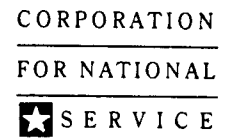

**Office of the Inspector General
Corporation for National Service**

**Audit of
Corporation for National Service
Awards 94ADFDC055 and 96ADNNH004
to the
Student Conservation Association, Inc.**

**Report Number 98-14
June 30, 1998**

This report is issued to Corporation 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 February 21, 1999 and complete its corrective actions by August 25, 1999. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented or the amount of disallowed costs.

Office of the Inspector General
Audit of Corporation for National Service
Awards 94ADFDC055 and 96ADNNH004 to the
Student Conservation Association, Inc.



Dembo, Jones, Healy, Pennington & Ahalt, P.C., under contract to the Office of the Inspector General, performed an audit of the funds awarded by the Corporation for National Service (the Corporation) to the Student Conservation Association, Inc. (SCA) under award numbers 94ADFDC055 and 96ADNNH004 to determine whether financial reports prepared by the SCA presented fairly the financial condition of the award and whether the award costs reported to the Corporation were documented and allowable in accordance with the terms and conditions of the award.

The audit covered \$5,823,042 in costs claimed by SCA during the period July 1, 1994 through September 30, 1996, as a subgrantee to the Department of the Interior (DOI) and from October 1, 1996 through December 31, 1997, as a direct grantee to the Corporation, to operate two AmeriCorps projects -- the South Florida Ecosystem and the Lower Rio Grande Ecosystem. The firm questioned costs of \$66,659, about one percent of the costs claimed, and reported internal control and compliance conditions. We have reviewed the report and work papers supporting its conclusions and agree with the findings and recommendations presented.

We provided a copy of a draft of this report to the Corporation and SCA for comment. The Corporation responded by stating that it would not provide comments at this time. SCA generally agreed with the findings and/or presented additional information explaining its actions. The Corporation's and SCA's responses are included as Appendices A and B, respectively.

Other Matters

As previously stated, under grant number 94ADFDC055, from July 1, 1994 through September 30, 1996, SCA was a subgrantee of the Department of the Interior (DOI). When the Corporation ceased making awards to Federal agencies, SCA became the grantee. Under grant number 96ADNNH004, DOI continued its participation in the AmeriCorps program by providing matching costs for the program, primarily in-kind support in the form of the salaries of National Park Service employees who supervised AmeriCorps Members. From October 1, 1996 to December 31, 1997, DOI provided \$395,000 to SCA in the form of such in-kind services.

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Language in the DOI appropriations acts for fiscal years 1995, 1996, and 1997, prohibits the use of funds made available to DOI to support AmeriCorps programs unless DOI follows “appropriate reprogramming guidelines.” We have contacted DOI officials who stated that, under DOI reprogramming guidelines, reprogramming requests “must be submitted if the amounts exceed \$500,000 annually.” This threshold was not met under grant number 96ADNNH004 because the support provided by DOI was less than \$500,000.¹

¹ This audit covered the costs claimed by SCA under grant numbers 94ADFDC055 (July 1, 1994 to September 30, 1996) and 96ADNNH004 (October 1, 1996 to December 31, 1997) including matching costs that were the responsibility of SCA. However, for the period July 1, 1994 to September 30, 1996, under grant number 94ADFDC055, when DOI was the grantee and subgranted funds to SCA, SCA’s reported matching costs did not include DOI support. Thus, the use of the DOI appropriation to support the AmeriCorps program under grant number 94ADFDC055 was outside of the scope of the audit. Under grant number 96ADNNH004, SCA was a direct grantee to the Corporation and used DOI support to meet its matching requirements. Thus, DOI matching costs provided under grant number 96ADNNH004 were included in the scope of the audit.

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REPORT SUMMARY AND HIGHLIGHTS

Dembo, Jones, Healy, Pennington & Ahalt, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Inspector General
Corporation for National Service

We have performed an audit of the funds awarded by the Corporation for National Service (Corporation) to The Student Conservation Association, Inc. (SCA) under Cooperative Agreements No. 94ADFDC055 and No. 96ADNNH004. Our audit covered the costs incurred during the period July 1, 1994 through December 31, 1997. These costs are summarized in Exhibit A and as follows:

Cooperative Agreement Numbers	Award Budget	Claimed Costs	Questioned Costs
94ADFDC055	<u>\$3,539,338</u>	<u>\$3,455,369</u>	<u>\$ 36,732</u>
96ADNNH004	<u>\$2,411,474</u>	<u>\$2,367,673</u>	<u>\$ 29,927</u>

SUMMARY OF AUDIT RESULTS

As a result of our audit of the aforementioned awards, we are questioning costs totaling \$66,659 which are summarized below and detailed in Exhibit A to the Independent Auditors' Report. 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 auditee or which require interpretation of allowability by the Corporation for National Service.

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

Description	Grant No. 94ADFDC055	Grant No. 96ADNNH004	Total
AmeriCorps Members support costs overpaid	\$ 1,606	\$ 2,626	\$ 4,232
FICA costs in excess of allowable rate	1,572	7,120	8,692
Program operating costs in excess of budget	-	19,207	19,207
Direct staff costs unsupported by timesheets	2,342	-	2,342
Unallowable supplies costs	3,232	-	3,232
Duplicate travel cost	-	61	61
Excess administrative costs	3,070	913	3,983
Member support cost match not met	24,910	-	24,910
Total	<u>\$ 36,732</u>	<u>\$ 29,927</u>	<u>\$ 66,659</u>

We used a judgmental sampling method to test the costs claimed by the auditee to the Corporation for National Service. 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 costs claimed, based on the relationship of costs tested to total costs. For a complete discussion of these questioned costs, refer to the Independent Auditors' Report.

Compliance Findings

The results of our testing disclosed the following instances of noncompliance:

Grant No. 94ADFDC055:

- SCA withdrew \$47,352 of funds in excess of its costs from this grant which ended in December 1996. These funds were remitted to the Department of the Interior in March 1998. As of June 30, 1998, the date of this report, the Corporation had not received these funds from the Department of the Interior.
- SCA did not meet the cost-matching requirements of the cooperative agreement for member support costs.
- An unallowable charge to supplies was claimed for forfeited rental car charges.
- Amounts in excess of the allowable administrative costs were claimed.
- AmeriCorps Members were overpaid for living allowances.
- FICA claimed exceeded the allowable FICA rate.

Grant No. 96ADNNH004:

- Amounts in excess of budgeted program operating costs were claimed.
- FICA claimed exceeded the allowable FICA rate.
- AmeriCorps Members were overpaid for living allowances.

These and other matters are discussed in the Independent Auditors' Report on Compliance dated June 30, 1998.

Internal Control Structure Findings

Our audit disclosed the following matter which we consider to be a reportable condition in the internal control structure and its operations as discussed in the Independent Auditors' Report on Internal Control Structure.

- SCA lacks adequate segregation of duties.

Matter Requiring Resolution

SCA acquired equipment totaling \$16,976 during its performance of these grants. The terms of the grant provide that title rests with SCA but that the Corporation has a reversionary right to direct the disposition of equipment upon completion of grant performance. The AmeriCorps program under the direction of SCA was completed on December 31, 1997, and was not renewed. In its comments on a draft of this report, SCA stated that they resolved this matter with the Corporation. Because we have not reviewed the documentation supporting disposition of the equipment, we left this matter in the final report.

PURPOSE AND SCOPE OF AUDIT

Our audit covered the costs incurred during the award period July 1, 1994 through December 31, 1997, under Cooperative Agreement Numbers 94ADFDC055 and 96ADNNH004.

The objectives of our audit were to determine whether:

1. Financial reports prepared by SCA presented fairly the financial condition of the award;
2. The internal control structure was adequate to safeguard Federal funds;
3. SCA had adequate procedures and controls in place to ensure compliance with Federal laws, applicable regulations and award conditions; and
4. The award costs reported to the Corporation 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* 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 to the Corporation 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 the Corporation's Office of Grants Management and to SCA for comments. The Office of Grants Management responded that while their review of the draft report was limited to the information contained in the report, they had no objections to the report being issued (Appendix A). SCA's comments are presented as Appendix B of this report and summarized after each finding where appropriate. Unless noted otherwise after each finding, SCA concurred with the finding and indicated corrective actions that either have been taken or will be taken.

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

BACKGROUND

The Department of the Interior (DOI) entered into a cooperative agreement with the Corporation for National Service for the conduct of an AmeriCorps program that addressed the Nation's environmental needs through projects across the country to conserve, restore, and sustain natural habitats. The program sought to achieve results for the environment by restoring and conserving public lands in both urban and rural settings, making parks more accessible and monitoring the status of air, water, plants, and animals.

DOI in turn entered into a cooperative agreement with the Student Conservation Association of Charlestown, New Hampshire, wherein SCA assisted DOI in implementing its AmeriCorps program. SCA's assistance included project management, application/recruitment processing, orientation, training and counseling, insurance, and living allowances. SCA's AmeriCorps projects were concentrated in the South Florida Everglades and the Rio Grande and its tributaries.

In 1996, the Corporation eliminated its agreements with federal agencies. At this time, SCA entered into a cooperative agreement directly with the Corporation and functioned as the principal liaison to the Corporation while continuing to oversee the existing projects which were termed "Lower Rio Grande Ecosystem" and "South Florida Ecosystem." This AmeriCorps program was completed on December 31, 1997, and was not renewed.

FOLLOW-UP OF PRIOR AUDIT FINDINGS

SCA had an audit performed in accordance with *Government Auditing Standards* and OMB Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Organizations* (A-133), for the year ended September 30, 1997. The September 30, 1997 audit report did not contain compliance or internal control structure deficiencies related to the Corporation for National Service cooperative agreement. The AmeriCorps program funded by the Corporation was considered a major program of SCA under OMB Circular A-133.

Dembo, Jones, Healy, Pennington & Ahalt, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Inspector General
Corporation for National Service

INDEPENDENT AUDITORS' REPORT

We have audited the costs claimed by the Student Conservation Association, Inc. (SCA) to the Corporation for National Service (Corporation) on the AmeriCorps Financial Status Reports for the cooperative agreements listed below. These Financial Status Reports, as presented in the Schedule of Award Costs (Exhibit A), are the responsibility of SCA's management. Our responsibility is to express an opinion on Exhibit A based on our audit.

Cooperative Agreement Numbers	Award Period	Audit Period
94ADFDC055 and 96ADNNH004	July 1, 1994 to December 31, 1997	July 1, 1994 to December 31, 1997

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* 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 that 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.

In our opinion, except for \$66,659 in questioned costs (see Exhibit A), the financial schedules referred to above present fairly, in all material respects, the costs claimed for the period July 1, 1994 to December 31, 1997, in conformity with the award agreements.

In accordance with *Government Auditing Standards*, we have also issued reports on our consideration of SCA's compliance with laws and regulations and its internal control structure, which are included herein.

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

Demko, Jones, Healy, Pennington + Alchal, P.C.

*Bethesda, Maryland
June 30, 1998*

FINANCIAL SCHEDULES

The Student Conservation Association, Inc.
Corporation for National Service Cooperative Agreement No. 94ADFDC055
Schedule of Award Costs
for the period July 1, 1994 to September 30, 1996

Cost Category	Corporation	SCA Match	Total	Claimed Costs	Questioned Costs	Exhibit B Reference
Member support costs						
Living allowance	\$ 1,610,241	\$ 283,985	\$ 1,894,226	\$ 1,840,514	\$ 1,606	(1)
FICA	132,787	22,315	155,102	142,371	1,572	(5)
Workers' compensation	13,006	2,306	15,312	8,291	-	
AmeriCorps health care	159,090	28,310	187,400	176,895	-	
Cumulative matching questioned costs	-	-	-	-	24,910 ^B	(6)
Subtotal Member support costs	<u>1,915,124</u>	<u>336,916</u>	<u>2,252,040</u>	<u>2,168,071</u>	<u>28,088</u>	
Other Member costs						
Training and education	243,225	-	243,225	231,070	-	
Uniforms	7,200	-	7,200	10,477	-	
Other	181,000	-	181,000	208,169	-	
Subtotal other Member costs	<u>431,425</u>	<u>-</u>	<u>431,425</u>	<u>449,716</u>	<u>-</u>	
Staff						
Salaries	365,000	-	365,000	353,708	2,342	(2)
Training	15,000	-	15,000	6,006	-	
Benefits	69,600	-	69,600	65,408	-	
Subtotal staff	<u>449,600</u>	<u>-</u>	<u>449,600</u>	<u>425,122</u>	<u>2,342</u>	
Operating costs						
Travel	77,200	-	77,200	51,754	-	
Corporation sponsored meeting	1,500	-	1,500	-	-	
Transportation	-	-	-	-	-	
Supplies	20,500	-	20,500	10,438	3,232	(3)
Equipment	20,250	-	20,250	16,976	-	
Other	64,000	-	64,000	107,142	-	
Subtotal operating costs	<u>183,450</u>	<u>-</u>	<u>183,450</u>	<u>186,310</u>	<u>3,232</u>	
Internal evaluation	62,000	-	62,000	65,327	-	
Administration	<u>160,823</u>	<u>-</u>	<u>160,823</u>	<u>160,823</u>	<u>3,070</u>	(6)
Subtotal program operating costs^A	<u>1,287,298</u>	<u>-</u>	<u>1,287,298</u>	<u>1,287,298</u>	<u>-</u>	
Total	<u>\$ 3,202,422</u>	<u>\$ 336,916</u>	<u>\$ 3,539,338</u>	<u>\$ 3,455,369</u>	<u>\$ 36,732</u>	

^A SCA was a sub-grantee to the U.S. Department of the Interior (DOI) under this Cooperative Agreement and while responsible for the 15% match of Member Support Costs, SCA was not responsible for the required cost match of program operating costs. DOI was responsible for this cost match and its related reporting to the Corporation.

^B The AmeriCorps Provisions required that SCA match 15% of Member Support Costs. SCA therefore was required to provide a \$325,211 match (15% of \$2,168,071). SCA only matched \$300,301; \$24,910 less than required.

The Student Conservation Association, Inc.
Corporation for National Service Cooperative Agreement No. 96ADNNH004
Schedule of Award Costs
for the period October 1, 1996 to December 31, 1997

Cost Category	Corporation	SCA Match	Total	Claimed Costs	Questioned Costs	Exhibit B Reference
Member support costs						
Living allowance	\$ 915,634	\$ 161,582	\$ 1,077,216	\$ 1,054,185	\$ 2,626	\$ (1)
FICA	70,046	12,361	82,407	87,765	7,120	(5)
Workers' Compensation	58,601	10,341	68,942	69,622	-	
AmeriCorps health care	116,663	20,588	137,251	111,236	-	
Cumulative matching questioned costs	-	-	-	-	-	
Subtotal Member support costs	<u>1,160,944</u>	<u>204,872</u>	<u>1,365,816</u>	<u>1,322,808</u>	<u>9,746</u>	
Other Member costs						
Training and education	58,760	-	58,760	35,771	-	
Other	63,900	-	63,900	91,452	-	
Subtotal other Member costs	<u>122,660</u>	<u>-</u>	<u>122,660</u>	<u>127,223</u>	<u>-</u>	
Staff						
Salaries	254,450	-	254,450	272,007	-	
Benefits	53,759	-	53,759	49,248	-	
Training	6,700	-	6,700	1,750	-	
Subtotal staff	<u>314,909</u>	<u>-</u>	<u>314,909</u>	<u>323,005</u>	<u>-</u>	
Operating costs						
Travel	38,220	-	38,220	50,116	61	(4)
Corporation sponsored meeting	3,500	-	3,500	5,043	-	
Transportation	18,840	-	18,840	-	-	
Supplies	6,500	-	6,500	-	-	
Other	9,500	-	9,500	30,623	-	
Subtotal operating costs	<u>76,560</u>	<u>-</u>	<u>76,560</u>	<u>85,782</u>	<u>61</u>	
Internal evaluation	27,000	-	27,000	24,326	-	
Administration	<u>89,529</u>	<u>-</u>	<u>89,529</u>	<u>89,529</u>	<u>913</u>	(6)
Subtotal Program Operating Costs	<u>630,658</u>	<u>-</u>	<u>630,658</u>	<u>649,865</u>	<u>19,207</u>	(7)
Department of Interior Match of Program Operating Costs^A	<u>-</u>	<u>415,000</u>	<u>415,000</u>	<u>395,000</u>	<u>-</u>	
Total	<u>\$ 1,791,602</u>	<u>\$ 619,872</u>	<u>\$ 2,411,474</u>	<u>\$ 2,367,673</u>	<u>\$ 29,927</u>	

^ASCA was a direct grantee of the Corporation under this Cooperative Agreement and therefore responsible for reporting the Department of Interior's Match of Program Operating Costs.

The Student Conservation Association, Inc.
Corporation for National Service Cooperative Agreement
Numbers 94ADFDC055 and 96ADNNH004
Notes to Financial Schedules
for the period July 1, 1994 to December 31, 1997

1. Summary of Significant Accounting Policies

Accounting Basis

The accompanying financial schedules, Exhibit A, have been prepared from SCA'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 the Corporation for National Service (Corporation). Therefore, SCA does not maintain any equity in the award and any excess of cash received from the Corporation for National Service over final expenditures, including interest on the excess cash, is due back to the Corporation as required by OMB Circular A-110.

B. 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.

C. 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 Schedule of Award Costs (Exhibit A) include the cost of equipment purchased during the grant period rather than a provision for depreciation.

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

2. Income Tax Status

The Internal Revenue Service has determined that SCA is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**The Student Conservation Association, Inc.
Corporation for National Service Cooperative Agreement
Numbers 94ADFDC055 and 96ADNNH004
Explanation of Questioned Costs
for the period July 1, 1994 to December 31, 1997**

1 - Member Support Costs

We questioned \$4,232 (\$1,606 + \$2,626) in AmeriCorps Members' living allowances charged to the award as unreasonable. These amounts represent AmeriCorps Member living allowances charged to the Corporation due to erroneous calculations or in one case, the payment of a full living allowance to an AmeriCorps Member who did not serve an entire term.

2 - Staff Costs

We questioned \$2,342 in SCA staff costs charged to the award for which timesheets or other documentation supporting the charges were not found.

3 - Supplies

We questioned \$3,232 in SCA supplies costs; \$3,228 of this amount represents an unallowable charge to the grant for a forfeited prepayment on a rental car and \$4 of the amount represents an unsupported charge for supplies.

The Student Conservation Association's Comments

SCA states that the \$3,228 amount related to a forfeited rental car advance represented the least expensive option available to them in this situation and that the car was only to be used for nine months of the twelve month lease period. The car was turned in three months earlier than planned due to staff turnover providing SCA the opportunity to save funds on insurance.

Auditors' Response

The \$3,228 represents costs charged to the grant for which services were not received; therefore the questioned amount remains. SCA's comments regarding the reasonableness of the charge will be referred to the Corporation's Office of Grants Management for resolution.

4 - Travel

We questioned \$61 in SCA travel costs which, according to supporting documentation, represents an amount charged by an SCA staff member for lodging on the same night that this same staff member charged lodging at another location.

The Student Conservation Association's Comments

SCA did provide support for questioned travel costs totaling \$1,888. SCA responded that the \$61 charge “most likely represents a motel which did not change its date on its credit card imprint machine.”

Auditors' Response

No additional documentation was provided to support the \$61 travel cost; therefore, the questioned amount remains. SCA did provide sufficient documentation to support \$1,888 in questioned travel costs. These costs have been removed from questioned costs.

5 - FICA

We questioned \$8,692 (\$1,572 + \$7,120) of SCA Federal Insurance Contributions Act (FICA) expense that exceeded the 7.65% allowable FICA rate on Member Living Allowance.

The Student Conservation Association's Comments

SCA comments that their New Hampshire unemployment charges are included in this cost category and they feel that these costs were “appropriate and unavoidable.”

Auditors' Response

Paragraph 12.d.iii of the AmeriCorps Provisions states that “The Grantee cannot charge the cost of unemployment insurance taxes to the Grant unless mandated by State law.” No additional documentation was provided to show that the State of New Hampshire mandates that unemployment insurance taxes be paid on AmeriCorps Member Living Allowances; therefore, the questioned costs remain.

6 - Cost Matching

Member Support Costs:

The \$24,910 costs questioned represent the amount that SCA did not match in the Member Support Cost budget category. Paragraph 12 of the AmeriCorps Provisions states that Corporation funds will support only 85% of the actual amount of Member Support Costs; therefore, SCA is responsible for matching 15%.

Administrative Costs:

The \$3,983 (\$3,070 + 913) costs questioned represent amounts in excess of the 5% allowable administrative costs. Paragraph 14.e. of the AmeriCorps Provisions states that the maximum Corporation share of Administrative costs cannot exceed 5% of total Corporation funds actually expended. The costs questioned represent amounts claimed exceeding the 5% cap.

7 - Program Operating Costs

The \$19,207 costs questioned represent program operating costs claimed in excess of budgeted amounts. The approved budget amount was \$630,658. SCA claimed \$649,865.

**INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE AND
INTERNAL CONTROL STRUCTURE**

Dembo, Jones, Healy, Pennington & Ahalt, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Inspector General
Corporation for National Service

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

We have audited the Schedule of Award Costs, as presented in Exhibit A, which summarizes the financial reports submitted by the Student Conservation Association, Inc. (SCA) to the Corporation for National Service (Corporation) for the cooperative agreements listed below, and have issued our report thereon dated June 30, 1998.

Cooperative Agreement Numbers	Award Period	Audit Period
94ADFDC055 and 96ADNNH004	July 1, 1994 to December 31, 1997	July 1, 1994 to December 31, 1997

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* 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 are the responsibility of SCA'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 provisions 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 statutes, regulations, and the provisions of the award that cause us to conclude that the aggregation of the misstatement resulting from those failures or violations is material to the financial schedules. The results of our tests of compliance disclosed the following material instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

We have identified the following instances of noncompliance which resulted in questioned costs (see Exhibit B to Independent Auditors' Report).

- Costs claimed by SCA for AmeriCorps Members' living allowances were higher than allowable by the Corporation. Erroneous living allowances were paid to 11 of the 60 Members tested for Grant No. 94ADFDC055 and 3 of the 40 tested for Grant No. 96ADNNH004.
- Costs claimed by SCA for staff salaries under Grant No. 94ADFDC055 were not supported by timesheets. OMB Circular A-122, "Cost Principles for Non-Profit Organizations," Section 6.1.(1) states that charges to awards for salaries will be based on documented payrolls.
- Costs claimed by SCA for supplies were found to represent a deposit amount forfeited by SCA upon the early return of a rental car.
- Costs claimed by SCA for travel under Grant No. 96ADNNH004 were found to be unreasonable as they represented a charge for lodging at one location by the same SCA employee who charged lodging on the same night at another location.
- Costs claimed by SCA for FICA expense on Member living allowances exceeded the allowable FICA rate under both Grants. SCA officials indicated that the excess costs represent state unemployment insurance taxes. Paragraph 12.d.iii of the AmeriCorps Provisions states that "The Grantee cannot charge the cost of unemployment insurance taxes to the Grant unless mandated by State law."
- SCA did not meet the cost matching requirements of the cooperative agreement for member support costs. Paragraph 14.a.i. of the AmeriCorps Provisions states that the grantee must provide for 15% of the matching funds in Member Support Costs.
- SCA incurred excessive administrative costs under both grants. Paragraph 24.b. of the AmeriCorps Provisions states that "The maximum Corporation share of Administrative costs cannot exceed 5% of total Corporation funds actually expended."
- SCA incurred excessive program operating costs under Grant No. 96ADNNH004.

SCA's comments to the above instances of noncompliance are presented in Appendix B and are also addressed in Exhibit B, Explanation of Questioned Costs.

In addition, we noted the following instances of noncompliance:

Finding No. 1

SCA withdrew \$47,352 of funds in excess of its costs from this grant which ended in December 1996. These funds were remitted to the Department of the Interior in March 1998. As of June 30, 1998, the date of this report, the Corporation had not received these funds from the Department of the Interior.

Recommendation

We recommend that the Corporation's Office of Grants Management follow-up on this matter to ensure the funds, and interest due, are remitted to the Corporation.

Finding No. 2

Costs claimed by SCA for training and education were lower than amounts budgeted. Paragraph 16.b.iii. of the AmeriCorps provisions states that the Grantee may not decrease funds budgeted for training and education within the "Other Member Costs" without prior Corporation approval. SCA has decreased these costs without approval from the Corporation as follows: amounts claimed for Education and Training under Grant No. 96ADNNH004 were \$22,989 (39.12%) lower than budget.

Recommendation

We recommend that SCA obtain appropriate approval for reductions in Education and Training costs.

The Student Conservation Association's Comments

SCA commented that the AmeriCorps Provision cited did not apply to Grant No. 94ADFDC055 as Paragraph 16.b.iii. in the AmeriCorps Provisions in effect when this grant was signed do not refer to Education and Training costs.

Auditors' Response

We have removed our reference to amounts charged to Education and Training under Grant No. 94ADFDC055 in this finding. This requirement was contained in the AmeriCorps Provisions dated September 28, 1995 and only applied to Grant No. 96ADNNH004.

Finding No. 3

During the first year of Grant No. 94ADFDC055, SCA paid the participants a living allowance that was computed at an hourly rate in relation to the number of hours worked. Although the living allowance was being paid based on an hourly rate, participant costs tested show that no

participant was paid more, or less, than the amount required under the grant. Paragraph 12b of the AmeriCorps Provisions states, in part, "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 time period. Programs should pay the living allowance in increments, such as weekly or bi-weekly."

SCA corrected this condition during Program Year 1.

Finding No. 4

Written evaluations of an AmeriCorps Member's performance were not always prepared by the AmeriCorps Member's supervisor. Paragraph 8.g. of the AmeriCorps Provisions states, in part, "Grantor must conduct at least a mid-term and end-of-term written evaluation of each Member's performance...." Supervisor evaluations were missing from 24 of 60 AmeriCorps Member files tested for Grant No. 94ADFDC055 and 8 of 40 from AmeriCorps Member files tested for Grant No. 96ADNNH004.

Recommendation

We recommend that SCA ensure that the required evaluations of each AmeriCorps Member's performance are documented and included in the AmeriCorps Member's file.

Finding No. 5

Of the 60 Members tested under Grant No. 94ADFDC055, two U.S. Department of Justice, Immigration and Naturalization Service Forms I-9 were missing from AmeriCorps Member files and three I-9 forms were not completed correctly. I-9 forms and back up support were found in all of the 40 Member files tested under Grant No. 96ADNNH004.

Recommendation

We recommend that SCA establish managerial controls to provide assurance that it is in compliance with grant and contractual requirements.

Finding No. 6

Five of 60 Member files tested did not contain signed Member contracts under Grant No. 94ADFDC055. All 40 files tested under Grant No. 96ADNNH004 contained signed contracts. Paragraph 8.b. of the AmeriCorps Provisions states that the grantee must require that Members sign contracts.

Recommendation

We recommend that SCA establish managerial controls to provide assurance that it is in compliance with grant and contractual requirements.

Finding No. 7

One of the 60 Member files tested did not contain a Post Service Educational Award Form under Grant No. 94ADFDC055. Two of the 40 Member files tested under Grant No. 96ADNNH004 did not contain Post Service Educational Award Forms. Paragraph 13 of the AmeriCorps Provisions states that "Grantee must certify ... that the Member is eligible to receive the educational benefit."

Recommendation

We recommend that SCA establish managerial controls to provide assurance that it is in compliance with grant and contractual requirements.

Finding No. 8

One Federal Withholding Form W-4 was missing from the 60 files tested under Grant No. 94ADFDC055 and one W-4 was missing from the 40 files tested under Grant No. 96ADNNH004.

Recommendation

We recommend SCA ensure that W-4 forms are maintained appropriately.

Demko, Jones, Healy, Pennington & Alshel, P.C.

*Bethesda, Maryland
June 30, 1998*

Dembo, Jones, Healy, Pennington & Ahalt, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Inspector General
Corporation for National Service

INDEPENDENT AUDITORS' 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 Student Conservation Association, Inc. (SCA) to the Corporation for National Service (Corporation) for the cooperative agreements listed below, and have issued our report thereon dated June 30, 1998.

Cooperative Agreement Numbers	Award Period	Audit Period
94ADFDC055 and 96ADNNH004	July 1, 1994 to December 31, 1997	July 1, 1994 to December 31, 1997

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* 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 1, 1994 to December 31, 1997, we considered SCA'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 management of SCA 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 of 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 accounting principles prescribed by the Corporation for National Service. 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.

We noted the following matters involving the internal control structure and its operation that we consider to be reportable conditions 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 judgment, could adversely affect the entity's ability to record, process, summarize and report financial data in a manner that is consistent with the assertions of management in the financial schedules.

Segregation of Duties

SCA lacks adequate segregation of duties. Under an effective internal control structure, the origination and completion of single transactions are assigned to different individuals. Thus, one individual should not authorize, record or maintain custody of assets. Specifically, the following two conditions were noted where SCA lacked adequate segregation of duties:

1. The Chief Financial Officer (CFO) and the Controller sign checks and record transactions.

Recommendation

We recommend that someone in management outside of the accounting office without access to the accounting records be responsible for signing checks. This procedure will reduce the opportunity for errors or irregularities in the Accounting Department.

The Student Conservation Association's Comments

SCA responded that their check signing policies do not allow their CFO and Controller to be both of the two required signers on checks over \$1,000 and that the vast majority of checks are signed by Program Directors. SCA indicated that there are four or five other authorized check signers.

Auditors' Response

We continue to recommend that someone outside of the accounting office be responsible for signing checks. SCA has sufficient authorized check signers to relieve the CFO and Controller of that responsibility.

2. The accounting clerks record cash disbursement transactions, prepare checks, and mail them after they have been signed.

Recommendation

We recommend that after the checks have been signed they be given directly to someone outside the accounting office for mailing. This procedure would reduce the opportunity for concealment of checks altered after being signed.

The Student Conservation Association's Response

SCA agrees with this recommendation in theory but feels that in an organization of their size it would be impractical to follow our recommendation.

Auditors' Response

Our recommendation stands. There are sufficient staff at SCA to alleviate this segregation of duties problem. One possibility would be that the check signer give the checks directly to one of the receptionists for mailing.

Demko, Jones, Healy, Pennington + Alshar, P.C.,

*Bethesda, Maryland
June 30, 1998*

APPENDIX A

**CORPORATION FOR NATIONAL SERVICE
OFFICE OF GRANTS MANAGEMENT COMMENTS TO REPORT**

CORPORATION
FOR NATIONAL
★ SERVICE

May 18, 1997

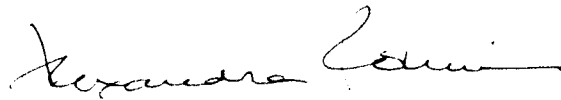
Dembo, Jones, Healy, Pennington
& Ahalt, P.C.
7250 Woodmont Avenue, Suite 300
Bethesda, MD 20814

Dear Sirs:

The Office of Grants Management has received the draft audit report for Cooperative Agreement numbers 94ADFDC055 and 96ADNNH004, awarded to The Student Conservation Association, Inc.

Our review primarily was limited to information contained in the report. We have not conducted a more comprehensive review and analysis, obtained comments from the awardee, or considered other information, factors or alternatives to the recommendations. Therefore we are unable to provide detailed comments or specifically concur with the report's findings or recommendations at this time. Nevertheless, we have no objections to the report being issued.

Sincerely yours,



Alexandra W. Rollins
Senior Grants Officer

cc. CNS Audit Coordinator
CNS Inspector General



APPENDIX B

**THE STUDENT CONSERVATION ASSOCIATION, INC.
COMMENTS TO REPORT**



changing lives through service to nature

Since 1957

May 20, 1998

Mr. Donald K. Marshall
Dembo, Jones, Healy, Pennington & Ahalt, P.C.
7250 Woodmont Avenue
Suite 300
Bethesda, MD 20814

Dear Mr. Marshall:

Enclosed is the Student Conservation Association's (SCA) response to the draft audit report regarding grants with the Corporation for National Service. I have discussed certain of the items with Elsie Hackman and my response references the report by page.

A few of the items included in the report were no longer valid as of the report date and should be removed. Specifically these relate to the refund of excess funds (which were remitted in March), disposition of assets acquired (which were settled in March), and approval requirement for training dollars in the 1994 grant provisions (which were not included in the grant provisions until 1996). I discussed the first two of these with Elsie last week.

I am concerned that the grant program officers are concurrently reviewing and commenting on the draft report without the benefit of our responses. I'm unsure whether their comments are included in the final report as well. If so, I feel the results would be misleading to readers.

I would like to let you know that Elsie was a pleasure to work. You have a wonderful staff member on your team.

Please feel free to contact me to discuss any of the points in SCA's response.

Sincerely,

Mark Bodin
Chief Financial Officer

cc: Dale Penny, SCA
Elsie Hackman, DJHPA

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& Oshinsky LLP

THE STUDENT CONSERVATION ASSOCIATION, INC.
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SCA Response to Draft Audit to Corporation for National Service

Page 2

Grant No. 94ADFDC055:

- The first bullet point is incorrect and should be removed. This money was refunded to the Department of Interior (the CNS grantee) prior to the report date.
- The third bullet point considers the forfeited rental car charges as “unallowable”. These payments represented monthly lease payments for an allowable lease and therefore I disagree with the unallowable classification. The one-year lease represented the least expensive option available and the original plan was to use it for only nine months of the twelve month lease term given the term of the grant. The vehicle was turned in three months earlier than planned due to staff turnover, and the opportunity to save funds on insurance. I feel we acted properly and responsibly in handling this matter.
- The sixth bullet point claims that FICA claimed exceeded the allowable FICA rate. In fact, the expenditures claimed were not solely FICA, but, also state unemployment taxes. At a minimum, the statement should be that “Payroll taxes” claimed ..., rather than FICA claimed.

Grant No. 96ADNH004:

- The second bullet point is identical to the last item above.

Page 3

- The statement that SCA lacks adequate segregation of duties without any qualifier is very misleading to the public. Later in the report you identify certain instances where you feel SCA lacks adequate segregation of duties and a similar explanation should accompany this opening statement. I feel that it is a disservice to SCA to leave the “blanket” statement as is and in fact, I take exception with it as a stand alone comment.
- Matter requiring resolution: This statement is not correct as of the report date and should be removed. The question of the disposition of equipment purchased with grant funds was resolved with CNS in March. CNS provided specific parameters for equipment requiring an additional resolution and we reported to them as required. Assets with current market value below \$5,000 were excluded.

Exhibit B; pages 11-13

These statements should all serve as “The Student Conservation Association’s Comments” to the questioned costs.

1. Member Support Costs

SCA has reviewed the files for these individuals and the auditor comment is valid. The net amount indicated as overpaid represents approximately 0.1% of member living allowances paid and some level of human error is to be expected given the intricacies of program payment requirements for this volunteer program where payments could not tie to work hours.

2. Staff Costs

SCA has been unable to locate the employee timesheet files for the four questioned items. Two of the individuals, totaling \$1,431.31 of the total, were salaried employees and their payment amounts would have been fixed. Our external auditors do compliance testing in the payroll area each year and these individuals would have been included in the sample (whether selected or not). The questioned costs again represent less than 1% (0.4%) of costs claimed in this category.

3. Supplies

The \$3,228 of questioned costs for the forfeited car should have been considered travel costs and not supplies by SCA. These payments represented an advance on monthly lease payments for an allowable vehicle lease. The one-year lease (entered December 1996) represented the least expensive option available and the original plan was to use it for only nine months of the twelve month lease term given the term of the grant. The vehicle was turned in three months earlier than planned due to staff turnover, and the opportunity to save funds on insurance. SCA believes it acted properly and within grant regulations in entering into this lease and honored its fiduciary duties in selecting the least expensive option after the staff turnover occurred.

4. Travel

SCA has located and submitted the American Express invoice supporting the \$1,888 American Express charge. The travel was by Scott Weaver, VP of Programs who was responsible for the AmeriCorps program. The \$61 of staff lodging charged at two locations the same night most likely represents a motel which did not change its date on its credit card imprint machine as it clearly is impossible to have two charges, in two different cities in one night.

5. FICA

The charges to the program should be labeled as "payroll taxes" rather than FICA since it includes mandatory unemployment charges in the state of New Hampshire. These costs were appropriate and unavoidable.

6. Cost Matching and Administrative Costs

Cost Matching:

The statement is correct that SCA's match of approximately 14% falls short of the 15% requirement. SCA operated these programs at a loss to the organization and providing the 14% match did require the inclusion of a large amount of SCA's general funds. Any contribution beyond the \$300,000 level for this grant will require additional SCA general funds to be used and will result in additional financial hardship from this program. For various reasons the AmeriCorps program run by SCA with the Department of Interior was not attractive to funders.

Administrative Costs:

Again the auditor statement is correct, but, these funds were in fact expended by SCA. The 5% requirement is insufficient to run a program of this magnitude and a significant share of

the administrative costs are spent in the early stages of the program and are not specifically dependent on subsequent actual program expenditures.

7. Program Operating Costs

The auditor statement is correct in that these expenditures were above the original grant level. SCA did in fact expend \$19,207 more than originally budgeted for the grant, but, did so to ensure the program goals were met. The over expenditure represents a 3% overrun in these categories which is not unusual in managing a \$2.4M grant. These funds were spent in meeting our program commitments and are defined as questionable costs solely due to their level and not their nature or purpose.

Page 15

- The fourth bullet point about the duplicate charge for lodging by one employee in two locations is overly inflammatory given the dollar level and lack of additional research. The two American Express receipts were part of a two week plus trip by our Texas program representative and most likely represented a motel employee setting the wrong date on an imprint machine. The statement gives the appearance of impropriety rather than adding that the item amount doesn't warrant additional research such as contacting the employee or motels.

Page 16

- Finding #1: As stated above, this statement is incorrect at the report date and should be removed from the report.
- Finding #2: The provision cited did not apply to Grant No. 94ADFDC055 and Paragraph 16.b.iii. relates to an entirely different topic in the grant provisions covering that grant year. The reference to the decreased costs for this grant (item (1)) should be removed.

Page 20

- Check signers: The recommendation that someone in management outside of the accounting office be responsible for signing checks is unclear to me. SCA has a list of check signers of which the CFO and Controller are only two of six or seven. As CFO, I probably sign less checks than all but the President. The CFO and Controller are not allowed to be the two signers on checks over \$1,000. The vast majority of checks are signed by Program Directors.
- Segregation of duties in the accounting area: While I agree with the recommendation in theory, I find it to be impractical for an organization this size, and with our staffing structure.