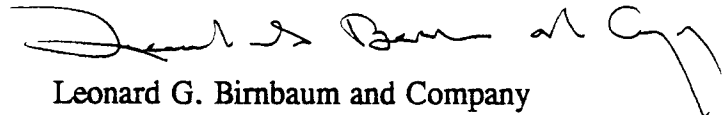
We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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, 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 December 31, 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, the Texas Commission for National and Community Service's management, and the management of Serve Houston. However, this report is a matter of public record and its distribution is not limited.



Leonard G. Birnbaum and Company

Alexandria, Virginia
January 17, 1996

FINANCIAL SCHEDULES

Serve Houston
 Corporation for National Service - Cooperative Agreement No. 94ASCTX045
 Schedule of Award Costs
 From August 1, 1994 to December 31, 1996
 Final

<u>Cost Category</u>	<u>Approved Budget</u>	(A) <u>Claimed Costs</u>	<u>Reclassified Costs</u>	<u>Claimed As Reclassified</u>	<u>Questioned Costs</u>	Exhibit B <u>Note Reference</u>
Member Support:						
Living allowance	\$1,066,079	\$ 934,343		\$ 934,343		
FICA & comp	127,931	85,501		85,501		
Health care	<u>147,900</u>	<u>96,373</u>		<u>96,373</u>		
Subtotal	<u>1,341,910</u>	<u>1,116,217</u>	<u>\$ -</u>	<u>1,116,217</u>	<u>\$ -</u>	
Other Member Support:						
Training and education	52,095	34,090		34,090		
Uniforms	9,300	9,300	(1,124)	8,176		1
Other	<u>8,000</u>	<u>3,560</u>		<u>3,560</u>		
Subtotal	<u>69,395</u>	<u>46,950</u>	<u>(1,124)</u>	<u>45,826</u>	<u>-</u>	
Staff:						
Salaries	682,866	651,342		651,342		
Benefits	99,750	85,814		85,814		
Training	37,297	44,655		44,655		
Other	<u>500</u>	<u>-</u>		<u>-</u>		
Subtotal	<u>820,413</u>	<u>781,811</u>	<u>-</u>	<u>781,811</u>	<u>-</u>	
Operational:						
Travel	20,900	16,895		16,895		
Transportation	36,000	32,093		32,093		
Supplies	7,875	19,646	(170)	19,476		2
Equipment	23,343	19,444		19,444		
Other	<u>68,000</u>	<u>57,302</u>	<u>1,124</u>	<u>58,426</u>		
Subtotal	<u>156,118</u>	<u>145,380</u>	<u>954</u>	<u>146,334</u>	<u>-</u>	
Internal Evaluation:	<u>19,500</u>	<u>14,801</u>	<u>-</u>	<u>14,801</u>	<u>-</u>	
Administration:	<u>110,020</u>	<u>101,856</u>	<u>170</u>	<u>102,026</u>	<u>-</u>	
TOTAL CNS FUNDS	2,517,356	2,207,015	-	2,207,015	-	
MATCHING FUNDS	<u>906,251</u>	<u>947,504</u>	<u>-</u>	<u>947,504</u>	<u>-</u>	
TOTAL FUNDS	<u>\$3,423,607</u>	<u>\$3,154,519</u>	<u>\$ -</u>	<u>\$3,154,519</u>	<u>\$ -</u>	

(A) The total representing costs claimed agrees with the expenditures reported on the Financial Status Report - Federal Share of Outlays as of the quarter ended December 31, 1996, when \$567,418 is added which represents grant expenditures for the third year of the program. 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.

Serve Houston
 Corporation for National Service - Cooperative Agreement No. 94ASCTX045
 Schedule of Reclassified and Questioned Costs
 From August 1, 1994 to December 31, 1996
 Final

1. Uniforms

We have reclassified \$1,124 from uniforms to operating - other from the following transactions since a portion of the uniforms purchased were for the staff members.

<u>Check Number</u>	<u>Amount</u>
1544	\$ 298
1663	<u>826</u>
	<u>\$ 1,124</u>

2. Supplies

We have reclassified \$170 (reference No. JV9603) from supplies to administration. The expenditure represents the purchase of a refrigerator which, while not unreasonable, is inappropriately characterized as a direct program expense since it is not required for fulfillment of the program's objective.

Serve Houston
Corporation for National Service - Cooperative Agreement No. 94ASCTX045
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. 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 Serve Houston 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

Serve Houston, a nonprofit organization incorporated in the State of Texas, is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

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 Serve Houston to the Corporation for National Service (CNS) for the award listed below, and have issued our report thereon dated January 17, 1996.

<u>Cooperative Agreement</u>	<u>Award Period</u>	<u>Audit Period</u>
94ASCTX045	August 1, 1994 to December 31, 1996	August 1, 1994 to December 31, 1996

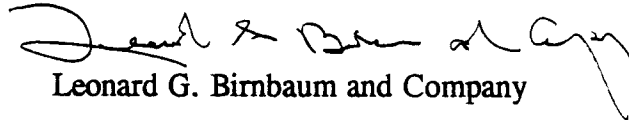
We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial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

Compliance with laws, regulations, and the provisions of the award is the responsibility of Serve Houston'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.

Inspector General
Corporation for National Service

The results of our tests of compliance indicate that, with respect to the items tested, the grantee 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, the Texas Commission for National and Community Service's management, and the management of Serve Houston. However, this report is a matter of public record and its distribution is not limited.


Leonard G. Birnbaum and Company

Alexandria, Virginia
January 17, 1996

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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 Serve Houston to the Corporation for National Service (CNS) for the award listed below, and have issued our report thereon dated January 17, 1996.

<u>Cooperative Agreement</u>	<u>Award Period</u>	<u>Audit Period</u>
94ASCTX045	August 1, 1994 to December 31, 1996	August 1, 1994 to December 31, 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 December 31, 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.

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 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. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

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, the Texas Commission for National and Community Service's management, and the management of Serve Houston. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Leonard G. Birnbaum". The signature is fluid and cursive, with a large initial "L" and a long, sweeping underline.

Leonard G. Birnbaum and Company

Alexandria, Virginia
January 17, 1996