

**Office of Inspector General  
Corporation for National and  
Community Service**

**AUDIT OF CORPORATION FOR NATIONAL AND  
COMMUNITY SERVICE GRANTS AWARDED TO  
ARIZONA GOVERNOR'S COMMISSION ON  
SERVICE AND VOLUNTEERISM**

**OIG REPORT NUMBER 06-37**



*Corporation for*  
**NATIONAL &  
COMMUNITY  
SERVICE** 

Prepared by:

**COTTON & COMPANY, LLP**  
635 Slaters Lane, 4<sup>th</sup> Floor  
Alexandria, Virginia 22314

This report was issued to Corporation management on September 19, 2006. Under the laws and regulations governing audit follow-up, the Corporation is to make final management decisions on the report's findings and recommendations no later than March 19, 2007, and complete its corrective actions by September 19, 2007. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



## OFFICE OF INSPECTOR GENERAL

### Audit of Grants Awarded to Arizona Governor's Commission on Service and Volunteerism Audit Report 06-37

#### OIG Summary

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), contracted with Cotton & Company, LLP (Cotton) to perform an audit of grants awarded to the Arizona Governor's Commission on Service and Volunteerism (Commission). The audit covered the latest two years of performance through December 31, 2005, for five grants initially awarded during the period February 1, 2002, to January 1, 2005.

Funding authorized for these grants totaled \$2.4 million, with costs claimed totaling about \$2.0 million. The audit identified questioned costs of \$9,507, and related education awards of \$4,795. Cost questioned represent less than 1 percent of claimed costs. Most of the questioned costs were related to unapproved budget category changes, unmet match for living allowances, and hours recorded on timesheets that did not support eligibility for an education award.

The report also includes four findings and related recommendations to improve compliance with grant requirements and to improve internal controls. The Commission was mostly responsive to the recommendations. The Corporation intends to address all findings and recommendations in its management decision.

The OIG reviewed Cotton's report and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the Consolidated Schedule of Award Costs, related exhibits and schedules, or conclusions on the effectiveness of internal controls and compliance with laws and regulations.

Cotton is responsible for this report, dated May 11, 2006, and the conclusions expressed therein. However, our review disclosed no instances where Cotton did not comply, in all material respects, with generally accepted government auditing standards.

This report is a matter of public record, and its' distribution is not limited.



1201 New York Avenue, NW ★ Suite 830, Washington, DC 20525  
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**OFFICE OF INSPECTOR GENERAL  
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE**

**AUDIT OF GRANTS AWARDED TO  
ARIZONA GOVERNOR’S COMMISSION ON  
SERVICE AND VOLUNTEERISM**

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## REPORT SUMMARY AND HIGHLIGHTS

### I. EXECUTIVE SUMMARY

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), contracted with Cotton & Company LLP (Cotton) to perform an audit of costs claimed by the Arizona Governor's Commission on Service and Volunteerism (Commission). Our audit covered financial transactions, compliance, and internal control testing of Commission awards.

The Commission claimed \$1,962,389 during the audit period. Of this amount we questioned \$9,507 or about one half of one percent. Additionally, education awards of \$4,795 were questioned. Most of the questioned costs were related to unapproved budget category changes, unmet match for living allowances and timesheet hours that did not support eligibility for education awards.

### II. BACKGROUND

The Corporation supports national and community service programs that provide full- and part-time opportunities for Americans to engage in service that fosters civic responsibility, strengthens communities, and provides educational opportunities for those who make a commitment to service. State commissions distribute funds to subgrantees that administer local programs and provide oversight, training, and technical assistance to subgrantees.

The Commission, located in Phoenix, has received AmeriCorps grant funds from the Corporation since Program Year (PY) 1994-1995. It currently operates as part of the Governor's Office for Children, Youth, and Families, which provides fiscal management and matching funds for Corporation grants.

### III. AUDIT SCOPE AND RESULTS

Cotton performed an incurred-cost audit including financial transactions, internal controls, and compliance for the following grants:

Program	Award No.	Award Period	Audit Period
Administrative	04CAHAZ001	01/01/04-12/31/06	01/01/04-12/31/05
Professional Development and Training	02PDSA Z004	02/01/02-12/31/04	01/01/04-12/31/04
Professional Development and Training	05PTHA Z001	01/01/05-12/31/07	01/01/05-12/31/05
AmeriCorps State Competitive	03ACHA Z001	10/01/03-09/30/06	10/01/04-03/31/06 <sup>1</sup>
AmeriCorps State Formula	03AFHA Z001	10/01/03-09/30/06	10/01/04-03/31/06 <sup>1</sup>

<sup>1</sup> The audit period was extended to 03/31/06 to incorporate all grant activity for PY 2004-2005. We did not, however, audit costs claimed on the 03/31/06 Financial Status Report (FSR) related to PY 2005-2006, and these costs are not included in Exhibit A.

The audit objectives were to determine if:

- The Commission's financial reports to the Corporation presented financial award results fairly, and costs were allowable in accordance with award terms and conditions;
- The Commission's internal controls were adequate to safeguard Federal funds; and
- The Commission had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations, and award conditions.

We conducted fieldwork between February 13, 2006 and May 11, 2006.

### **Cost Findings**

The Commission claimed \$1,962,389 in costs during our audit period, as shown in Exhibit A, Consolidated Schedule of Claimed and Questioned Costs. Of this amount, we questioned \$9,507 and related education awards of \$4,795. Except for the questioned costs, the costs claimed by the Commission appear fairly stated and allowable in accordance with award terms and conditions.

Costs questioned primarily relate to member eligibility and compliance issues, such as proof of citizenship or unallocable cost caused by a lack of documentation. We also identified costs relating to claimed match that we questioned for the same reasons. These questioned costs are not identified in the schedules because they did not result in unmet matching requirements, which would have affected the allowability of the Federal costs.

### **Compliance and Internal Control Findings**

We have also issued a report, titled Independent Auditors' Report on Compliance and Internal Control, on our consideration of the Commission's internal control and compliance with laws and regulations. In that report, we identified four issues of noncompliance (Finding Nos. 1 through 4) that are required to be reported under generally accepted government auditing standards. We also identified two noncompliance issues that affect the Commission's internal control over financial reporting and its operation (Finding Nos. 1 and 2). We did not note any matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. The findings are summarized below:

1. The Commission had inadequate procedures to ensure that subgrantees documented member activities and that member support payments were proper.
2. The Commission had inadequate subgrantee monitoring procedures.
3. The Commission did not comply with all grant provisions.

4. The Commission's financial management system was inadequate to account for and support all costs claimed.

#### **IV. Exit Conference and Resolution**

An exit conference with Commission and Corporation representatives was held on June 9, 2006. Commission and Corporation responses to this draft report are included as Appendices A and B, respectively. In addition, we have included a brief summary of the Commission's comments in the Independent Auditors' Report on Compliance and Internal Control.

May 11, 2006

Office of Inspector General  
Corporation for National and Community Service

### INDEPENDENT AUDITORS' REPORT

We have audited costs claimed by the Arizona Governor's Commission on Service and Volunteerism for PY 2004-2005, for the grants listed below. These costs are presented in Exhibit A, Consolidated Schedule of Claimed and Questioned Costs, and are the responsibility of Commission management. Our responsibility is to express an opinion on these costs based on our audit.

<b>Program</b>	<b>Award No.</b>	<b>Award Period</b>	<b>Audit Period</b>
Administrative	04CAHAZ001	01/01/04-12/31/06	01/01/04-12/31/05
Professional Development and Training	02PDSAZ004	02/01/02-12/31/04	01/01/04-12/31/04
Professional Development and Training	05PTHAZ001	01/01/05-12/31/07	01/01/05-12/31/05
AmeriCorps State Competitive	03ACHAZ001	10/01/03-09/30/06	10/01/04-03/31/06 <sup>1</sup>
AmeriCorps State Formula	03AFHAZ001	10/01/03-09/30/06	10/01/04-03/31/06 <sup>1</sup>

Except as described below, we conducted our audit in accordance with audit standards generally accepted in the United States of America and generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in Exhibit A. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial presentation. We believe that our audit provides a reasonable basis for our opinion on incurred costs.

As noted above, our audit included examining transactions and member records on a test basis. During our testing, we identified a number of questioned costs resulting from a member eligibility issue. Codification of Statements on Auditing Standards, AU § 326, requires auditors to gain sufficient competent evidential matter to identify and properly value

<sup>1</sup> The audit period was extended to March 31, 2006, to incorporate all grant activity for PY 2004-2005. We did not, however, audit costs claimed on the March 31, 2006, Financial Status Report (FSR) for PY 2005-2006, and these costs are not included in Exhibit A.

all questioned costs. At the OIG's request, we did not expand testing of remaining members to identify all questioned costs and related education awards.

Exhibit A is intended to present allowable costs incurred under the awards in accordance with applicable Office of Management and Budget (OMB) circulars and award terms and conditions. Exhibit A is not intended to be a complete presentation of the Commission's financial position, in conformity with accounting principles generally accepted in the United States of America. This exhibit also identifies questioned education awards. These awards are not funded by Corporation grants and thus are not included as claimed costs. As part of our audit, however, we determined the effect of all member compliance issues on these awards.

In our opinion, except for questioned costs noted in Exhibit A and the effect on questioned costs had we expanded testing as discussed above, the financial exhibit presents fairly, in all material respects, costs claimed for the grants in conformity with applicable OMB circulars and award terms and conditions.

In accordance with generally accepted government auditing standards, we have also issued a report dated May 11, 2006, on our consideration of the Commission's internal control and compliance with laws and regulations. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering audit results.

This report is intended solely for the information and use of the Corporation, the OIG, the Commission, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

  
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Sam Hadley, CPA  
Partner



**ARIZONA GOVERNOR'S COMMISSION ON SERVICE AND VOLUNTEERISM  
CONSOLIDATED SCHEDULE OF CLAIMED AND QUESTIONED COSTS  
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS**

Award No.	Federal Costs			Questioned Education Awards	Reference
	Awarded	Claimed	Questioned		
04CAHAZ001	\$432,016	\$390,579	\$384		Note
02PDSAZ004	109,000	121,634			
05PTHAZ001	119,000	66,447			
03AFHAZ001					
NAU	374,342	315,217	5,498	\$2,363	Schedule A
Arts For All	173,754	111,295	3,074	1,182	Schedule B
Youth Count	147,139	129,708		1,250	Schedule C
Others	<u>550,010</u>	<u>466,005</u>	_____	_____	
Subtotal	\$1,245,245	\$1,022,225	\$8,572	\$4,795	
03ACHAZ001					
Volunteer Center	\$180,000	\$171,119	\$551		Schedule D
Other	<u>319,997</u>	<u>190,385</u>	_____		
Subtotal	<u>\$499,997</u>	<u>\$361,504</u>	<u>\$551</u>	_____	
Totals	<u>\$2,405,258</u>	<u>\$1,962,389</u>	<u>\$9,507</u>	<u>\$4,795</u>	

**Note**

A state motor pool vehicle was charged to the grant for 16 days, however it was only used for grant purposes for two days. The vehicle was requested for five days, but was returned after two days because it wasn't working. The grant, however, was charged for 16 days, which was the time the vehicle was under repair.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, Section C.1. *Factors affecting allowability of costs*, states that a cost must be allocable to a Federal award to be allowable. The state agency responsible for the motor pool charged the Commission for the additional days while the vehicle was under repair. We questioned \$384, which represents the portion of the charge during the repair period.

ARIZONA GOVERNOR'S COMMISSION ON SERVICE AND VOLUNTEERISM  
 SCHEDULE OF CLAIMED AND QUESTIONED COSTS UNDER  
 CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS

NORTHERN ARIZONA UNIVERSITY

	Amount	Notes
Claimed Federal Costs <sup>1</sup>	<u>\$315,217</u>	
Questioned Federal Costs:		
Costs in excess of match limits	\$2,536	1
Member support budget used for other costs categories	<u>2,962</u>	2
Total Questioned Federal Costs	<u>\$5,498</u>	
Questioned Education Award:		
Unsupported member service hours	<u>\$2,363</u>	3

1. Northern Arizona University (NAU) claimed \$2,536 of member living allowances and related fringe benefits in PY 2004-2005 that exceeded the allowable Federal share. According to AmeriCorps Provisions (2003 ed.), Section B.11, *Living Allowances*, programs that provide a living allowance exceeding the minimum amount stated in application guidelines must provide a grantee match for all funds over 85 percent of that minimum. NAU could not explain why costs were claimed incorrectly, but provided a schedule for member living allowances that differed from the actual amount claimed on the Periodic Expense Report (PER). We questioned \$2,536 of unmet match for member costs.

<sup>1</sup>NAU corrected an accounting error on its March 31, 2006, FSR, resulting in a decrease from \$319,268 to \$315,217. Therefore, NAU had \$4,050 in Federal funds in excess of costs incurred in addition to questioned costs identified in the footnotes.

2. NAU used \$2,962 budgeted for member support costs to fund personnel and other costs. AmeriCorps Provisions (2003 ed.), Section B.15.c.i., *Budgetary Changes*, states that the grantee must obtain the Corporation's prior written approval before reallocating budgeted costs from the member support category to other cost categories. NAU was aware that the budget amount could not be exceeded, but was unaware of the restriction on the member support budget. We questioned \$2,962, representing the portion of unused member support costs budget used to fund other budget categories.
3. NAU timesheets did not support member service hours reported in the Web-Based Reporting System (WBRS) for 1 of the 10 sampled members from PY 2004-2005.

AmeriCorps Provisions (2003 ed.), Section C.22.c.ii., *Financial Management Provisions, Time and Attendance Records*, requires that grantees maintain time-and-attendance records on all AmeriCorps members to document their eligibility for in-service and post-service benefits. The member overstated hours by completing overlapping timesheets, and NAU did not verify timesheet accuracy. As a result, the member did not complete the necessary hours to receive an education award. We questioned the \$2,363 in education award earned by the member.

ARIZONA GOVERNOR’S COMMISSION ON SERVICE AND VOLUNTEERISM  
 SCHEDULE OF CLAIMED AND QUESTIONED COSTS UNDER  
 CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS

ARTS FOR ALL, INC.

	Amount	Notes
Claimed Federal Costs	<u>\$111,295</u>	
Questioned Federal Costs:		
Unallocable personnel benefits	\$1,494	1
Unallowable program costs	658	2
Under claimed member living allowance	(1,041)	3
Missing member file	<u>1,963</u>	4
Total Questioned Federal Costs	<u>\$3,074</u>	
Questioned Education Award:		
Unsupported member service hours	<u>\$1,182</u>	5

1. Arts For All claimed unallocable personnel benefits. It calculated personnel benefit costs using the percentage of effort on the AmeriCorps program instead of the fringe benefit percentage. Our recalculation of fringe benefits using the actual fringe rate of 17 percent resulted in a \$6,618 decrease, of which \$1,494 is Federal share.

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment B, Paragraph 8.g., *Compensation for personal services, Fringe Benefits*, states that fringe benefits are allowable, provided such benefits are granted in accordance with established written organization policies. Such benefits shall be distributed in a manner consistent with the pattern of benefits accruing to the individuals whose wages are chargeable to the awards and other activities.

2. Arts For All claimed \$940 for a holiday party and staff gifts. OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, Paragraph A.3, *Basic Considerations, Reasonable costs*, states that costs must be ordinary and necessary for the performance of the award. We questioned the Federal share of claimed costs for the holiday party of \$658.

3. Arts For All under-claimed \$(1,041) of member living allowances in PY 2004-2005. Specifically under-claimed the living allowance for five members and over-claimed the living allowance for six members. Arts For All claimed member living allowance amounts based on a spreadsheet that tracked those costs. This spreadsheet, however, varied from actual payments made to the members as supported by the accounting system and Internal Revenue Service (IRS) W-2 statements. The \$(1,041) represents a net increase of member living allowance expenses in excess of claimed costs.
4. Arts For All could not locate one of the seven sampled member files from PY 2004-2005. Member files contain the member contract, timesheets, and other documentation needed to support member eligibility, completion of required service hours, and compliance with other grant requirements.

AmeriCorps Provisions (2003 ed.), Section 27, *Retention of Records*, states that the grantee must retain and make available all financial records, supporting documentation, statistical records, evaluation and program performance data, member information, and personnel records, for 3 years from the date of the submission of the final FSR. We questioned the member's living allowance and related fringe benefits of \$1,963, because we could not determine eligibility or grant compliance to support these claimed costs.

5. Arts For All used time-and-attendance information in the Web-Based Reporting System (WBRS) to track member status, which is also the basis for determining eligibility for education awards. Of the seven sampled members, timesheets for five members did not support hours reported in WBRS.

AmeriCorps Provisions (2003 ed.), Section C.22.c.ii., *Financial Management Provisions, Time and Attendance Records*, requires that grantees maintain time-and-attendance records for all AmeriCorps members to document eligibility for in-service and post-service benefits. As a result of differences between WBRS and timesheet hours, one member did not meet the minimum number of service hours required to earn the education award. We questioned this education award of \$1,182.

**ARIZONA GOVERNOR’S COMMISSION ON SERVICE AND VOLUNTEERISM  
SCHEDULE OF CLAIMED AND QUESTIONED COSTS UNDER  
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS**

**YOUTH COUNT**

	<b>Amount</b>	
Claimed Federal Costs	\$129,708	
Questioned Education Award:		
Unsupported member service hours	\$1,250	<b>Note</b>

**Note**

Youth Count used time-and-attendance information in WBRS to track member status, which is also the basis for determining eligibility for education awards. One member had 30 hours entered twice in WBRS. The double entry occurred because the 30 hours were recorded for the same period on two separate timesheets, which were approved by two staff members who were on vacation for a week following each other.

AmeriCorps Provisions (2003 ed.), Section C.22.c.ii., *Financial Management Provisions, Time and Attendance Records*, requires that grantees maintain time-and-attendance records for all AmeriCorps members to document eligibility for in-service and post-service benefits. As a result of the difference between WBRS and timesheet hours this member did not meet the minimum number of service hours required to earn the education award. We questioned this education award of \$1,250.

ARIZONA GOVERNOR’S COMMISSION ON SERVICE AND VOLUNTEERISM  
 SCHEDULE OF CLAIMED AND QUESTIONED COSTS UNDER  
 CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS

VOLUNTEER CENTER OF SOUTHERN ARIZONA

	<b>Amount</b>	
Claimed Federal Costs	\$171,119	
Questioned Federal Costs:		
Unallowable healthcare for part-time members	\$551	<b>Note</b>

**Note**

Volunteer Center claimed healthcare coverage for two part-time members serving in full-time capacity without the Corporation’s prior approval. AmeriCorps Provisions (2003 ed.), Section B.11.e.iv., *Health Care Coverage*, states that half-time members who are serving in a full-time capacity for a sustained period of time (such as a full-time summer project) may be eligible for health care benefits supported with Corporation funds, although that coverage must be approved in the grant or by prior written approval from the Corporation’s Office of Grants Management.

Volunteer Center was unaware that providing healthcare coverage for part-time members serving in full-time capacity required prior Corporation approval. We questioned health care benefit costs of \$551 for only one member because the other member’s costs are from PY 2005-2006 and have not yet been claimed.

May 11, 2006

Office of Inspector General  
Corporation for National and Community Service

**INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE AND INTERNAL CONTROL**

We have audited costs claimed by the Commission to the Corporation for National and Community Service for the following awards and have issued our report thereon dated May 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and generally accepted government auditing standards.

<b>Program</b>	<b>Award No.</b>	<b>Award Period</b>	<b>Audit Period</b>
Administrative	04CAHAZ001	01/01/04-12/31/06	01/01/04-12/31/05
Professional Development and Training	02PDSAZ004	02/01/02-12/31/04	01/01/04-12/31/04
Professional Development and Training	05PTHAZ001	01/01/05-12/31/07	01/01/05-12/31/05
AmeriCorps State Competitive	03ACHAZ001	10/01/03-09/30/06	10/01/04-03/31/06 <sup>1</sup>
AmeriCorps State Formula	03AFHAZ001	10/01/03-09/30/06	10/01/04-03/31/06 <sup>1</sup>

**COMPLIANCE WITH LAWS AND REGULATIONS**

As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatements, we performed tests of compliance with certain provisions of laws, regulations, and awards, noncompliance with which could have a direct and material effect on determination of financial schedule amounts. Providing an overall opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. Test results disclosed instances of noncompliance that are required to be reported under generally accepted government auditing standards and are discussed below (Finding Nos. 1 through 4).

<sup>1</sup> The audit period was extended to March 31, 2006, to incorporate all grant activity for PY 2004-2005. We did not, however, audit costs claimed on the March 31, 2006, FSR for PY 2005-2006, and these costs are not included in Exhibit A.



## INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we obtained an understanding of the Commission's internal control over financial reporting to determine audit procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on internal control over financial reporting. We noted matters involving internal control over financial reporting and its operation, however, that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the Commission's ability to initiate, record, process, and report financial data consistent with assertions of management in the financial schedules (Finding Nos. 1 and 2 below).

A material weakness is a condition in which the design or operation of one or more of the internal control elements does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control structure that might be reportable conditions and that are also considered material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We sampled four subgrantees and a total of 60 members. Our findings are discussed below.

### FINDINGS

#### **1. The Commission had inadequate procedures to ensure that subgrantees documented member activities and that member support payments were proper.**

The Commission did not adequately ensure that subgrantees documented member activities in accordance with AmeriCorps Provisions. Specifically:

- Mid-term or final evaluations were not available for all members sampled, and some evaluations either did not have member or supervisory signatures or were incomplete;
- Some exit forms were submitted late or were not signed;
- Hours reported for some members were not supported by member timesheets, and member timesheets were missing, contained errors, or corrections were not initialed;
- Member living allowance payments were based on hours completed;

- Two subgrantees approved member change of status in WBRS more than 30 days after the member changed status; and
- One member file was missing.

## **Evaluations**

From our sample of four subgrantees, we identified instances where subgrantees could not provide documentation of evaluations, did not perform evaluations, or did not sign evaluations:

- Two subgrantees could not provide documentation of mid-term or final evaluations for eight members.
- Two additional subgrantees did not perform mid-term evaluations. One performed a 30-day evaluation and an additional 90-day evaluation for some members, but did not perform mid-term evaluations. This subgrantee was unaware that mid-term evaluations were necessary. The second subgrantee did not perform mid-term evaluations due to the difficulty in traveling to various member service sites and a lack of time.
- Members or supervisors of one subgrantee discussed above did not sign mid-term and final evaluations because they did not think it was necessary.

Signed evaluations are needed to document that evaluations were conducted and received in a timely manner. Evaluations are also necessary to ensure that members are eligible for additional service terms. According to 45 C.F.R. § 2522.220(d), *Participant performance review*, a participant is not eligible for a second or additional term of service and/or for an AmeriCorps education award without mid-term and final evaluations. Subgrantees also are required to conduct at least mid-term and final evaluations of each member's performance and document that the member has:

- Completed the required number of hours;
- Satisfactorily completed assignments; and
- Met other performance criteria that were clearly communicated at the beginning of the service term.

## **Exit Forms**

The Commission did not ensure that subgrantees submitted all required exit forms in a timely manner and did not require members to sign the forms. Specifically:

- Seventeen exit forms were not entered into WBRS within the required 30 days; and
- Six exit forms were unsigned by the members.

AmeriCorps Provisions (2003 ed.), Section 16.b., *Reporting Requirements, AmeriCorps Member Related Forms*, requires that member enrollment forms be submitted to the Corporation no later than 30 days after a member is enrolled, and that member exit forms and final evaluations be submitted no later than 30 days after a member exits the program.

## **Member Service Hours**

Member service hours recorded in WBRS were not always properly supported by member timesheets. AmeriCorps Provisions (2003 ed.), Section C.22.c.ii., *Financial Management Provisions, Time and Attendance Records*, requires that grantees keep time-and-attendance records for all AmeriCorps members to document their eligibility for in-service and post-service benefits. The Corporation uses time-and-attendance information in WBRS to track member status, and this data is the basis for calculating education awards.

Member hours supported by timesheets varied from hours recorded in WBRS for 11 members at three subgrantees:

- Timesheet hours exceeded WBRS hours (four members);
- Timesheet hours were less than hours reported in WBRS (seven members); and
- Member timesheets did not support the required number of hours to earn education awards (three members).

These subgrantees noted that hours recorded on member timesheets could vary from hours reported in WBRS due to data-entry errors. Also, some member files were missing timesheets. This resulted in \$4,795 of questioned education awards (as shown in Schedules A, B, and C).

Further, timesheets at three subgrantees contained corrections that were not initialed by the member or supervisor and were not signed. Also, some timesheets were copies rather than originals. When changes are made to timesheets without initials, accountability can be compromised.

## **Member Living Allowance Payments**

One subgrantee made living allowance payments based on hours of service in a given time period. AmeriCorps Provisions (2003 ed.), Section B.11, *Living Allowances, In-Service Benefits, and Taxes*, states that living allowances are designed to help members meet necessary living expenses incurred while participating in the program. Programs are not allowed to pay members on an hourly basis, and allowances must not be based on the number of hours a member serves.

## **Change of Status**

Two subgrantees reported member change of status late in WBRS for members whose status changed during the program. AmeriCorps Provisions (2003 ed.), Section B.16.b.ii, *Change of Status Forms*, states that member change of status forms must be submitted no later than 30 days after a member's status is changed. Change of status forms were submitted more than 30 days after member status changed in three instances.

***Recommendation:*** We recommend that the Corporation ensure that the Commission strengthens its program monitoring procedures to comply with grant requirements regarding member activities, including:

- Complying with grant requirements for conducting member evaluations and retaining documentation;
- Documenting member exit promptly and submitting this information to the Corporation on a timely basis;
- Recording member service hours accurately and in accordance with program provisions and ensuring that only eligible service hours are counted toward the member service requirement and education awards;
- Ensuring that subgrantees calculate and pay living allowances in accordance with program provisions; and
- Documenting member change of status promptly and submitting this information to the Corporation on a timely basis.

We also recommend that the Corporation work with the Commission in audit resolution to calculate any questioned living allowances, related fringe benefits and applied administrative costs for those members who were paid an hourly wage and accelerated their service terms at Northern Arizona University.

**Commission Response:** The Commission will institute desk-based monitoring methods for mid-term and final evaluations of members, timeliness of exit form submission, living allowance calculations, change of status form submission, member service hours supported by member timesheets, and document retention. The Commission will continue to stress these areas at program director trainings and will use the New Program Start-up Guide to train new, existing, and continuing programs in these areas. The Commission also will begin testing all files during site visits.

**Auditors' Comments:** We believe the actions taken by the Commission effectively address the recommendations.

## **2. The Commission had inadequate subgrantee monitoring procedures.**

The Commission performed routine site visits of subgrantees and reviewed subgrantee documentation. It did not, however, always perform adequate reviews of procedures to ensure that subgrantees claimed only allowable costs and had adequate financial management systems.

### **Allowable Costs**

The notes to Schedules A through D describe questioned Federal costs of \$9,507 and related education awards of \$4,795. This includes costs claimed by subgrantees for which documentation indicates that costs were expended in violation of laws, regulations, and specific conditions of awards, costs that require interpretation of allowability by the Corporation, or unsupported costs claimed that require additional documentation to support allowability. Some allowability issues identified during our sampling of claimed costs include:

- One subgrantee claimed costs in excess of 85 percent of member living allowances as Federal expenditures;
- One subgrantee claimed in-kind match for items contributed by the same legal entity, and valued those donations at market value instead of actual costs;
- One subgrantee claimed unallowable costs for a holiday party and staff gifts; and
- One subgrantee used costs budgeted for Participant Support to fund personnel and other expenses.

### **Financial Management Systems**

The Commission did not ensure that each subgrantee had an adequate financial management system. In addition to unallowable and unsupported costs claimed by subgrantees, we noted that subgrantees did not have adequate labor distribution systems and other financial management weaknesses as follows:

### Labor Distribution systems

- One subgrantee did not have an adequate labor distribution system to support claimed staff labor costs. Labor costs were charged to the grant based on predetermined percentages and were not supported with after-the-fact labor distribution records, as required by applicable OMB cost circulars.
- One individual at one subgrantee prepared time accountability sheets during a staff meeting that were not signed by employees and supervisors. Also, periods reported on timesheets differed from pay periods.
- One subgrantee did not have adequate internal control procedures for financial reporting. It used budget estimates of employee effort to calculate claimed staff labor costs.
- One subgrantee used pre-prepared labor distribution certifications to support labor allocations between overlapping AmeriCorps grants. Employees signed these certifications without clarification or correction. Also, certifications for the business manager identified time spent on general business; this time was later allocated to the AmeriCorps grant through journal entries.

Alternative procedures were performed to ensure that claimed labor costs were not overstated. We interviewed personnel to verify labor cost were reasonable and allowable. Labor costs are not questioned as a result of these alternative procedures.

### Other financial management issues:

- One subgrantee did not file one financial and two progress reports in a timely manner.
- One subgrantee used credit card receipts as supporting documentation for purchases and did not provide invoices to indicate what was purchased.
- One subgrantee did not have adequate internal control procedures for financial reporting. It used budget estimates for office supplies and administrative costs based on annual estimates.
- One subgrantee used living allowance estimates to calculate claimed costs on its periodic expense report, instead of actual payments made to members.
- Two subgrantees maintained inadequate support for in-kind donations. Documentation is required to show that contributions were not obtained or supported by Federal funds, labor was recorded using actual pay rates and hours from timesheet records, office space was valued at fair value, and estimates versus actual expenses were used for office supplies.

- One subgrantee's accounting system did not identify costs by budget line item and distinguish expenditures from different programs (cost centers). The expenditures attributable to the AmeriCorps grant were tracked in a separate spreadsheet, and there is no assurance that the costs were not claimed on other programs.
- One subgrantee over-claimed member living allowances and did not reconcile claimed match costs to the accounting system and correct the error.

OMB Circular A-110, Subpart C.21, *Standards for Financial Management*, requires accurate, current, and complete disclosure of the financial results of each Federally-sponsored project in accordance with the reporting requirements.

**Recommendation:** We recommend that the Corporation:

- Ensure that the Commission strengthen subgrantee monitoring procedures to include more detailed reviews of allowable costs and documentation;
- Ensure that the Commission require subgrantees to have adequate financial management systems; and
- Calculate and recover from the Commission disallowed costs and any related administrative costs.

**Commission Response:** The Commission will strengthen its subgrantee monitoring procedures to include more detailed reviews of allowable costs through the reimbursement process. The Commission will document verification that budgets have not been exceeded in total. The Commission also will document that line items within budgets have not been exceeded without prior notification and/or approval. The Commission also will document reviews of expenditure summaries (ledger) to spot unallowable costs per OMB circulars.

The Commission will ensure that only expenses that have original supporting documentation and are after-the-fact will be reimbursed. The Commission will pay strict attention to any journal entries concerning labor distribution and will question any that are not easily verifiable; verifying that all expenditures are tracked by budget line item and that different cost centers are used for all different programs. In addition, the Commission will verify that expenditures are accounted for and that all expenses are only claimed once; and to ensure that only allowable and allocable costs are charged to the grant. The Commission also has instituted desk-based monitoring methods to ensure program staff accountability sheets are signed by the employees and supervisors and that accountability sheets are verified for the proper pay period. The Commission will contact subgrantees as necessary to clarify any issues or errors identified, adjust reimbursements, and hold reimbursements until sufficient information is provided or the subgrantee has submitted a revised form.

The Commission will strengthen its financial management systems monitoring through trainings, site visits, and periodic desk reviews of expenses to ensure that labor charges are charged only after-the-fact. The Commission will issue reminder notices one week prior to

reporting deadlines in addition to providing all programs with a schedule of required financial and progress reports. The Commission will remind subgrantees that original documentation is required for any and all purchases. If original documentation cannot be obtained, the said cost will be determined unallowable by the Commission.

**Auditors' Comments:** We believe the actions taken by the Commission will effectively address most of the recommendations. We continue to recommend the Corporation, through the resolution process, resolve the questioned cost and any related administrative costs.

### **3. The Commission did not comply with all grant provisions.**

The Commission did not ensure that subgrantees had adequate documentation for member citizenship, criminal background checks, and other grant requirements.

#### **Citizenship**

The Commission did not ensure that subgrantees obtained adequate proof of member citizenship. Two subgrantees could not support U.S. citizenship for four members. 45 CFR § 2522.200, *What are the eligibility requirements for an AmeriCorps participant?*, requires every AmeriCorps participant to be a citizen, national, or lawful permanent resident alien of the United States. Both subgrantees noted that they did not follow their procedures to obtain proof of citizenship for these members.

One subgrantee subsequently provided citizenship documentation for one of its members; we did not question costs related to that member. There were no claimed living allowances for the remaining three members because one member did not actively participate in the program, and the other two were members from PY 05-06 and living allowances for those members had not been claimed yet.

#### **Criminal Background Checks**

Three subgrantees could not provide documentation to show that criminal record checks were completed or reviewed. Specifically:

- One subgrantee did not obtain criminal record checks for five members at mentoring sites serving children. The subgrantee requested copies of the missing criminal record checks from the mentoring sites, but they were not provided.
- One subgrantee did not have documentation on file to show that criminal record checks were performed for three members. Subsequent to our site visit, the subgrantee provided the criminal record check documentation for two of the three members.
- One subgrantee failed to obtain a criminal record check for one member.

AmeriCorps Provision (2003 ed.) Section B.6.h, *Criminal Record Checks*, requires programs



to conduct criminal record checks on members or employees who have substantial direct contact with children as part of the screening process and maintain documentation consistent with state law. Because the Commission did not identify a relevant state law that it follows for obtaining criminal record checks, we tested against each subgrantee policy. To comply with AmeriCorps Provisions, however, it is reasonable to expect each subgrantee to maintain documentation for considering or initiating criminal record checks as part of the screening process.

### **Other Grant Compliance**

Some subgrantees did not comply with, or adequately document, compliance with grant provisions on member contracts, health care requirements, and miscellaneous grant requirements. Specifically:

- The member contract of one subgrantee did not clearly document the Drug-Free Workplace Act. AmeriCorps Provision (2003 ed.), Section B.7.b.iv, *Member Contracts*, states that grantees must require members to sign contracts that, at a minimum, stipulate requirements under the Drug-Free Workplace Act.
- One subgrantee provided and claimed costs for health insurance for part-time members. AmeriCorps Provisions (2003 ed.), Section B.11.e, *Health Care Coverage*, states that half-time members who are serving in a full-time capacity for a sustained period of time may be eligible for health care benefits supported with Corporation funds, although that coverage must be approved in the grant. The subgrantee stated that the members were working in a full-time capacity, which entitled them to healthcare coverage, and that it was unaware of the requirement for Corporation approval. We questioned \$551 of health insurance costs claimed for one part-time member during the audit period.
- Two subgrantees did not have policies to require retention of supporting documentation for the minimum amount of time required by grant provisions. AmeriCorps Provisions (2003 ed.), Section C.27, *Retention of Records*, requires that grantees retain all program and financial records for three years from the date of submission of the final FSR.
- One subgrantee implemented additional performance criteria in order for members to receive full or partial education awards. For those members that successfully completed the AmeriCorps requirements, but didn't meet subgrantee's additional requirements, the subgrantee terminated the member stating compelling personal circumstances as the reason for termination (vs program completion) and was therefore able to award members a partial education award.

**Recommendation:** We recommend that the Corporation ensure that the Commission:

- Require subgrantees to maintain adequate documentation to verify citizenship for all members;
- Require subgrantees to revise policies and procedures to require that supporting criminal records check documentation be maintained as evidence that checks were considered or initiated during the screening process;
- Require subgrantees to include all required elements in its member contracts and ensure that each subgrantee maintains a contract for each member;
- Strengthen controls to obtain approval from the Corporation for health care provided to part-time members or ensure that costs are not claimed;
- Require that subgrantees develop record-retention policies that comply with grant provisions; and
- Require subgrantees to use compelling personal circumstance criteria for its intended purpose when determining education award eligibility, regardless of subgrantee-specific member performance requirements.

We also recommend that the Corporation work with the Commission to resolve the questioned costs, including administrative costs. Finally, we recommend that the Corporation ensure the Commission verify citizenship for the two current-year members and determine the allowability of health care costs for the part-time member.

**Commission Response:** The Commission will institute desk-based monitoring methods for ensuring programs have proper documentation to verify member citizenship, programs are clearly stipulating the requirements under the Drug-Free Workplace Act, all required elements are in its member contracts, programs clearly understand the requirements of program and financial record retention, programs clearly understand the criteria for releasing a participant for compelling personal circumstances and its intended purpose when determining education award eligibility, and WBRS hours coincide with timesheet hours. The Commission will continue to stress these areas at program director trainings and will use the New Program Start-up Guide to train new, existing, and continuing programs. The Commission also will test all files during site visits.

The Commission plans to formulate a local fingerprint/background policy for National Service programs. The Commission is requiring all programs to maintain a copy of fingerprint/background check information as evidence that checks were considered or initiated during the screening process. The Commission is also requiring all programs to review and report to the Commission on their procedures, and will provide ongoing training on this subject to subgrantees.

The Commission disagrees with the finding that health care coverage for part time members must be approved in the grant and prior written approval must be received from the

Corporation. The Commission stated that the subgrantee did indicate in its original grant application that the 900-hour members would be serving in a full-time capacity over a six-month period. However, the subgrantee did not include the health insurance costs for the 900-hour members in its budget narrative and only included the health insurance costs for the full-time members.

**Auditors' Comments:** Except for health insurance for part-time members, we believe the actions taken by the Commission effectively address the recommendations.

**4. The Commission's financial management system was inadequate to account for and support all costs claimed.**

The Commission did not have an adequate financial management system to support all claimed costs and ensure that claimed costs met grant requirements. Specifically, the Commission:

- Had an inconsistent allocation methodology for purchasing office supplies;
- Had an inadequate labor distribution system;
- Did not reconcile aggregate Financial Status Reports (FSRs) to the Commission's accounting system to ensure that it represented actual amounts paid to subgrantees;
- Did not adequately represent grant award amounts or the proper grantee on the OMB Circular A-133 Schedule of Expenditures of Federal Awards; and
- Did not submit all FSRs in a timely manner.

**Allocation Methodology for Materials**

The Commission used an inconsistent allocation methodology for purchasing supplies. Certain charges were judgmentally expensed to programs.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* Attachment C, Paragraph A.1. *General*, requires that central service costs be identified and assigned to benefited activities on a reasonable and consistent basis. The Commission staff judgmentally allocated charges for office supplies to its programs without a consistent methodology. The Governor's Office plans to use an Indirect Cost Rate Agreement with the U.S. Department of Justice to recover these common costs in the future.

## **Labor Distribution System**

The Commission did not have documented support for the labor costs of staff who spent a portion of their time on AmeriCorps activities. The three categories of labor costs charged were based on predetermined, estimated effort percentages, as follows:

- The allocation of labor for Commission staff who charged all of their time to grants (direct charges) was predetermined and charged to the grants based on estimated percentages.
- Support staff (Governor's Office staff who worked directly on the grants) labor was allocated using a predetermined percentage of time and charged to the Administrative grant.
- Indirect staff (Governor's Office staff who benefit, but do not spend a considerable amount of time on the grant) labor was allocated using a predetermined percentage of time and charged to the Administrative grant.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* Attachment B, Paragraph 8(h), *Support of salaries and wages*, requires salary distributions to be based on after-the-fact personnel activity reports. These reports are to be signed by each employee and must account for all time worked.

The Commission staff and the Governor's Office support staff maintained online timesheets, but these timesheets were not used to allocate labor. The indirect staff did not maintain time records. In the future, the Governor's Office plans to use an Indirect Cost Rate Agreement with the U.S. Department of Justice to recover these indirect staff costs.

## **Financial Reporting of Grant Expenditures**

The Commission did not ensure that expenditure amounts reported on the semi-annual FSRs represented actual Commission expenditures. The Commission created an aggregate FSR, which was the accumulation of all subgrantee FSRs. This aggregate FSR was not reconciled to the Commission accounting system to ensure that it represented actual amounts paid to subgrantees.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C.21, *Standards for Financial Management*, requires accurate, current, and complete disclosure of the financial results of each Federally-sponsored project in accordance with the reporting requirements. The Commission did not ensure that amounts reported on this aggregate FSR were accurate by reconciling them to the Commission accounting system or Grants Management System.

## **Inadequate OMB Circular A-133 Reporting**

Amounts reported in the statewide OMB Circular A-133 audit report did not adequately represent grant award amounts or the proper grantee. The Schedule of Expenditures of Federal Awards is prepared from statewide expenditure reports that identify the state agency where funds were expended. The Schedule does not identify when those expenditures are incurred as a subgrant of the Commission or a direct grant from the Corporation. The Corporation can not identify individual grants made to the Commission, reconcile those expenditures to amounts reported by the Commission by grant, or identify the result of the A-133 audit for those grants.

The Federal government's grants management common rule for state and local governments, 45 CFR 2541.400(a), *Monitoring by grantees*, states that Grantees must monitor grant and subgrant supported activities to ensure compliance with applicable Federal requirements and that performance goals are being achieved. The Commission staff did not complete a reconciliation of OMB Circular A-133 reports to payments made by the Commission, because it was unaware of the requirement.

***Recommendation:*** We recommend that the Corporation ensure that the Commission:

- Improve and document the allocation methodology used to expense charges on office supplies to the grant to consistently reflect items purchased, allocated, and used to directly benefit the grant;
- Revise its labor distribution system to adequately support all claimed labor costs in accordance with applicable OMB circulars;
- Incorporate procedures to reconcile the aggregate FSR to accounting records and the Grants Management System and adjust the aggregate FSR prior to submitting this financial report to the Corporation; and
- Reconcile the Schedule of Expenditures of Federal Awards to the Commission's accounting records.

***Commission Response:*** The Governor's Office for Children, Youth and Families (GOCYF) agrees to develop an allocation plan for any costs specific to the Division for Community and Youth Development (the division in which the Commission is housed). Once the GOCYF indirect cost plan is functional, the central costs will be charged to those indirect costs recovered.

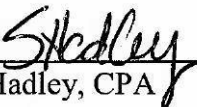
The Commission does not agree with the labor distribution system part of this finding. The Commission believes that allocating support and indirect staff based upon time spent by direct charge staff complies with the OMB requirement that central costs be identified and assigned to benefited activities on a reasonable and consistent basis. The response also noted that OMB requirements do permit costs to be allocated using estimates.

The Commission is not responsible for preparing the State of Arizona's OMB Circular A-133 Schedule of Expenditures of Federal Awards (SEFA). The Commission is housed within the GOCYF and therefore included as part of the State of Arizona's A-133 Audit, which is prepared by the State of Arizona Auditor General's Office. The Commission will however, begin to identify and reconcile all Corporation funds awarded on the SEFA and retain the documentation in the appropriate grant files.

***Auditors' Comments:*** Except for the labor distribution system, we believe the actions taken by the Commission effectively address the recommendations.

This report is intended for the information and use of the OIG, Commission, and U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

  
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Sam Hadley, CPA  
Partner

**APPENDIX A**

**COMMISSION'S RESPONSE TO AUDIT REPORT**



STATE OF ARIZONA

JANET NAPOLITANO  
GOVERNOR

GOVERNOR'S OFFICE FOR CHILDREN, YOUTH AND FAMILIES

IRENE S. JACOBS  
DIRECTOR

August 30, 2006

Carol Bates  
Assistant Inspector General for Audit  
Corporation for National and Community Service  
1201 New York Avenue, NW, Suite 830  
Washington, DC 20525

Re: OIG Audit Report 06-37

Dear Ms. Bates:

Thank you for the opportunity to comment on the report summarizing the incurred-cost audit of grants awarded to the Arizona Governor's Commission on Service and Volunteerism (Commission). As you are aware, the Arizona Commission has worked cooperatively with the Corporation for National and Community Service (CNCS) auditors over the last several months of fieldwork and has continuously demonstrated responsiveness to requests for information and feedback. We would like to express our appreciation to Cotton and Company for the highly professional manner in which the auditors managed the audit.

The Commission will continue to work in cooperation with the CNCS Audit Resolution Specialist over the coming months to resolve any outstanding issues we have with the audit findings.

Included below are the Commission's responses to each of the audit findings. The findings are grouped under the Compliance Finding heading identified in the Auditor's Opinion. Our responses to specific questioned costs for the Commission as well as the four sub grantees that were audited, are included in Attachments A – E for the corresponding audit report.

**Compliance Finding #1: The Commission had inadequate procedures to ensure that sub grantees documented member activities and that member support payments were proper.**

*Bullet 1:* The Commission has always maintained a strict policy on mid-term and final evaluations for its participants and has emphasized this in orientation training of new programs and continually in program director training. The Commission will continue to stress mid-term and final evaluations for members at program director training and will use the New Program Start-up Guide developed by the Office of Leadership, Development and Training to train new, existing and continuing programs. The

1700 WEST WASHINGTON, SUITE 101, PHOENIX, AZ 85007

MAIN PHONE: 602-542-4043

FACSIMILIE: 602-542-3520

[WWW.GOVERNOR.STATE.AZ.US](http://WWW.GOVERNOR.STATE.AZ.US)



Commission has instituted desk-based monitoring methods to ensure programs are retaining documentation to verify they are complying with grant requirements for conducting evaluations.

*Bullet 2:* The Commission has always maintained a strict policy on the submittal of required exit forms for its members and has emphasized this in orientation training of new programs and continually in program director training. The Commission will continue to stress the timeliness of exit form submission at program director training and will use the New Program Start-up Guide developed by the Office of Leadership, Development and Training to train new, existing and continuing programs. The Commission has instituted desk-based monitoring methods to ensure programs exit members promptly and submit this information in a timely manner.

*Bullet 3:* The Commission has always maintained a strict policy on the proper documentation of member service hours and has emphasized this in orientation training of new programs and continually in program director training. The Commission will continue to stress the importance of member service hours being supported by member timesheets at program director training and will use the New Program Start-up Guide developed by the Office of Leadership, Development and Training to train new, existing and continuing programs. The Commission has instituted desk-based monitoring methods to ensure programs have proper documentation to verify member service hour and are properly supported by timesheets. The Commission will test member files during its site visits. The Commission will review each sub grantee's method of checks and balances to ensure recording of member service hours are accurate and in accordance with program provisions and ensure only eligible service hours are counted toward the member service requirement and education awards.

*Bullet 4:* The Commission has always maintained a strict policy on the member living allowance and its proper distribution and has emphasized this in orientation training of new programs and continually in program director training. The Commission will continue to stress the importance of proper distribution of member living allowances at program director training and will use the New Program Start-up Guide developed by the Office of Leadership, Development and Training to train new, existing and continuing programs. The Commission has instituted desk-based monitoring methods to ensure programs are calculating and distributing living allowances in accordance with program provisions.

*Bullet 5:* The Commission has always maintained a strict policy on the submittal of required change of status forms for its participants and has emphasized this in orientation training of new programs and continually in program director training. The Commission will continue to stress the timeliness of change of status form submission at program director training and will use the New Program Start-up Guide developed by the Office of Leadership, Development and Training to train new, existing and continuing programs. The Commission has instituted desk-based monitoring methods to ensure programs ensure programs submit this information in a timely manner.

*Bullet 6:* The Commission has always maintained a strict policy on the retention of supporting program and financial records for three years and has emphasized this in orientation training of new programs and continually in program director training. The Commission will continue to stress retention of documents at program director training and will use the New Program Start-up Guide developed by the Office of Leadership, Development and Training to train new, existing and continuing programs. The Commission has instituted desk-based monitoring methods to ensure programs clearly understand the

requirements of program and financial record retention. The Commission will review 100% of member files during sub grantee site visits.

**Compliance Finding #2: The Commission had inadequate sub grantee monitoring procedures.**

*Allowable Costs*

*Bullets 1 - 4:* The Commission will strengthen its sub grantee monitoring procedures to include a more detailed review of allowable costs through the reimbursement process.

- The Commission will document verification that budgets have not exceeded in total and that line items within budgets have not been exceeded without prior notification and/or approval.
- The Commission will document review of expenditure summary (ledger) to spot unallowable costs per OMB circular and contact the sub grantee as necessary to clarify any issues identified.
- The Commission will correct any obvious errors and the reimbursement will be adjusted accordingly. When this occurs the sub grantee will be required to submit a corrected reimbursement request form.
- In the event of missing and/or unallowable information or clarification is needed, the Commission will contact the sub grantee. The reimbursement will be held until sufficient information is provided or the sub grantee has submitted a revised reimbursement form.

*Financial Management Systems*

*Bullet 1:* The Commission has a strict policy on following OMB cost principles. The Commission will strengthen its monitoring to ensure that labor charges are charged only after-the-fact. This will be accomplished through trainings, during site visits, and through periodic desk reviews in which all supporting documentation for expenses will be required for certain reporting periods from sub grantees.

*Bullet 2 -* The Commission has always maintained a strict policy on the timely submittal of required financial and progress reports and has emphasized this in orientation training of new programs and continually in program director training. In addition, a reporting schedule for both required financial and progress reports is provided to all programs at the beginning of a program year. The Commission will begin to issue reminder notices one week prior to reporting deadlines.

*Bullet 3:* The Commission performs site visits and has a strict policy on obtaining the original receipts, purchase orders, and any and all other original documentation to support expenses. The Commission will strengthen its policies, perform more desktop reviews and remind sub grantees that original documentation is required for any and all purchases. If original documentation cannot be obtained, the said cost will be determined unallowable by the Commission.

*Bullet 4:* The Commission conducts business on a reimbursement basis. Only those expenses, which have been paid by the sub grantee, will be reimbursed. The Commission also follows OMB guidelines and only reimburses for actual expenses. Monitoring will be strengthened to ensure that only expenses that have original supporting documentation and are after-the-fact will be reimbursed.

*Bullet 5* - The Commission has always maintained a strict policy on the requirements of sub grantee staff time accountability sheets and has emphasized this in orientation training of new programs and continually in program director training. The Commission has instituted desk-based monitoring methods to ensure program staff accountability sheets are signed by the employees and supervisors and that accountability sheets are verified for the proper pay period.

*Bullet 6*: The Commission conducts business on a reimbursement basis. Only those expenses, which have been paid by the sub grantee, will be reimbursed, including member living allowance. The Commission also follows OMB guidelines and only reimburses for actual expenses. Monitoring will be strengthened to ensure that only member living allowances that have original supporting documentation (i.e. time sheets), are after-the-fact, and are actual payments will be reimbursed.

*Bullet 7*: The Commission views all expenses, whether charged to the grant or matching (in-kind or cash) funds in the same manner. In-kind contributions will be monitored more strictly during site visits and through periodic desk reviews in which all supporting documentation for all expenses whether charged to grant or entered as match will be required and reviewed.

*Bullet 8*: The Commission is committed to and has a strict policy of reimbursing only allowable expenditures that are after-the-fact, that are reasonable, allocable, and allowable. The Commission will strengthen monitoring of sub grantees by verifying labor distribution costs and certifications and direct the sub grantees to make any and all corrections prior to payment. Also, the Commission will pay strict attention to any journal entries concerning labor distribution and will question any that are not easily verifiable.

*Bullet 9*: The Commission has a strict policy on following OMB guidelines as well as all CNCS guidelines. All costs should be identifiable by budget line item and cost centers and should be posted in the same manner as all other expenditures. The Commission will strengthen its policy on verifying that all expenditures are tracked by budget line item and that different cost centers are used for all different programs. In addition, the Commission will verify that expenditures are accounted for and that all expenses are only claimed once.

*Bullet 10*: The Commission will strengthen training on allowable costs as well as improve its monitoring on an ongoing basis to ensure that only allowable and allocable costs are charged to the grant.

**Compliance Finding #3: The Commission did not comply with all grant provisions.**

*Citizenship*

The Commission has always maintained a strict policy on citizenship documentation and has emphasized this in orientation training of new programs and continually in program director training. The Commission will continue to stress U.S. citizenship documentation at program director training and will use the New Program Start-up Guide developed by the Office of Leadership, Development and Training to train new, existing and continuing programs. The Commission has instituted desk-based monitoring methods to ensure programs have proper documentation to verify citizenship for all

members. The Commission will now test 100% of member files during sub grantee site visits. The Commission will review each sub grantee's method of checks and balances to ensure timesheets and WBRS coincide.

### *Criminal Background Checks*

The Commission is reviewing all available information regarding fingerprinting for required populations on the state, local and tribal levels. The Commission plans to formulate a local fingerprint/background policy for National Service programs. The Commission is requiring all programs to review and report to the Commission on their procedures, and will provide ongoing training on this subject to sub grantees. The Commission is requiring all programs to maintain a copy of fingerprint/background check information as evidence that checks were considered or initiated during the screening process.

### *Other Grant Compliance*

*Bullet 1:* The Commission has always maintained a strict policy on documentation of the Drug-Free Workplace Act in member contracts and has emphasized this in orientation training of new programs and continually in program director training. The Commission will continue to stress this documentation at program director training and will use the New Program Start-up Guide developed by the Office of Leadership, Development and Training to train new, existing and continuing programs. The Commission has instituted desk-based monitoring methods to ensure programs are clearly stipulating the requirements under the Drug-Free Workplace Act and to ensure all required elements are in its member contracts. The Commission will now test 100% of member contracts for required elements during sub grantee site visits.

*Bullet 2:* The Commission disagrees with auditor's interpretation of the AmeriCorps provisions. AmeriCorps Provisions (2005 ed.), Section IV.I.4.d, Health Care Coverage, states that "...although that coverage must be approved in the grant or via prior written approval from Corporation Office of Grant Management. The Commission requires that coverage be approved in the grant and receive prior written approval from the Corporation. In this case, the sub grantee did indicate in its original grant application that the 900-hour members would be serving in a full time capacity over a 6-month period.

*Bullet 3:* The Commission has always maintained a strict policy on the retention of supporting program and financial records for three years and has emphasized this in orientation training of new programs and continually in program director training. The Commission will continue to stress retention of documents at program director training and will use the New Program Start-up Guide developed by the Office of Leadership, Development and Training to train new, existing and continuing programs. The Commission has instituted desk-based monitoring methods to ensure programs clearly understand the requirements of program and financial record retention. The Commission is requiring all programs to review and report to the Commission on their record-retention policy.

*Bullet 4:* The Commission has always maintained a strict policy regarding in which circumstances a program may release a participant from completing a term of service for compelling personal circumstances and has emphasized this in orientation training of new programs and continually in

program director training. The Commission will continue to stress criteria for compelling personal circumstances at program director training and will use the New Program Start-up Guide developed by the Office of Leadership, Development and Training to train new, existing and continuing programs.

The Commission has instituted desk-based monitoring methods to ensure programs clearly understand the criteria for releasing a participant for compelling personal circumstances and its intended purpose when determining education award eligibility.

**Compliance Find #4: The Commission's financial management system was inadequate to account for and support all costs claimed.**

*Bullet 1:* The Governor's Office for Children, Youth and Families (GOCYF) agrees to develop an allocation plan for any costs specific to the Division for Community and Youth Development (the division in which the Commission is housed). This allocation plan will be based upon the number of FTEs that each grant within the division employs. For central costs throughout the GOCYF until the GOCYF indirect cost plan is fully functional, there will be an allocation plan based upon the number of FTEs that each grant employs within the office. Once the GOCYF indirect cost plan is functional, the central costs will be charged to those indirect costs recovered.

*Bullet 2:* The Commission does not agree with portions of this finding. The GOCYF Time and Effort system is an on-line system that tracks all time for employees who work directly on federal grants. Based upon the percentage of time entered by direct charge employees, the charges for support staff are pro-rated across all grants within their division, and the charges for the indirect staff are pro-rated across all divisions. On February 16, 2006, audit staff was supplied with data showing that the time recorded to the CNCS grants during calendar year 2005 (the first year of the Governor's Office on-line Time and Effort system), combined with the written allocation policy for support and indirect staff and adjustments made in January 2006, resulted in a total under-charge to the CNCS grants and the CNCS match of \$2,756.

While OMB Circular A-87 does require signed activity reports, ASMB C-10, *Cost Principles and Procedures for Developing Cost Allocation Plan and Indirect Cost Rates for Agreements with the Federal Government*, Attachment B, Question 3-16 says that a "digital signature" (occurring when an employee logs on to the PAR system with a logon ID and a secret password) constitutes an acceptable alternative to an employee signature as long as the governmental unit can demonstrate and document that only the employee's action would result in the identification of the activities to be charged, and that it complies with the other criteria in Attachment B, paragraph 11.h(5) (The internet version of ASMB C-10 does actually say paragraph 11. However, paragraph 8 is likely what is meant.)

The GOCYF Time and Effort system does comply with A-87, Attachment B, paragraph 8.h (5). The system reflects after-the-fact labor; it accounts for the total activity of direct charge employees, it is prepared with each two week pay period, it is digitally signed by the direct charge employee, and its data is used to adjust initial budget estimates if a difference of greater than 10% is determined. And the GOCYF Time and Effort system complies with ASMB C-10 since the Time and Effort system is entered into only by the employee who logs onto the GOCYF computer system with a unique user ID and user password established by that user.

1700 WEST WASHINGTON, SUITE 101, PHOENIX, AZ 85007

MAIN PHONE: 602-542-4043

FACSIMILIE: 602-542-3520

[WWW.GOVERNOR.STATE.AZ.US](http://WWW.GOVERNOR.STATE.AZ.US)

Therefore, the only items in question are the allocation of support staff and indirect staff based upon Time and Effort entries by direct charge staff. The Commission believes that allocating support and indirect staff based upon time spent by direct charge staff complies with the OMB requirement that central costs be identified and assigned to benefited activities on a reasonable and consistent basis.

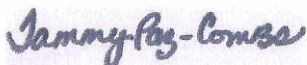
*Bullet 3:* The Commission will begin to reconcile all FSRs with the official State of Arizona's accounting system, Arizona Financial Information System (AFIS) to accurately identify actual costs of the Commission for the reporting period. The Commission will enter actual costs into the quarterly FSRs instead of accumulated sub grantee costs.

*Bullet 4:* The Commission is not responsible for preparing the State of Arizona's OMB Circular A-133 Schedule of Expenditures of Federal Awards (SEFA). The Commission is housed within the GOCYF and therefore included as part of the State of Arizona's A-133 Audit which is prepared by the State of Arizona Auditor General's Office. The Commission will however, begin to identify and reconcile all CNCS funds awarded on the SEFA and retain the documentation in the appropriate grant files.

*Bullet 5:* The Commission is committed to timely reporting and adequate financial management systems. It has been acknowledged that one FSR was not submitted in a timely manner. All subsequent, FSRs will be submitted in a timely manner, or in the case where an extension is needed, the Commission will obtain an extension, in writing, from the CNCS.

Again, we would like to express our appreciation to Cotton & Company and we look forward to working with the Audit Resolution Specialist and the CNCS to resolve all issues.

Sincerely,



Tammy Paz-Combs  
Executive Director  
Arizona Governor's Commission on Service and Volunteerism

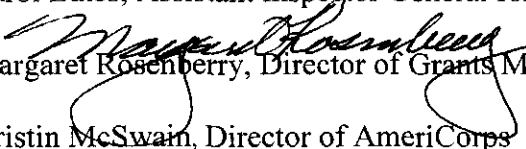
cc: Irene S. Jacobs, Governor's Office for Children, Youth and Families  
Lauren Kielsmeier, Governor's Division for Community and Youth Development  
Mary L. Jackson, Governor's Division for Finance and Administration

**APPENDIX B**

**CORPORATION'S RESPONSE TO AUDIT REPORT**

Companions for  
**NATIONAL &  
COMMUNITY  
SERVICE** 

**To:** Carol Bates, Assistant Inspector General for Audits

**From:**   
Margaret Rosenberry, Director of Grants Management

**Cc:** Kristin McSwain, Director of AmeriCorps  
Sherry Wright, Audit Resolution Coordinator, Office of the CFO

**Date:** August 31, 2006

**Subject:** Response to OIG Draft Audit Report 06-37: Audit of Corporation for National and Community Service Grants Awarded to Arizona Governor's Commission on Service and Volunteerism

Thank you for the opportunity to review the draft audit report of the Corporation's grants awarded to the Arizona Governor's Commission. We are pleased the questioned costs were less than .5% of the costs incurred. The Commission addressed most of the questioned costs in its response and, in many cases, has already provided supporting documentation or concurred and started collection. We are addressing only one finding at this time.

The auditors questioned health care coverage provided to part-time members serving in a full-time capacity because the program did not have written approval from the Corporation. However, the Corporation's grant provisions indicate the "coverage must be approved in the grant *or* via prior written approval from the Corporation's Office of Grants Management." If the sub-grantee indicated in its original grant application that members would be serving in a full-time capacity, the Corporation's permission was implicit in the approval and award of the grant. Therefore, we anticipate the costs will be allowed.

We will respond to all findings and recommendations in our management decision when the final audit is issued; we have reviewed the findings in detail; and worked with the Arizona Commission to resolve the audit.



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